

THE POLITICS OF THE HUNGARIAN NEW ECONOMIC MECHANISM

The Origins and Dynamics of the Movement Towards a Socialist Market Mechanism

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We are never satisfied with the present. We anticipate the future as too slow in coming, as if in order to hasten it on its way; or we recall the past as though to arrest its too rapid flight. So foolhardy we are that we go wandering about in periods of time which do not belong to us, and give no thought to the only one that does.

Let each man examine his thoughts, and he will find them all preoccupied with the past and the future. We scarcely ever think of the present; if we do it is only to obtain light wherewith to organise the future. The present is never our goal; the past and present are our means; the future alone is our objective. Thus we never live, but only hope to live.

Blaise Pascal

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manuscript. She was a constant source of not infrequently hotly contested suggestions for ways of improving the arguments herein. In spite of her immersion in absurd theatre and Samuel Beckett's plays — or perhaps because of it? — she was able to put up with my frequently absurd ravings about such items as the political significance, during 1950-53, of insufficient toilets in privately constructed housing units in Hungary.

She was also the one who helped me appreciate, at critical times, that some of these matters are not always as important as they seem.

I THE NEW ECONOMIC MECHANISM

On January 1st, 1968, the Hungarian economy began, we are told, to be governed by the guidelines of a new and comprehensive set of regulations. This new system of economic control which had been drafted with great care and in great detail during the preceding four years by hundreds of economists and other specialists, and which received the full endorsement of Hungary's top political leaders, was named the New Economic Mechanism (NEM).¹

The central elements of this new economic mechanism can be briefly postulated as long as two points are kept in mind: first, that these postulations list merely the basic principles of the mechanism and do not necessarily imply their actual application; and second, that some of these principles were to be introduced into the mainstream of economic activity only gradually so as not to run the risk of severely dislocating the economy.

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1. There are a number of official Hungarian publications available on the reform. In English, perhaps the best known are István Friss, ed., Reform of the Economic Mechanism (Budapest: Akadémiai Kiadó, 1971) and Ottó Gádó, ed., Reform of the Economic Mechanism (Budapest: Akadémiai Könyvkiadó, 1972). See also Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja (Our Economic Policy and the Reform of the Economic Mechanism), (Budapest: Kossuth, Könyvkiadó, 1968); Az új gazdasági mechanizmus jogszabályainak gyűjteménye (The Collected Legal Provisions of the New Economic Mechanism), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1968); J. Bálint, ed., A népgazdaság irányítási rendszere (The System of the National Economy's Guidance), prepared under the auspices of the Hungarian Socialist Workers' Party (HSWP) Central Committee, Department of Economic Policy (Budapest: Közgazdasági és Jogi Könyvkiadó, 1970); also various issues of Magyar Közlöny (Hungarian Gazette), the official gazetteer for laws and decrees published by the Secretariat of the Council of Ministers. Unless otherwise indicated, all quotations from Hungarian publications in this dissertation have been translated into English by the author.

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The central principles of the NEM are:

1. The allocation of commodities between enterprises by means of detailed ministerial or other superior physical commands was to be abolished;
2. Total current profit was to be designated as the enterprises' maximand;
3. Enterprises were to become the central units of production;
4. After a certain time lapse, individual producer and consumer prices were to express relative scarcities, and were not to be 'fixed' or quantified by the central authorities;
5. The Bank's control of enterprises' current account - "forint control" - was to be abandoned;
6. Enterprises were to be given wide decisional authority to invest capital into projects of their own choosing;
7. The scope of enterprises' foreign trade activities was to be greatly expanded. Direct contacts with foreign firms were to be permitted. Based on profit criteria, enterprises were free to choose between domestic or foreign firms for their supplies or output;
8. Average wage control was to be maintained by the central authorities to combat the dangers of inflation and unemployment. Individual wages, however, were not to be directly controlled but were to be left to the discretion of enterprise management and profitability considerations;
9. In light of the enterprise managements' greatly increased prerogatives and the fact that profit was to become managements' maximand, the role of Trade Unions was redefined. The collective contract was raised to a high level of importance and a new Labour Code was enacted giving the Unions increased formal prerogatives in defending the interests of their members from potentially exploitative managerial decisions.

This dissertation is in agreement with the following two opinions that have been expressed by Western commentators on the NEM: "... the reform does make the basic change from a command economy to a socialist market economy"¹ and that these new principles "...clearly represent the most radical postwar change in the economic system in any Comecon country".²

1. R.D.Portes, "Economic Reforms in Hungary", The American Economic Review, Papers and Proceedings, Vol.LX, No.2, 1970, p.307.

2. D.Granick, The Hungarian Economic Reform, International Development Research Center, Indiana University, Working Paper No. 11 (February 1972), p. 1.

I would like to emphasize strongly at the outset that the New Economic Mechanism did not constitute in any way a negation of central planning or a monument to the failure of the centrally planned economy. In fact the reform was adopted by the Party with the aim of strengthening and improving the system of Socialist central economic planning. The 'Plan' was not replaced nor was it intended to be replaced by the 'Market' in Hungary in 1968. Indeed, 'Plan' and 'Market' are not two mutually exclusive alternatives of running an economy and they should not be seen as irreconcilable opposites. That they are often seen as being diametrically opposed, stems from the frequent and incorrect assumption that 'Plan' and 'Command' are synonymous. In other words, in the past, many Western and Eastern writers have tended to freely interchange these terms leading us to believe that the 'Command Economy' is the 'Planned Economy'. But this is misleading.

We must realize that a 'Command Economy' may and may not be a 'Planned Economy', and conversely a 'Planned Economy' may and may not be a 'Command Economy'.¹ As far as the Hungarian NEM is concerned, it must be clearly stated from the beginning that market forces were indeed to gain a radically increased influence in the operation of the Hungarian national economy. But these gains were to be made not at the expense of planning but rather at the expense of commands. The market mechanism, in other words, was to be fused on to the body of Socialist economic control so as to make the planning and transition to the future Socialist society more effective and goal oriented. As one of the leading reformers, and Chairman of the Hungarian Price Office, Béla Csikos-Nagy pointed out:

We proceed from the proposition that without government planning no purposeful development can be achieved, and without market relations no rational allocations can be realised. We want to synthesize plan and market in a way quite different from the traditional (non-market) socialist planning system.²

1. On this question, see O.Kyn, "The Market Mechanism in a Socialist Economy", Soviet Affairs Number Four, St. Anthony's Papers No.19, ed. M. Kaser (Oxford: Oxford University Press, 1966); O. Sik, Plan and Market under Socialism (New York: International Arts and Sciences Press, 1967).

2. B. Csikos-Nagy, Pricing in Hungary, Institute of Economic Affairs, London, Occasional Paper No. 19, 1968, p.7.

"There was once a man who aspired to be the author of the general theory of holes. When asked 'What kind of hole -- holes dug by children in the sand for amusement, holes dug by gardeners to plant lettuce seedlings, tank traps, holes made by roadmakers?', he would reply indignantly that he wished for a general theory that would explain all of these. He rejected ab initio the - as he saw it - pathetically common sense view that of the digging of different kinds of holes there are quite different kinds of explanations to be given; why then, he would ask, do we have the concept of a hole? Lacking the explanation to which he originally aspired, he then fell to discovering statistically significant correlations; he found for example that there is a correlation between the aggregate hole-digging achievement of a society as measured, or at least one day to be measured, by econometric techniques, and its degree of technological development. The United States surpasses both Paraguay and Upper Volta in hole-digging. He also discovered that war accelerates hole-digging; there are more holes in Viet-Nam than there were. These observations, he would always insist, were neutral and value-free. This man's achievements have passed totally unnoticed except by me. Had he, however, turned his talents to political science, had he concerned himself not with holes but with modernisation, urbanisation, or violence, I find it difficult to believe that he might not have achieved high office in the APSA (American Political Science Association)." ¹

In the West, analyses of the development of Socialist economies have emphasised, especially since the early 1960's, that these economies are at some kind of 'crossroads'. Reflecting on this emphasis, a well-known and respected observer of the Soviet economy wrote the following lines in 1963:

The Soviet economy is at the crossroads still and an increasing proportion of Soviet economists are publicly expressing their awareness of this fact... crossroads in history take many years to traverse. This one will be with us for quite a time yet.²

For Professor Nove, in 1963 at least, "...the key problem beyond doubt is centralisation and decentralisation"³ and indeed, one way or another, this was also the problem paramount in the minds of most Socialist economists and politicians in the 1960's.

1. A. MacIntyre, Against the Self-Images of the Age: Essays on Ideology and Philosophy (London: G. Duckworth and Co., 1971), p. 160.

2. Alec Nove, Economic Rationality and Soviet Politics (New York: Frederick A. Praeger, 1964), p. 119.

3. Ibid., p. 121.

In terms of making an attempted crossing from physical to synthetic resource allocation, from detailed central commands to central economic control via financial and other regulators, Hungary has proven to be a pioneer. After the abortion of the Czechoslovak reforms in 1968, we find that no other Socialist state in Comecon has followed her steps along that path. Indeed the Soviet Union, perhaps the most closely watched of all Socialist states, ostensibly struggling with the 'crossroads' dilemma, has yet to make her move.

In the USSR, the older pattern remains with little change... Resistance to change is very strong in the political organs of the USSR and could be overcome, in my view, by a combination of two circumstances. Firstly, a clear realisation that the present economic system is responsible for continued relative backwardness in the competition with the West... secondly, a firm leader or group of leaders must not only be committed to reform but have the power and will to enforce their views on the party and state machine. No such leader or leaders seem to exist today.¹

For us, the first and certainly most important question is - What were the forces or conditions that pushed Hungary to become a pioneer in this crossing? And secondly, we need to know the winning techniques used by the promoters of this reform in overcoming domestic and external resistance to their proposals. We need to know, in other words, how the Hungarian reformers managed to gain acceptance during the mid 1960's for their untried, and, in the past, frequently and hotly condemned ideas.

But this question of the causes and origins of the NEM confronts us with an awesome challenge, quite apart from the obvious and difficult problem of securing reliable data on political decision-making at the highest Hungarian Party echelons. We need, therefore, to measure what we are up against and to clearly outline the approach that we shall use in this study.

The human mind, at least as yet, has not been able to integrate all of the diverse and interlinked forces of change into one, grand,

1. Alec Nove, "Economic Reforms in the USSR and Hungary, A Study in Contrasts", Socialist Economics, ed. A. Nove and D.M. Nutti (Harmondsworth, Middlesex: Penguin Books, 1972), p.358-361.

all-encompassing scientific explanation of large scale societal change. Not that we have not tried, but up to now, all of the grand theories of history have been found wanting. The inability to capture all of the strands of change simultaneously has led to frequent attempts at discovering and isolating critical links in the process of change, at concentrating upon either a single or a small, manageable cluster of variables.

The study that follows cannot aspire to historical all-inclusiveness. I have deliberately elected to concentrate on the politics of choosing a new economic mechanism in Hungary, and to concentrate upon the political causes of the reform. I must point out very strongly that this deliberately chosen emphasis on the political dimensions of economic change should not be interpreted as meaning that economic forces of change played a secondary rôle, or an unimportant rôle, in Hungary's choice of a new economic mechanism. In other words it is the research design and not the objective forces of history that give primacy to politics in this analysis of economic change.

In analysing the policy choice that was the NEM, I have elected to designate politics as an independent variable and economic change as a dependent variable. This approach needs to be justified and explained so as not to result later in certain false and unintended conclusions.

In his book, The Political Consequences of Modernisation, John H. Kautsky has selected economic change as his independent variable, and politics as his dependent variable, and has stated quite correctly that in doing so he is "in line with a major tradition of Western social thought shared by much of Western social science".¹ I wish to quote from him at length because, paradoxically perhaps, my decision to follow the opposite analytical path -- making government and politics the independent variable -- is nevertheless based very much on his arguments;

1. J.H.Kautsky, The Political Consequences of Modernisation (New York: John Wiley and Sons, 1972), p.11.

In reality, political, economic, and other factors interact to influence each other, but to say that two phenomena condition each other, while it may be a perfectly correct descriptive statement, makes it impossible to explain or predict the behavior of either (except in terms of a third one). One must explain some phenomena in terms of others, one must choose one's dependent and independent variables. That choice is made by the observer for his particular analytical purposes and does not imply that in reality there are objectively some factors that play the role solely of dependent variables while others are really somehow independent ones. In short, it is not a question of whether the economic system, or, for that matter, the social system determines the political system or vice versa -- they obviously all determine each other and are, in reality, indistinguishable; or, more correctly, they are mere analytical constructs that have no objective reality as such. There are factories and there are political party organisations, but that we assign one to an abstraction called the economic system and the other to an abstraction called the political system is merely a matter of analytical convenience. There is no reason to assume that all of the elements that we group in one abstraction determine all of the elements that we group in the other one (and different analysts, having different purposes, group elements differently). The question is not what determines what but, rather, what is to be analysed in terms of what... It need hardly be pointed out that to designate something as a dependent variable is not to denigrate it but, on the contrary, to focus on it in order to explain it.¹

The decision to designate politics as an independent variable and economic change as a dependent variable is first of all based on my reading of Communist political behaviour and of Communist ideology. Rather than functioning according to the principles of some kind of structural-functional model,² and rather than simply adapting themselves to their environment, Communist regimes are engaged in a conscious and deliberate process of altering their environment. The following statement, as applied to the politics of the 'developing' countries, is equally applicable to those of Hungary or, for that matter, to those of any of the other Communist Party states: "It is precisely the power-holding

1. Ibid.., pp.8-9. (italics added)

2. See for example T. Nam, "Structural-functional analysis", International Review of History and Political Science, Vol. VI, February 1969; or M.J. Levy, Structure of Society (Princeton: Princeton University Press, 1952).

political elites that seek through governmental action to shape society and drive it into a new world".¹

The post World War II Hungarian regimes will be analysed as 'movement regimes' that have targeted their societies in the direction of radical systemic change and had devised a system of rigid and binding mechanisms for the attainment of those targets.

One can identify a clearly discernible ideology which states the long term and the short term goals of the movement regimes. One can also identify a 'vanguard' which interprets the ideology, revises it where need be, and instructs the people about the correct procedures they should follow in their productive transformation of the environment.

My usage of the terms 'politics', 'political', and 'system' in this dissertation are those which were pioneered in the works of David Easton: "The study of politics is concerned with understanding how authoritative decisions are made and executed for a society".² The boundaries of a political system:

...are in fact not phenomenally out there waiting to be identified... they are products of analytical selection... a boundary line stands rather as a symbol of inclusion-exclusion with respect to a system...for the political system, as I have indicated, the test is whether the interactions are more or less related to the authoritative allocations of values for a society... what we choose to put inside our system to consider within its boundaries will depend upon what we wish to examine in detail... we simply redefine the system to meet our analytical needs.³

Selecting the political dimensions of economic change as the target of our analysis, and focusing upon the rôle of politics and superstructures in history brings us face to face with one of the critical problems of Marxist historical dialectics. Classical Marxism has clearly neglected to explain the forms and dynamics of the generative nature of politics and "superstructures". It has preferred to

1. Fred W. Riggs, "The Theory of Political Development", Contemporary Political Analysis, ed. J.C. Charlesworth (New York: The Free Press, 1967), p.325.

2. David Easton, "The Analysis of Political Systems", Political Sociology: Selected Readings, ed. A. Pizzorno (Hammondsworth, Middlesex: Penguin Books, 1971), p.42.

3. David Easton, A Framework for Political Analysis, op.cit., pp.63-67.

emphasise the generative role of economic facts instead. This "neglect of politics" is openly admitted by Engels when he writes:

Otherwise only one more point is lacking which, however, Marx and I always failed to stress enough in our writings and in regard to which we are all equally guilty. That is to say, we all laid, and were bound to lay, the main emphasis, in the first place, on the derivation of political, judicial, and other ideological notions, and of actions arising through the medium of these notions, from basic economic facts.¹

and:

Marx and I are ourselves partly to blame for the fact that the younger people sometimes lay more stress on the economic side than is due to it. We had to emphasise the main principles vis-à-vis our adversaries, who denied it, and had not always the time, the place, or the opportunity to give their due to other elements involved in the interaction.²

It is to give their due to the other elements involved in the interaction, to shift our attention in the direction of the political forces of change (without denying the important rôle of economic forces) that this dissertation is undertaken.

Public policy whether in the East or the West, is never made in a vacuum. Depending on the issue, governmental decisions do reflect in various degrees and ratios the inputs of numerous social, economic, cultural and other environmental forces. Specialists on public policy-making have devised and are continuously trying to perfect various kinds of analytical frameworks with which to sharpen our comprehension of the myriad of environmental stimuli affecting the content of public policy. These analytical devices (such as that reproduced in Diagram I.1), however cannot explain anything on their own, and prove especially cumbersome if not useless in cases where governments do not look at themselves as referees or matchmakers between competing environmental revolution in accordance with their own preconceived ideological-political notions.

1. F.Engels, letter to Franz Mehring, in K.Marx and F.Engels, Selected Correspondence (Moscow: Foreign Languages Publishing House, 1956), p. 540.

2. F. Engels, letter to Joseph Block, ibid., p. 500.

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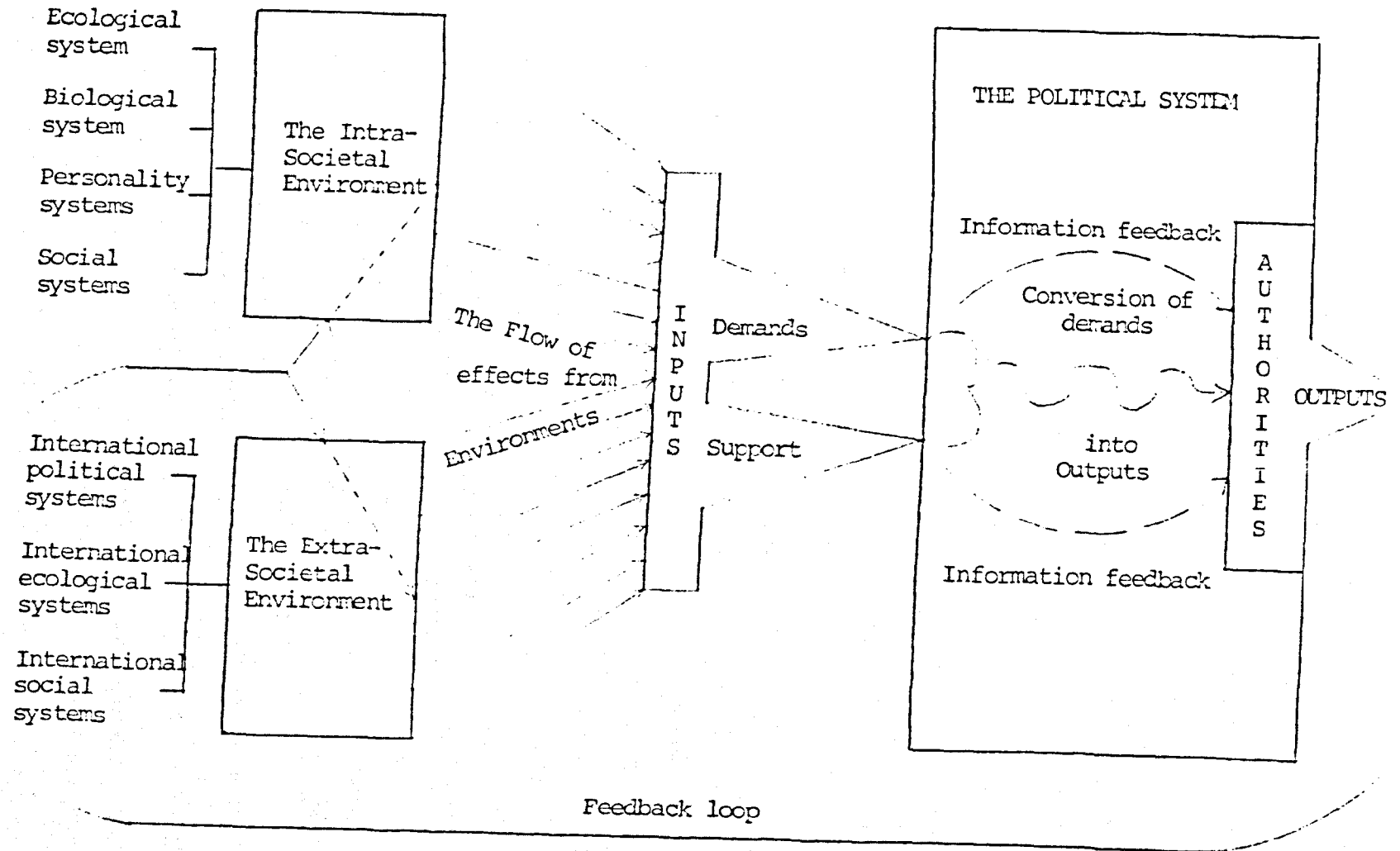


Diagram I.1

Source: David Easton

And yet such maps or lists as Diagram I.1 are of some use even in the analysis of Communist systems, if only to sensitize us to the diverse influences that bear on governments, and to stop us from attributing all inclusiveness to what usually are but partial explanations of public choice.

Consequently, while we shall concentrate upon the politics of the NEM, we cannot ignore certain critical economic variables that had, by combining with other environmental forces, an important influence upon the outcome of Hungary's search for a new mechanism of economic control. But I must repeat, for the purposes of this analysis we can only examine those economic variables that were politically significant during Hungary's transition to a new economic mechanism, and cannot therefore enter into a wide-ranging technical-economic analysis of the problems of socialist economic planning and of the economic cost/benefit of contending model solutions.

To be even more specific about the scope of this study and to forestall possible disappointments, I want to add here a few more notes on what not to expect from this dissertation.

We are not going to concentrate on devising still more possible forms of Socialism, important though such a research activity may be. We are not going to catalogue the new institutional arrangements brought on by the NEM, nor will we make pronouncements on the viability or economic feasibility of a new economic mechanism based on the harmony of its economic constituents (eg. rational prices and enterprise autonomy).

This dissertation, historical though its focus may be, is not going to concern itself with the chronological presentation and analysis of the various administrative 'musical chairs' that took place inside the framework and lifespan of the 'old economic mechanism'. Rather, it is to focus on the pressures released as a consequence of the application of the 'old mechanism' in general. It was not any one 'musical chair' that the NEM sought to replace but indeed the general or overall framework that has made 'musical chairs' possible in the past.

We are not going to argue for the historical inevitability of the NEM and have no intention of arguing that the Stalinist type command mechanism holds within its womb nothing else than the germ of the Socialist guided market model. Indeed, our point is that whereas there is a common origin for all of the old economic mechanisms in Eastern Europe after the end of World War II, strangely enough, it was only Hungary, and for a short while, Czechoslovakia that adopted the guided market model as a solution to the problems bequeathed by the old model.

The central assumption of this research is that experience determines attitudes. We have found it unfeasible to merely look at the theory of Socialist command planning in order to discover its shortcomings and to derive from them, in turn, the reasons for the definite attitudinal changes that prompted Hungary's leaders to opt for a Socialist guided market model. The taproot for the emergence of a new economic mechanism in Hungary was the matrix of the political, social and economic experiences of the Hungarian leaders, planners, producers and consumers with the "old mechanism". The dissertation will have to go back, therefore, to the origins of the "old mechanism" in Hungary. It will look at the "old mechanism" as a form of technology and will dissect that technology at various critical points during its application, the objective being to discover the nature of the contradictions that led eventually to the discarding of that technology in 1968.

What caused the NEM? The political choice itself, to introduce a guided market model in Hungary, took place in the cross-currents of an enormously large environment of political, social, psychological, geographical, economic, cultural variables, and including chance. We all approach the analysis of political choice in different ways, as, for example, is shown by the typologies presented below. When we are confronted by a novel and important political choice we are, as social scientists, condemned to shine our 'searchlights' on to the dark and uncharted environment of the choice to discover its origins, its *raison d'être*, its causes. In our search to discover correlations we point our beam at different zones of the environment. If by shining our light on to an area of the NEM's environment - the politics of the

choice - that up to now has escaped the steady focus of analytical searchlights; if we can hold steady our beam for a while rather than race it over the surface of the politics of the reform, and if we find that we have come up with some important correlations, then our approach has not been in vain, and the choice of the NEM - though not given a final causal explanation - will be somewhat clearer than it has been hitherto.

In the final analysis this research is dedicated to establishing the need to focus more sharply on the generative nature of politics in Socialist economic development. It seeks to show that the strategy for economic change must at one and the same time be a strategy for political change; that the design of the political and social components of any new economic mechanism, but especially the guided market model cannot be treated as incidental. We have found the comments of Ilchmann and Uphoff with regard to the problems of developmental change in the Third World countries, to be equally relevant in the case of the Communist states:

By now it is clear that the problems of developing countries persist in spite of, or perhaps in part because of, analyses and prescriptions that are primarily or solely based on economic considerations... the work of conventional economists alone is not sufficient to provide a science of choice that works from a logic of political preference within a particular community. Economists analyse only goods and services. The statesman is concerned with and responsible for other values as well. Moreover, the maximisation of economic values cannot be achieved by using economic resources alone. New status and authority relationships have been identified in the literature on economic development as prerequisites to modification of the modes of production. Indeed, a strategy for economic change cannot help but be a strategy for political change as well.

The domain of this dissertation does not lie in a field which opposes arguments based on the economic necessity of market socialists. Rather, our surgical ward lies in that twilight zone which was so aptly designated by Professor W.Brus as "...a whole series of circumstances (in the) far beyond...".

1. W.Ilchmann and N.Uphoff, The Political Economy of Change (Los Angeles: University of California Press, 1969), pp.16-31.

"The explanation of the speed with which reforms have been introduced in the course of the last decade lies in a whole series of circumstances far beyond the formula that the Socialist economies are in a transition from an extensive to an intensive stage in their development."¹

Finally, a brief note on analytical models and methods. Upon examining, in an earlier essay, the various models that Sovietologists have put forth to facilitate the understanding of Communist political behaviour, I have come to the conclusion that these are still not sophisticated enough to allow one to be fully and exclusively dependent on them. They suffer from various ills, such as structural inconsistencies, loose definition of structural components, or, simply, age. But beyond these problems, we must also see that models must not only be structurally consistent, but should also be strong enough to stand up to the stresses of application. We must be careful not to burden ourselves with overly elaborate or sensitive analytical machines.²

During the preliminary stages of this research I became conscious that my subject matter lies in a research field that is, metaphorically speaking, very muddy. A highly structured, low-slung, supercharged, and 'temperamental' racing car is out of place in such an environment. On paper, or on a clear, smooth surface, the model might promise excellent results, but in the societal setting we have chosen for it, it becomes so ineffective that the researcher could have got further on by walking, and indeed he ends up pushing his analytical model through the mud.

In using general analytical models of Sovietology we must therefore ensure that somehow the models take in some elements of 'totalitarianism', 'groupism', 'bureaucratism', and 'industrialisation', which proliferate in differing combinations. (For example, not only does a 'bureaucratic-industrial' model like A.Meyer's³ -- which claims

1. W.Brus, The Economics and Politics of Socialism (London: Routledge and Kegan Paul, 1973) p.32.

2. This is the problem with the most precisely and lucidly constructed interest group model of Communist politics, championed by G.H.Skilling, "Groups in Soviet Politics: Some Hypotheses", and "Interest Groups and Communist Politics": G.H.Skilling and F.Griffiths, eds., Interest Groups in Soviet Politics (Princeton: Princeton University Press, 1971).

3. A. Meyer, The Soviet Political System (New York: Random House, 1968).

to account for all of the relevant system variants -- blind us to such 'residual' factors as the influence of the previous 'totalitarian' experience, but it also offers no help in distinguishing the bureaucracy say of Hungary from that of Bulgaria, or Romania.)

The history of Communist Party states is one of rapid change and of societal mobilisation for the attainment of party goals. What is needed, to facilitate the understanding of this process, is a focus which would enable one to look 'under the bonnet' as well as into the driver's 'reference frame', and thus to assess the dynamics which propel these societies through their developmental changes. Models which purport to account for the totality of developmental dynamics on the workings of such components as the 'drive shaft' (say the organisation and composition and harmony of the Party leadership), the 'electric circuitry' (say the institutional command set up throughout the hierarchy), or the 'contours of the road' (say the economic structures and constraints), will therefore be limited. Their exclusivity or isolation will render them static, and they will not be of great use for the analysis of the type of political behaviour in which leaders are having to make unique innovations, altering their previous courses of behaviour, and responding differently from time to time to similar environmental stimuli.

I support the idea that suggests instead that it is equally, if not more, important to enlarge on the healthier components of existing models, to rework their weaker elements, and to vigorously test these alterations in the field. In this analysis we shall follow therefore a policy of peaceful co-existence between societal models. There will be no attempt to devise and test a new all-encompassing wondertool or general analytical model of a Socialist society.

An approach is nothing more than a strategy by which the researcher delineates the scope of his investigation. Methods are the techniques and instruments of data gathering and compilation. The crucial point that needs to be understood is that methods perform, in relation to the approach, a secondary or supportive function.¹ With respect to research methods or techniques, I feel that the greater the variety of techniques

1. On this see O. Young, Systems of Political Science (New York: Prentice-Hall, 1968), pp.96-98.

of data gathering and compilation, the more likelihood there is of success. (This, of course, is not a plea for variety for variety's sake: undoubtedly techniques must be aligned with the scope of the research.) The work that I have undertaken makes use of a number of techniques --content analysis, interviewing, statistical analysis, to name but three. I have followed such a multiple course of action because the paucity of raw data about my subject does not allow for the luxury of using just one technique and would, in fact, result in the omission of certain crucial elements of the problem.¹

If we are to pin a classificatory label on the research then we can say that it is to fall in an area known as "narrow-gauge theory"² and that it will follow the strategy and tactics of "raw" as well as "inductive empiricism".³

III WHY DECENTRALISE? A SELECTED TYPOLOGY OF RATIONALISATIONS FOR REFORM

This typology is presented so as to place the present study in the body of analyses of Socialist economic change and to clarify the profile of some of the major contending interpretations of the rationale for a Socialist market mechanism in Hungary.

For the sake of easier conceptualisation, I have isolated three general reductionist rationalisations for economic decentralisation, as they are used both in the East and in the West, from which we can reduce certain 'grand theories' and 'partial theories' of economic change. I'd like to point out that the references to specific authors in the foot-notes should not be construed to mean that they represent that, and only that, particular ideal position that is being discussed, but merely that the particular position was given a very lucid expression in the cited work. Finally, this typology is by no means exhaustive; it is selective, and there are analytical positions which have not been

1. This is, for example the weakness of an elaborate study by Milton Lodge on Soviet Elite Attitudes Since Stalin (Columbus, Ohio: Bell and Howell, 1969). Elite attitudes are derived solely from a detailed content analysis of representative journals. Not only does this work assume that the "elites" attitudes that are printed in representative journals are actually shared by the general body of the elite, but it also assumes that these elites are reified units, or that increased articulation is due to increased group consciousness (rather than to more liberal censorship policies, for example).

2. G. Ionescu, Comparative Communist Politics (London: Macmillan, 1972), p. 18.

3. F. Fleron, ed., Communist Studies and the Social Sciences (Chicago: Rand McNally and Co., 1969), pp. 9-10.

represented here simply on a voluntaristic basis. The typology is open to amendments. As can be seen in Figure 1.2, economically determined reforms are by far the most numerous in the literature and let us therefore begin with them.

A. Economic Theories of Decentralisation

1. Orthodox Marxism

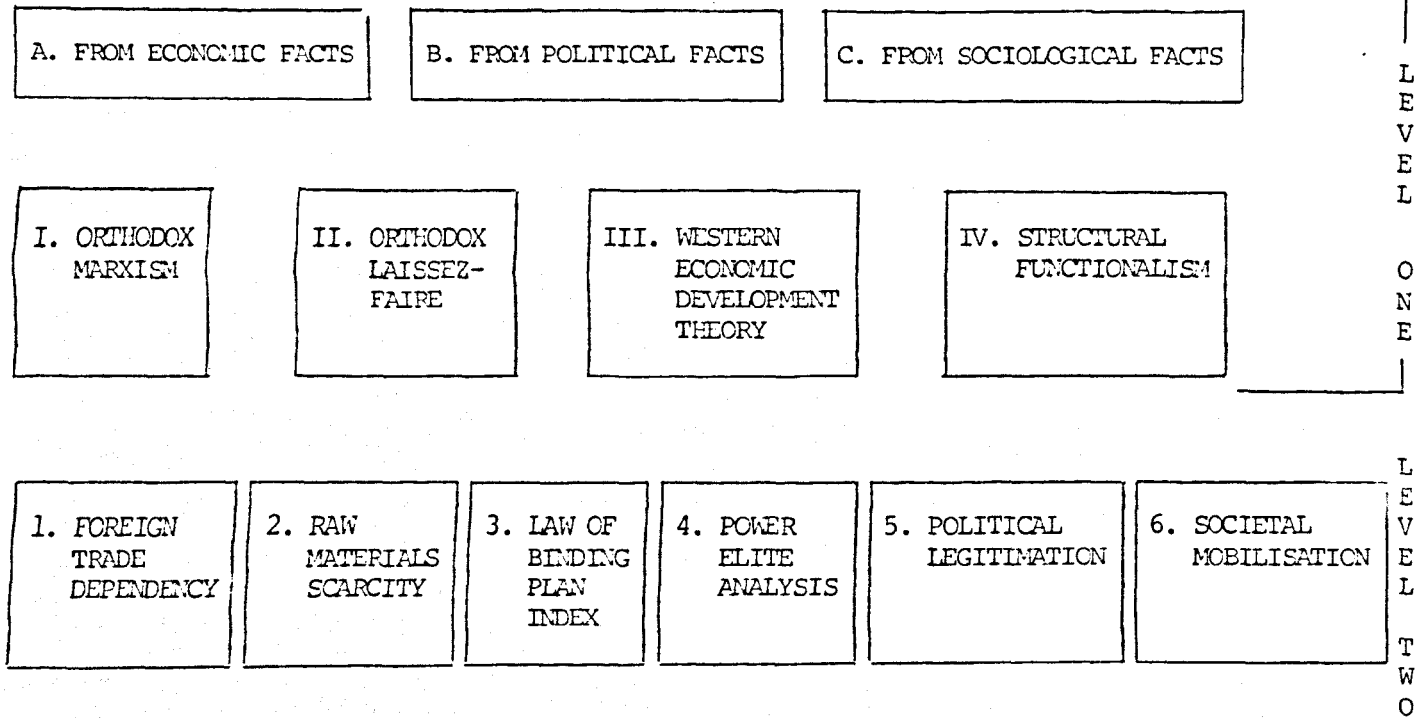
This is the official rationalisation of the Hungarian government and Party of the need for the NEM. It is best expressed by the former Prime Minister, Jeno Fock:

Why were we able to work out a reform of our economic mechanism and why was its introduction necessary? At one time, three or even two years ago there were still very big arguments over this question. We in the Party gave the unambiguous answer to this question; it was the development of the forces of production which made the drafting of the reform of the economic mechanism possible, and which made its implementation necessary. We also added that we could put off the introduction of this reform for three or four years, but by then the ills of our people's economy would be so serious, that we would be in a much more difficult position. Once again I would like to emphasise that the reform of our economic mechanism was made possible and was necessitated by the developmental level of our forces of production, and not by five or six of our economists having come up with some excellent new ideas... In this connection it could be asked that if the reform was necessitated by the developmental level of our forces of production, then why is it that in those Socialist countries where the forces of production are more developed than in Hungary, they have not introduced a reform like ours. (Indeed, that even today they are questioning us about certain of its elements.) I repeat, this question could be asked... Here I simply want to point out that all Socialist countries are linked together by the fundamental tenets of Marxism-Leninism, which apply generally to all of us, but at the same time each country has its own characteristics which could make certain differences possible.¹

2. Orthodox Laissez-Faire

Representatives of this school resemble the orthodox Marxists in one way: they also argue that this particular kind of reform - the NEM -

1. Jeno Fock, A Szocializmus építésének gazdaságpolitikája (The Political Economy of Building Socialism), Speeches and Articles, 1963-1972 (Budapest: Kossuth Könyvkiadó, 1972), p. 236.



CURRENTLY RECURRING COMBINATIONS

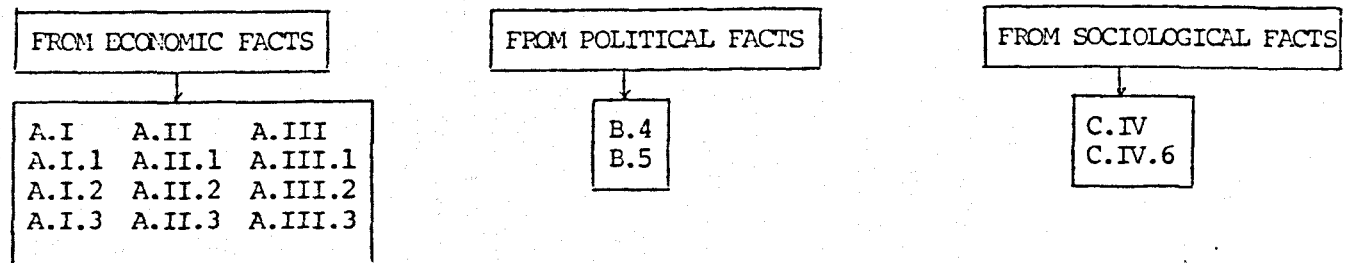


Figure 1.2. A Selective Typology of Current Arguments for the Necessity of Economic Decentralisation

was born of objective economic necessity. The basic and irreconcilable difference between the two positions is simply that, whereas the orthodox Marxists argue that the earlier period of Socialist construction via extensive means and command planning was more or less the correct technique, the laissez-faire school argues that there was nothing economically necessary or useful about the earlier strategy. The first stage, to this group, was nothing but a blind denial of economic laws, economic rationality, economic calculations, which finally simply had to give way to the massive pressures created by that artificial negation of these objective laws: "... there was no economic science in the Stalinist world, no theory of action or potential choice, but simply ideological assertions - 'laws' masquerading as economics".¹ It was only a matter of time before 'Western economic laws' broke through this 'Chinese Wall', and before the compelling rationality of the market principle was re-established in its rightful place.² The voluntaristic negation of economic rationality simply buckled under and gave way to market relations, the law of value, scarcity prices, interest charges, et al.

Ljubo Sirc states this argument very lucidly when he writes:

...reforms became necessary when it transpired that the old Stalinist model was very inefficient... It produces goods nobody wants to buy, establishes productive capacities which cannot be used, keeps personal consumption very low and causes foreign trade difficulties. (These) features belie the assertion, often proffered by communist economists and held by some economists outside Eastern Europe, that Stalinist planning provides a serviceable instrument in the early phases of development when it is extensive, but becomes a hindrance when it later becomes intensive. The present troubles of Eastern European economies go back to the founding years when development was set on the path of progressive disproportions, each mistake being multiplied as time passed.³

3. Western Economic Development Theory

Some of the members of this group strongly disagree with the position of those in 2. This criticism is well articulated by John Montias:

1. Jan Prybyla, "Patterns of Economic Reform in East Europe", East Europe, Vol. 17, No.11, 1968, p.5.

2. See for example J. Felker, Soviet Economic Controversies (Cambridge, Massachusetts: M.I.T. Press, 1966), p.3.

3. Ljubo Sirc, Economic Devolution in Eastern Europe (London: Longmans, 1969) pp. 1, 29.

The authors feel passionately that centralised planning is bad and market allocation is good. And any facts, numbers and guesses and approximations that tend to support this basic contention are grist to their mill... Sirc seems to believe that it is sufficient to quote repentant East European planners, many of whom are as ready to heap abuse on the old model as once they were eager to uphold it, to clinch the case for market type decentralisation. But this will not do. Beyond a certain point, neither the indiscriminate damning of the old ways nor the exuberant expectations placed in the new can make up for the lack of a balanced appraisal of the advantages and disadvantages of centrally and decentrally co-ordinated systems at different stages of development, in different political and social milieus, for the different goals pursued by the ultimate authorities in various societies.¹

There are many marginal interpretations under a general 'developmental' framework² and we cannot spend time on a detailed presentation of these. Suffice to say that all of them would argue, one way or another, that at the stage of 'breaking out' of the 'traditional patterns' of economic growth and development, a certain degree of hierarchically enforced dirigisme is essential to create the critical energy needed to bring about the transition from the 'traditional' to the 'developed' economy. Detailed central command

1. John Montias' review, Slavic Review, Vol. 29, No.3, 1970, p.551.

2. See for example the comments of Holt and Turner based on growing informational complexity: "As the economy approached modernity, fundamental economic decisions grow increasingly complex. This can be illustrated by the Soviet economy... The modern stage of economic development, it will be recalled, was defined in terms of a high degree of inter-industry inter-dependence... It must be observed that some procedures that are highly successful in the drive to modernity stage of development may impede economic growth in the modern stage. We would hypothesise that in the modern stage a certain degree of decentralisation is necessary, and that the increased reliance in the Soviet Union upon a type of market mechanism is significant primarily because it involves a decentralised information system". Robert T. Holt and John E. Turner, The Political Base of Economic Development (Princeton: D. Van Nostrand Co. Inc., 1966), pp.373-376. See also Z. Frank and J. Waelbroeck, "Soviet Economic Policy since 1953: A Study of its Structure and Changes", Soviet Studies, Vol. XVII, No.1, 1965; and R. Campbell, "On the Theory of Economic Administration", Industrialisation in Two Systems: Essays in Honor of Alexander Gerschenkron, ed. H. Rosovsky (New York: Wiley and Sons, 1966). The latter two authors stress the technological developments as decisive in bringing market relations to the fore.

is liable to bring about a fuller utilisation of resources than the market, and can better concentrate scarce resources on a few key targets capable of generating dynamic growth. While Walt Rostow would be the last to condone Stalinist type command planning as an admirable form of breaking out of the bondage of a traditional pattern, he recognises that, nevertheless, it is a form of 'modernisation', repulsive as it may be to him.¹

The central feature of the Western bourgeois developmental school is that it utilises the polar opposites of 'traditional' and 'modern' as a developmental continuum and identifies the industrially developed Western states, with their forms of economic administration as 'modern' or 'developed', and as the type of political-economic system towards which all nations in the world naturally will and should progress. They argue that once even the Socialist economies have gone through the painful stresses associated with take-off, the automatic pilot - the market, the invisible hand - can be switched on to maintain the 'aircraft' in a state of equilibrium, and the central planning bureaucracy and ministry officials involved in the command of units of production can retire for a well deserved rest.

Eventually, political convergence itself between East and West is a probability. (In the West the convergence is depicted in such a way that it is not really a convergence of two positions toward a third, newer one, but the transformation of 'Eastern' socio-political structures and patterns into ones closely resembling those currently found in the West.)

In short, these developmental factors, so it is claimed, lie behind the emergence of the market mechanism in Hungary, and will also ensure its entrenchment in the future in the other Socialist states.

This type of rationalization of course causes a good deal of embarrassment to the Marxist promoters of the reforms, as the following comments of Jeno Fock illustrate.

1. He calls the Communist strategy (and says that Marx created it): "...a monstrous guide to public policy... a kind of disease which can befall a transitional society if it fails to organise effectively those elements within it which are prepared to get on with the job of modernisation". Walt W. Rostow, The Stages of Economic Growth: A Non-Communist Manifesto (Cambridge: Cambridge University Press, 1960), pp. 157-165.

How do they judge our reform in the capitalist states? For many, the answer is very simple and goes something like this: 'it is a step towards liberalism'... In the West they try to push us in that direction in order to further their politics of incitement inside Hungary... Frequently they write so positively and favourably about the Hungarian reform and its successes that people come to us and ask how much advertising fee did we pay the Neue Zürcher Zeitung for the three large articles, who wrote it, and how were we able to place such a favourable article into a capitalist paper? Most of the time the thought, hiding behind all these praises is - 'Maybe this way we can set off a quarrel between Hungary and her Socialist neighbours'.¹

This third group also provides convenient ammunition for the neo-Stalinist opponents of economic decentralisation who are only too eager to blacken the ideas of the reformers as a sell-out of Marxism.²

4. Partial Theories of Economic Determinism.

We can regroup under this category orthodox Marxists, orthodox laissez-faire theorists, and liberal developmental theorists. The orthodox Marxists would naturally accept the first part of Premier Fock's rationalisation on pg. 20 above and then focus their attention on those additional 'unique characteristics' of Hungary's economy which objectively sparked off the introduction of the reform. The same unique characteristics could be utilised by the two other theoretical schools, who would attach 'specific objective activators' of the reform on to their own peculiar grand theory of the general laws of Socialist economic change.

a. Foreign Trade and Technological Innovation

One such specific activator of economic decentralisation could, we are told, be a high degree of foreign trade dependency. Hungary fits right into the theory since of all the Comecon countries her national income is the most influenced by foreign trade. Since such a large share of the Hungarian national income is conditioned by the behavior of units lying outside of the immediate jurisdiction of the Hungarian planners, detailed command planning in Hungary need not,

1. Jenő Fock, op.cit., pp. 239-240.

2. See for example the latest political tirade against the ideas of Ota Sik, published in Hungary recently: I.M.Mracszkovszkaja, A revizionizmustól az árulásig (From Revisionism to Treachery), Budapest: Kossuth Könyvkiadó, 1974).

indeed cannot be as pervasive as in the other Comecon states. An important corollary argument to this stresses the importance of technological innovation in the economic growth and development of highly foreign trade dependent nations. In order to compete on foreign markets, Hungarian manufacturers and planners must generate relatively more "new technology" than their less foreign trade dependent neighbours. But of course "new technology" cannot be created by a law or by a command - it must be invented. It is argued that the centralized commanding of units of production according to the preconceived objectives of planners reduces the capacity or ability of those economic systems to create advanced technological innovation.

We are told in effect that the traditional mechanism of economic control hinders the development of new technology, which consequently reduces the competitiveness of the nation on international markets. This reduced competitiveness in turn begins to act as a break on the country's future economic growth and development. The need for a new economic mechanism therefore, expresses itself earlier and with more force in an "open economy" than in one in which foreign trade accounts for a smaller share of the national income. As Bela Csikos-Nagy, Chairman of the Hungarian Prices and Materials Office says: "It is no coincidence therefore that economic reforms are most radical in Socialist countries with open economies".¹

b. Raw Materials Scarcity

A related argument is that which stresses Hungary's poverty in industrial raw materials. Hungary is, after Denmark, the poorest country in Europe in the natural resources needed in the process of industrialisation. While a country that has an abundance of these resources can fall back on its resource cushion and carry on with outdated methods for a longer time, a small country, poor in such resources and foreign trade dependent, cannot afford such a luxury and must switch to intensive methods at the earliest possible time.²

1. Bela Csikos-Nagy, Pricing in Hungary, op.cit., p.10. For a similar interpretation, see Alan A. Brown and Paul Marer, Foreign Trade in the East European Reforms, I.D.R.C. Working Papers, No.9, January 1972, Indiana; and A. Schonfield, "Hungary and Poland: The Politics of Economic Reforms", The World Today, Vol.26, No.3, 1970, p.97.

2. This is an argument put forth by deputy-premier Matyas Timar. See his Gazdasági fejlődés és irányítási módszerek Magyarországon (Economic Development and Methods of Economic Control in Hungary), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1968), p.122.

A rather different 'narrow gauge' or partial rationalisation is that which points to the "inner law of the...binding plan index", and to the Hungarian economists' recognition of this law, as decisive in introducing the Socialist market mechanism. Like other East European states, begins this theory, the Hungarians experimented between 1957 and 1965 with piece-meal reforms which, in Hungary as elsewhere, had a pendulum-like nature: decentralisation would be followed by recentralisation. It is argued that partial decentralisation, or selective decentralisation of some economic decisions, without a reform of the overall framework of the traditional economic mechanism will always result in an unstable control situation because the old and new cogs of the mechanism of economic control would grate and clash with one another. We are told that this instability, caused by the contradiction between the new and the old parts of the mechanism of economic control would soon begin to demand increased intervention by central authorities and thereby lead to the elimination or erosion of the earlier measures. By reversing the process of decentralisation this would leave intact the root cause of the economic problems of those societies. The position is lucidly articulated by Joseph Bognár:

"Experience has taught us that the system of decision-making is an entity whose elements are in close interaction with each other and hence changes in some of these elements - leaving the others unchanged - cannot bring the desired results".¹

This argument is widely shared by economists and politicians in Hungary ² and it also has a large and eminent following in the west. As Richard Portes puts it, "...the Hungarian reformers jettisoned the essentials of the command system precisely because they feared that otherwise creeping recentralisation would be

1. J. Bognár, "A szocialista gazdaság irányítása és működése" (The Direction and Functioning of the Socialist Economy), in Vita a magyar gazdasági mechanizmus reformjáról (Debate on the Reform of the Hungarian Economic Mechanism) (Budapest, 1966), p.41.

2. See for example Iván T. Berend, "The Historical Background of the Recent Economic Reforms in East Europe" in East Europe Quarterly, Vol.2, No.1, 1968, p.88; J. Kornai, Overcentralisation in Economic Administration (London: Oxford University Press; 1959), pp.225-226; R. Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja (Our Economic Policy and the Reform of the Economic Mechanism) (Budapest: Kossuth Könyvkiadó, 1968), p.131.

repeated"¹. It is added that Hungary was also fortunate to have some useful intervening variables on the scene, such as a unified group of pragmatic leaders, no serious economic crisis prior to the reform (hence no hasty formulations), relative political calm, some topnotch economists, and a more liberal atmosphere in which the economists were freer to experiment and play around with ideas.

We shall, of course, have to return to this, as well as to the other rationalisations in the main body of this dissertation. For now, we intended only to give the skeletal framework of the major and partial economic deterministic interpretations of the movement towards a Socialist market mechanism in Hungary. Let us now turn to the political and sociological rationalisations.

B. Political Theories of Economic Decentralisation

Apart from some superficial tracts and repetitions of the slogan that politics and economics are highly interdependent,² we have no systematic analysis of this area by Hungarian social scientists - at least not in an officially published form.³ It

1. R.D. Portes, "The Strategy and Tactics...", op.cit., p.640; See also the comments of A.Bergson in "Those Economic Reforms Behind the Iron Curtain", Challenge, May - June, 1967.

2. E.g. "the reform of the economy demands parallel changes in the super-structure", Népszabadság, September 22, 1968; and the statement in the May 25-27, 1966 Central Committee resolution: "The economic reform is aimed to create more favourable conditions for the further development of Socialist democracy", A gazdasági mechanizmus reformja: az MSZMP Központi Bizottsága 1966. május 25-27-i ülésének anyaga, published by Central Committee Department of Agitation and Propaganda in 1966; Jenő Horváth, "Gazdaság és Politika" (Economy and Politics), Népszabadság, February 9, 1969; and "Gazdaság és Politika", Népszabadság, June 21, 1969.

3. There are a few probing articles, but these restrict themselves to surveying a small sub-group of the interaction and do not deal either with the political conflicts and groups surrounding the debate on the NEM or with the systematic analysis of the political prerequisites or concomitants of the reform on a systematic level. See József Balogh, "A szociológia és a politikai irányítás" (Sociology and Political Control), Pártélet, Vol.XIV, No.5, 1965; Béla Máty, "A területi és vállalati partbizottságok munkája a gazdaságban", (The Role of Regional and Enterprise Party Committees in the Economy), Pártélet, Vol. XIV, No.2, 1969; Kálmán Kulcsár, "Politika és szakszerűség a társadalom vezetésében" (Politics and Professionalism in Social Leadership), Társadalmi Szemle, Vol. XXVI, No.10, 1971; and András Hegedüs and Tamás Rozgonyi, "Társadalmi konfliktusok vállalati szintű döntésekben" (Social Conflicts in Enterprise Level Decision Making), Közgazdasági Szemle, Vol. XIV, No. 7-8, 1967.

is important, however, to take note of a comment by former Politburo member Rezső Nyers who, although certainly he would not contest Premier Jeno Fock's statement on the rationale for the NEM, has indicated that an analysis of "unique Hungarian characteristics" in the movement towards reform could go beyond the analysis of unique objective economic characteristics into the subjective world of power politics. His reference, however, is not to 1968 but to an earlier period which, needless to say, is politically much safer to discuss in such 'subjective' or dynamic terms because of its distance from current events and issues.

Objective conditions can never explain everything. Behind the slowness of change, a very large role was played by the fact that prior to 1956, the political-economic policies of the HWP contained many irrational views and less than the required amount of conscious, scientific forward-looking policy. The results of the grandiose efforts of 1950-53 were spoilt by the fact that almost everything that we did was done purely to increase the quantity of production. While in this sphere we made giant strides, technological and technical development progressed at a snail's pace. In 1953 we discovered the harmfulness of this policy. The Central Committee of the Hungarian Workers Party, in its June 1953 Resolution, correctly defined the main tasks and actions that should follow. But... no effective changes occurred because the political and economic leadership (Rákosi and Gerő) was, up until 1956, much more concerned with saving its own prestige than with eliminating the shortcomings. The main reason behind the slowness of change therefore is that for six to eight years the concept of technological development did not receive even as much place in our policy as objective conditions would have warranted.

There are a number of different types of political rationalizations offered for economic decentralisation, but the two main or most frequently recurring ones are those that emphasize the rôle of elites and Realpolitik in decision-making and those that approach the problem more widely from the demands of legitimation .

1. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op.cit., p. 39.

1. Power Elite Analysis or Economic Reform as Realpolitik

Also known as the Kremlinological School,¹ the analytical positions of the Power Elite group vary greatly in sophistication. In its purest, or rather crudest, form, many of the practitioners of this type of analysis would not even deem it necessary to analyse the contents, constraints, and issues of economic reorganisation in a wider, environmental sense. For these scholars, the fundamental driving force of socio-economic change in Socialist states is the personal power quest of individual leaders.

As Abraham Katz says:

/Stalin's/...strategy of industrialisation, collectivisation of agriculture and irrational forcing of heavy industry stemmed basically from the totalitarian imperative...this fantasy was part and parcel of the atmosphere of total warfare deliberately created by Stalin to establish firmly his totalitarian control.²

or:

It would be foolish to assert that Voznesenski was purged because of his view on balanced proportions. Stalin may have considered him some sort of potential political rival... possibly connected with the growing popularity and importance of his book as a theoretical work.

or:

Khrushchev needed an issue that provided the opportunity for the demotion of Malenkov... The issue of primacy of heavy industry was precisely such an issue.⁴

or:

The political motivation behind Khrushchev's regional decentralisation is clear. The decentralisation of the economy served to reassert Khrushchev's position vis-à-vis his opposition.⁵

According to this type of rationalisation, new economic policies and reforms are like urine to the kidney. The major task is to

1. Erik Hoffman offers the following apt definition of Kremlinology: Generally speaking it is an analysis of 'esoteric' Communist communications, for purposes of finding information and testing hypotheses about the nature of the political process - especially policy disputes, the struggle for power, and decision-making - at the highest level of the Soviet Communist Party". See his "Methodological Problems of Kremlinology", Communist Studies and the Social Sciences, ed. Frederick Fleron (Chicago: Rand McNally and Co., 1969), p.145.

2. Abraham Katz, The Politics of Economic Reform in the Soviet Union (New York: Praeger, 1972), p.15.

3. Ibid., p.34.

4. Ibid., p.49.

5. Ibid., p.62.

correctly evaluate the career characteristics of the top leaders, to identify their tactics and their bases of support, to be able to keep on top of developments in the power struggle, and to be able at times to move ahead and predict the outcome of the power struggle.

In the Hungarian context, the NEM is depicted as merely a consequence of a struggle for power between factions in the Hungarian Party following the 1956 uprising. In this struggle for power, the young and pragmatic technocrats, represented at the top by Rezső Nyers, gained paramountcy within the Party and state bureaucracy by the mid 1960's, and thus, in accordance with the laws of Communist policy making - according to the laws of the system - the NEM entered the mainstream of Hungarian economic life simply as the logical value-preference of these newly ascendent technocrats.¹

2. The Demands of Political Legitimacy

According to David Easton, all political systems are fed by two input channels: a. demands, and b. supports.² Easton's premise is that without inputs there is no political process. Demands are seen as information which the political system is called upon to process. Supports are forms of energy which enable the political system to handle and process the flow of information it is receiving. In order to effectively or efficiently allocate scarce values within a community, political decision-makers are in need of supports that will lend authority to their allocation. Support may be generated by a political system by means of propaganda, education, social,

1. For the most lucid expositions of this 'law' which defines the 'dynamic' relationship between political power and policy in the Communist states, see R. Conquest, Power and Policy in the USSR (New York: St. Martin's, 1961); or S. Ploss, Conflict and Decision Making in Soviet Russia (Princeton: Princeton University Press, 1965). On the ascendancy of technocrats in Hungary see L. Jotischky, "Hungary 15 Years After", The Political Quarterly, Vol. 42, No. 2, 1971; S. Kiss, "The Kádár Imprint on the Hungarian Party", East Europe Magazine, Vol. 18, No. 3, 1969; D. Tomasic, "Changes in the Power Structure of Communist Ruled Societies: The Case of Hungary", Canadian Slavic Studies, Vol. 2, No. 4, 1968; and F. Vali, "Hungary", The Communist States in Disarray: 1965-1971, ed. Adam Bromke and Teresa Rakowska-Hamstone (Minneapolis: University of Minnesota Press, 1972).

2. For an elaboration of these ideas see David Easton, A Framework for Political Analysis (New Jersey: Prentice-Hall, Inc., 1965), and A Systems Analysis of Political Life (New York: John Wiley and Sons, 1965).

psychological and economic rewards, by ideological means (value or social structure types; see below, p.29), by structural organisations, or through various legitimisation processes. Support, or compliance effects, may of course also be created by the utilisation of physical force and coercion of a negative kind. (Positive coercion involves the offering of excessive and irresistible rewards for compliance.)

Supports may be diffuse - meaning a broad, favourable emotive attitude on the part of the citizens towards the ruling political group - or specific. Specific support implies the direct and favourable cooperation of citizens with specific governmental policy outputs.

To illustrate, a specific output decision such as the raising of consumer prices in Poland in 1970 did not engender sufficient specific support. Such unfavourable decisions may however survive in other systems because they may be adequately grounded in diffuse support. All political systems are interested in expanding their support in the latter categorisation, in order to build up their stock of legitimacy, so to speak, so as to be able to draw on this on occasions when sufficient specific support may be lacking. (Of course, governments may again simply enlarge their coercive mechanisms parallel to instances of unfavourable outputs and thus create the necessary energy which is needed for making the decision operational.)

All societies - East or West - have a certain amount of support stress within them, if only because values allocated for society by governments are scarce and therefore some people or groups are always dissatisfied since they cannot receive all of the values that they have demanded. But, support stress is particularly acute in those societies where governments have committed citizens to rapid industrialization via "the steep ascent", and the constriction of consumption.

The above argument, applied to the East European setting, stresses that the command system of rapid industrialisation has exhausted the diffuse support of Communist regimes. Consequently, economic decentralisation and increased sub-system autonomy are being promoted by some of these regimes solely for

the purpose of regaining or creating a new basis of diffuse support for themselves, and to make their rule less crisis prone.

In this light, the NEM becomes now not simply a narrow tactical device geared to strengthen the position of one faction within the Party against another. Neither is it simply the logical reflection of the value system of the leading technocratic coalition. Rather, it is a well thought out political mechanism, designed to generate a greater degree of mass commitment to the Communist Party which then will greatly ease the burden of leading society towards Socialism. As Népszabadság pointed out, "It is impossible to solve economic tasks effectively without conscious and intensive cooperation and increased activity on the part of society".¹

The legitimacy argument applied to Hungary usually begins by characterising as illegitimate the birth of the Kadar regime in 1956. Kádár, it is pointed out, was parachuted into power by the Red Army in November 1956 and had, by this action and by his sanctioning the execution of Imre Nagy and other revolutionaries, become a traitor to his people. The 'illegitimacy' of his rule was not eliminated by the various diffuse support-creating efforts of the regime between 1957 and 1965. Khrushchev's grand design for a docile Hungary - "The important thing is that we should have more to eat, good goulash, schools, housing and ballet"² - did not work its intended magic. By 1965, social and political tensions had been rising once again.³ It is claimed that opportunism is the hallmark of the Hungarian leading strata.⁴ Hence, the NEM is merely a safety valve for pent up consumer unrest and is, in short, designed to 'woo the masses'.

1. "Gazdaság és Politika" (Economy and Politics), Népszabadság, June 21, 1969.

2. Quoted by Ferenc Váli, "Hungary", op.cit., p.121.

3. See Paul Lendvai, "Hungary: Change vs. Immobilism", Problems of Communism, Vol. 16, No.2, 1967, pp. 12-13.

4. Ferenc Váli, op. cit., p.127.

Paul Lendvai winds up the argument: Political disturbances during 1964-65 openly underlined

...the shaky claim of the Kádár leadership to legitimacy and consequently...the absence of any national sentiment which might have served to broaden the popular support of the regime.../T/he much publicised stability between 1961 and 1966 became no more than a façade...Kádár's new formula for change, presented before and during the November party congress, appears to mark an end to a long period of political deadlock and economic stagnation.../T/he economic reforms clearly indicate that a major attempt will be made to get the country moving again.¹

C. Sociological Theories of Economic Decentralisation

There are, so far as I know, no scholarly works of this type currently available on the rationale for a guided market mechanism in Hungary. I include this classification here simply because arguments have been presented on a general level for the historical necessity of structural diffusion, or of a movement away from centralised societal administrative systems towards decentralised ones at the later stages of "modernisation". I am also anticipating that it is only a matter of time before some 'pathfinding' innovator of a social scientist presents such an argument.

1. Structural - Functionalism.

Using either Talcott Parsons' complex functionalist framework² or Holt and Turner's revised Parsonian paradigm (see Figure 1.3) one could deduce that the NEM was necessitated by the requisites of either the pattern maintenance function or the integrative function at the societal level. Narrowing it down, the reform could be pinpointed as a tension management mechanism³ of the Hungarian political system

1. Paul Lendvai, op.cit., p.13.

2. Talcott Parsons, The Social System (Glencoe, Illinois: The Free Press, 1951).

3. For an application of these concepts to developments in Poland, see Dennis Pirages, Modernisation and Political Tension Management (New York: Praeger, 1972).

Other Social Systems

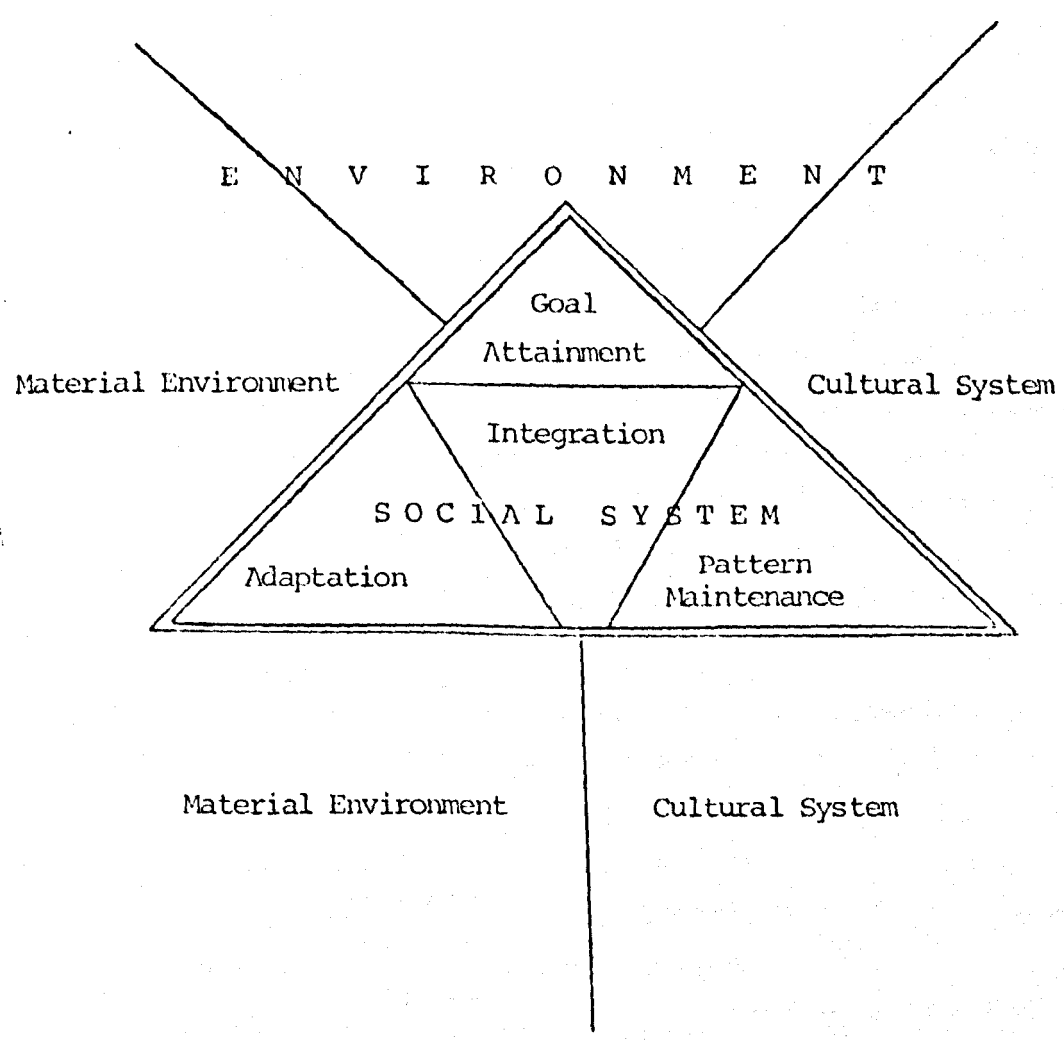


Figure 1.3

Schematic View of the Social System in its Environment

Source: Robert T. Holt and John E. Turner, The Political Basis of Economic Development (Princeton, N.J: D. Van Nostrand Co., Inc., 1966), p. 55.

by which the regime seeks to fulfil either of the above-named functional requisites.

Durkheimian sociologists could ostensibly demonstrate, using the polar opposites of organic and mechanical social relationships (the first relying on repressive laws, the second on functional interdependence), that the NEM is a clearcut example of a shift along the primitive-modern social developmental continuum via the *deus ex machina* of the division of labour.¹

2. Social Forces and the Social Effects of Mobilised Social Change

Another sociological 'theory' which could be linked to the previous legitimacy argument is that which would first of all establish that during the early 1950's Hungary - like most of the other East-Central European states - was the scene of a radical societal mobilisation drive,² the object of which was rapid industrialisation. During this time a very heavy emphasis was placed by the regime on "compressed structural differentiation" of "dedifferentiation",³ i.e. on fusing social structures at their apex to the apparatus of the Party, on controlling the controllers, rather than dismantling structures outright.

We are then told that societal mobilisation drives have a threshold of productivity beyond which the drive becomes not only increasingly

1. Emile Durkheim, Division of Labour in Society (Glencoe, Illinois: The Free Press, 1947).

2. "Mobilisation is viewed as a drive which is at least in part deliberately initiated, directed, and terminated and not as a byproduct or an outgrowth of the interaction among macro-units or as the compilation of the decisions of myriad micro-units". A. Etzioni, The Active Society: A Theory of Societal and Political Processes (New York: The Free Press, 1968), p.393.

3. These terms are from J.P. Nettl and R. Robertson, International Systems and the Modernisation of Societies (London: Faber and Faber, 1967), p.46. Note also F.W. Riggs' definition of structural differentiation: "Structural differentiation does not refer to any kind of specialisation of labour or separation of social groups from one another, but rather to a process whereby several phases in the decision making process for a social system are performed by different actors, some presenting information and making proposals, others seeking compromises between the interested parties and proposing viable policies, others prescribing norms based on this information and these proposals and authorising action, and still others seeking to apply these norms to particular cases and to determine whether particular applications made by others actually fit the rules". "Political Aspects of Developmental Change", Perspectives in Developmental Change, ed. A. Gallagher (Lexington: University of Kentucky Press, 1968), p.141.

inefficient¹ but also susceptible to grave dislocations² (eg. the 1956 uprising in Hungary and the political disturbances occurring around the same time in some of the other Communist states). We are also told that one of the major social consequences of industrialisation is a high degree of structural differentiation.

We are told that the artificial fusion of social structures to the body politic via the traditional mechanism of Stalinist mobilization, will atrophy these structures. They will become either passive or hostile, but never creative, parties to the immensely challenging task of Socialist construction. Instead of acting as additional "booster rockets" for the long journey to Socialism (in a hostile sea of capitalist encirclement, and against the gravitational pull - or demonstration effect - of Western consumerism) these social structures will put an increasingly heavy load on the main political engine, i.e. the Communist Party. Unless these social structures are "switched on", are given a life of their own, are permitted to contribute freely and creatively to the project of Socialist construction, the main engine will eventually splutter to a halt, and will crash to the ground because of its inability to pull by itself the full load of Society away from the attractions (evil or not, this is not the question now) of capitalism.

Looking at the NEM we see that it is indeed paralleled by a movement towards structural differentiation. Moreover, by severely restricting the scope and force of the one-year plan - "the backbone of development"³ - the NEM we are told has greatly diminished the force of the counterproductive mobilisation drive mechanism itself. Therefore we may conclude that the introduction of the NEM underlines the correctness of these hypotheses and, by adopting a reform that engenders a significant movement away from direct physical commands and towards greater subsystem autonomy, the Hungarian leaders have wisely compensated for some basic social forces or laws. Those who recognise that developmental change is not

1. "...any additional increase will cost more than the gains in assets that may be achieved, and hence, will curtail rather than increase the unit's action capacity". A. Etzioni, op.cit., p.411

2.. See for example M. Olson, "Rapid Economic Growth as a Destabilising Force" Journal of Economic History, Vol. XXIII, Dec. 1963.

3. G. Ionescu, The Politics of the European Communist States (London: Weidenfeld and Nicolson, 1967), p.46.

necessarily a unidirectional phenomenon (always progressing, always gaining, constantly leading towards greater harmony and efficiency) would add some riders to the above schema. They would say that "prismatic developmental traps"¹ could quite possibly follow in the wake of decentralisation. But provided that additional adjustments are made to stave off such traps,² the introduction of a decentralised decision making system and economic control, such as the NEM, would constitute the necessary first adjustment to the demands of basic social forces.³

The existence of so many diverse rationalisations about the necessity of economic decentralisation in Eastern Europe tells us that clearly the question is still far from resolved. There are literally dozens of contending interpretations as to why Hungary opted for a radically decentralised new economic mechanism in 1968. After almost 10 years, during the late 1970's, when so many of the elements and promises of that reform have been scrapped (I include here the removal from office of Rezső Nyers and Jenő Fock, the key political promoters of the reform) this question becomes even more problematical and in need of a concentrated focus.

1. "Insofar as the level of coordination falls while the degree of structural differentiation increases, the resulting system may be called prismatic". F.W. Riggs, op. cit., p.142. For a detailed treatment of this concept, see Riggs' Administration in Developing Countries: The Theory of Prismatic Society (Boston, Massachusetts: Houghton and Mifflin, 1964).

2. Note for example the warning given by J. Kornai (which, of course, does pertain to a type of 'prismatic' trap): "Real economic forces of some kind are required to channel the efforts of the enterprises in desirable directions, without the employment of instructions from the center. So long as no such real economic forces exist, giving up the issuing of instructions may produce anarchical phenomena and harm the economy". Overcentralisation in Economic Administration (London: Oxford University Press, 1959), p.224.

3. While not addressing themselves specifically to the Hungarian case, examples of this type of interpretation are to be found in: A. Meyer, The Soviet Political System (New York: Random House, 1966); A. Meyer, "Authority in Communist Political Systems", Political Leadership in Industrialised Societies, ed. L.J. Edinger (New York: John Wiley and Sons, 1967); J.H. Kautsky, The Political Consequences of Modernisation (New York: John Wiley and Sons, 1972); and R.T. Holt and John E. Turner, The Political Basis..., op. cit., pp. 343-378.

THE POLITICS OF SOCIALIST ECONOMIC CONTROL

Politics cannot but have priority over economics. To argue differently is to forget the ABC of Marxism.

V. I. Lenin.

I. THE ECONOMY IS THE MAIN FIELD OF BATTLE

Apart from the general comment that "they are trying to build a new society" and "to institute a process of change"¹ we may also say that ruling Communist leaders are determined to validate a hypothesis which is at the core of Marxism: namely that Socialism is economically more productive than Capitalism. Or, as Stalin pointed out in this connection, "In reality, Socialism can become victorious only on the basis of its ability to generate a higher level of productivity of labour"²

This is not to imply that Communists cannot see anything beyond economics. It is merely to underline that, for Communists, as Lenin said, "...the economy is the main field of battle". It is the key, or, in the words of Ghita Ionescu, the "solar plexus"³ of Communist politics. This is the number one Marxist legacy, the major theme, which runs through most policy statements and which Communist political practice continuously and consistently underlines. The Sixth World Congress of the 3rd International held in 1928 expressed this clearly: "The ultimate aim of the Communist International is to replace the world capitalist economy by a world system of Communism... the development of the productive forces of world Communist society will make it possible to raise the well-being of the whole of humanity... will enable culture to flourish as never before in history".⁴ Forty years later, the statement of Rezso Nyers, former member of the Hungarian Politburo, also emphasises this: "In Hungary the

1. C. Johnson, ed., Change in Communist Systems, op.cit., p.7.

2. J. Sztalin, A Leninizmus kérdesei (Problems of Leninism), (Budapest: Szikra, 1948), p. 159.

3. Ghita Ionescu, The Politics of the European Communist States (London: Weidenfeld and Nicholson, 1967), p. 46.

4. "The Programme of the Communist International 1928", Communism, Fascism and Democracy: The Theoretical Foundations, ed. C. Cohen (New York: Random House, 1962), p.199 (Italics added)

problem of economic development is one of the principal subjects of politics".¹

In short it is a commonplace for all Marxists, dogmatists or not, 'old' left or 'new' left, that the fully fledged socialist and communist society is realizable only subsequent to the radical transformation of the material arrangements (i.e. of the mode of production) of that society's economic base. And so, from strictly an ideological and theoretical stance, the construction of the economic basis of Socialism is a primary policy objective of all Communist Parties. Or as one of Hungary's leading political-economists pointed out:

Economists are haunted in every socialist country by the question why we cannot avail ourselves fully of the superiority of our socialist economic system, what we should do to eliminate present deficiencies, and to achieve thereby a considerable upswing of our economy".²

But ideology alone cannot explain the dynamics of Communist political-economic practice. Beyond the above mentioned ideological considerations there is an overwhelmingly strong power-political reason for the Party's excessive concern or even obsession with economic questions. This is due to the fact that ever since the late 1920's in the Soviet Union and with the introduction of the first five-year plans, in Eastern Europe, the Communist Parties have deeply entrenched their hierarchical roots in the administration and planning of their national economies. Whether it is the setting of global economic targets for society by the Politburo or finding solutions to the problems of materials shortage at a local factory, a vast armada of Party functionaries derive their livelihood, status, position and prestige solely from being involved up to their neck in economic administration. Indeed, it would not be an exaggeration to say that much of the justification for the Party's existence, and most of the Party's political power is derived solely from its economic-

1. Rezső Nyers, "Social and Political Effects of the New Economic Mechanism", The New Hungarian Quarterly, Vol. 14, No.34, 1969, p.3.

2. I. Friss, Economic Laws, Policy, Planning (Budapest: Akadémiai Kiadó, 1971), p.16.

managerial rôle. In short, the demands of maintaining political power, deeply entrenched vested interests, and sheer self-preservation also dictate that the Communist Party should exercise an actively interventionist and commanding function in the economy. We endorse therefore the following comments of W. Keizer:

"Many Western economists believe that the supreme goal of the Soviet economy is to 'overtake the U.S.A. in p.c. production' of all or specific categories of goods by 19... as Khrushchev declared on several occasions. We consider this assumption to be erroneous. Undoubtedly the 'surpassing of the U.S.A.' is an economic desideratum of high priority for the Soviet leaders, but it is in our opinion not their highest goal.... The highest political aim of the CPSU is the preservation of authoritarian political power in the hands of the Party leadership, and thus the perpetuation of communist rule in the USSR. Political power by itself, however, cannot be maintained for long if it cannot provide the material requirements for its maintenance. It must be complemented by the necessary power of disposal over the economic potential of the nation, ^{hence} the Party always considers its political power as a function of its economic power".¹

Apart from these two principal ideological and power political reasons for the obsession with economics by Communist politicians, we may also mention such obvious factors as: state ownership of the means of production, which automatically rules out state passivity in economic management; the need for rapid economic modernization to overcome the shackles of economic backwardness; the need to economically underpin the claim of those regimes to international power and influence. All these plus many many other factors have helped to ensure that Communist governments will pursue a vigorous and actively interventionist posture vis-à-vis their economies.

II. THE PRIMACY OF POLITICS OVER ECONOMICS

In Marx's schema the highest developmental stage of human history is communism. While the level of development can and will increase even under communism, no historical stage is capable of generating higher economic

1. W. Keizer, The Soviet Quest for Economic Rationality (Rotterdam: Rotterdam University Press, 1971), pp.40-46.

productivity than communism. (Marxism does not furnish a vision of arrested development - communism will be followed by more communism).

The highest developmental stage towards which mankind is progressing is not precisely situated in time, and for all ruling Communist parties it is still in the future. Men make their own history - this is a central element of Marxist historical materialism¹ - and to pinpoint a priori in time the beginning of communism would completely contradict this principle and man's right to blaze his own revolutionary path.

Communism cannot be located at a specific point in time not only because of this philosophical imperative but also because it would make all Communists and all Communist parties redundant. Communists, said Marx, and Communist parties, added Lenin, are here to hurry up the process, to help skip stages of history if need be, to act as vanguards leading the masses out of the wilderness of "false consciousness". It is to rapidly restrict the zone of false consciousness, to enable humanity, rather than material constraints, to "make history" that politics must have primacy over economics during the transition. The urgency of the drive towards Socialism and final victory, and the dangers of pitfalls along the way - hence the need for dynamic and strong leadership - are well expressed by Stalin: "To slacken the pace is to lag behind. And those who lag behind are beaten".²

The statement that politics has primacy during the transition has often been attacked as a bastardization of Marxism, as merely a Leninist-Stalinist revision. It is claimed that this in effect constitutes standing Marx on his head by Soviet politicians. Such criticism however is misplaced. While we can indeed find a number of passages in Marx's writings that seem, on their own, to convey a one-sided material determinism Marx's scholarship in its totality is a vehement denial of such a posture. His scholarly and political activism within the European socialist movement was a continuous attack on the ideas of the 18th century and subsequent

1. On this point see, for example, Marx's third Theses on Feuerbach, his Preface to the Critique of Political Economy, or the Eighteenth Brumaire

2. Quoted in a Katz, The Politics of Economic Reform, op.cit., p.50.

suggestions of economism and economic determinism. He refused outright to be categorized as a mechanistic determinist and rejected suggestions that such indeed is the nature of Marxism by proclaiming: "All I know is that I am not a Marxist"¹. Or, simply as he put it in his Thesis on Feuerbach, the mechanistic determinists "...forget that circumstances are changed by man and the educator must himself be educated".²

The source of the problem concerning the primacy of politics stems therefore not from any contradiction between Marx and Lenin but from the fact that while being sensitive to the fallacy of one-dimensional determinism, Marx simply neglected to concern himself systematically and in detail with the forms of political determinism, or rather, with the forms of interaction between the superstructure and the base during the transition to socialism. There undoubtedly is a neglect (though not a denial) of politics in classical Marxism, a neglect of the generative role of superstructures, and a one-sided emphasis on economic facts which Engels himself has openly admitted.

It was left to Lenin and especially to Stalin, the first power-holding Communist leaders, to redress the balance and to work out the principles and mechanics of the political forms of the interaction. And redress the balance they did as Stalin's celebrated passage in Marxism and Linguistics asserts:

The superstructure is a product of the base; but this does not mean that it merely reflects the base, that it is passive, neutral, indifferent to the fate of its base, to the fate of the classes, to the character of the system. On the contrary, no sooner does it arise than it becomes an exceedingly active force, actively assisting its base to take shape and consolidate itself, and doing everything it can to help the new system finish off and eliminate the old base and the old classes.³

Though Stalin is dead, his "law" laid down in the above passage is very much alive. The primacy of politics is not merely a Stalinist detour, something that is to disappear with the advent of market Socialism, the guided

1. F. Engels to C.Schmidt, Selected Correspondence (Moscow: Foreign Languages Publishing House, 1956), p.496.

2. K. Marx, "Theses on Feuerbach" in K.Marx and F.Engels, Selected Works (Moscow: Progress Publishers, 1969), Vol. I. p.13.

3. J. Stalin, Marxism and Linguistics (New York: International Publishers, 1951), p.10.

market market model, etc. It is a permanent, general feature of building Socialism everywhere, in China, in the USSR, in Mongolia, under Dubcek's Party leadership and in present day Hungary. We must emphasise this fact very strongly, for it is regularly lost track of in the West. For example, W.F. Robinson's detailed survey of social, political, cultural, and economic changes following the October 1956 uprising seems to suggest that the NEM was designed to reverse the practice of political domination over economics. Robinson cites Iván Berend's study of the Hungarian command planning era of the late 1940's and early 1950's ¹ and says that Berend's study demonstrated that "...in running the economy Rakosi had always subordinated economic factors to political considerations, a policy... that resulted in 'colossal, wholly unproductive' investments".²

As the following comments indicate, it is by no means only Western analysts who commit such mistakes concerning the relationship between politics and economics:

The question marks surrounding the interpretation of the relationship of politics and economics indicate that there is uncertainty. Not everyone understands that elementary Marxist truth, that economics and politics are mutually interdependent in a complex fashion, and that in this relationship, politics has priority... The priority of politics means that our economic behaviour is governed by our political goals, by the demands of strengthening power of the working classes, by the development of our socialist values.³

And again:

Some economists in Hungary and elsewhere cherish the illusion that methods more perfect than actually used in mathematical programming and optimization, by an extensive assistance of computers, will supply us with a key to the right economic policy, enabling us to make faultless economic decisions. Hungary may boast of having many excellent representatives of the mathematical school of economics, who have greatly contributed to improving our planning methods so far. But the problem involved in most economic decisions of real importance is a political rather than a mathematical one.

1. Iván T. Berend, Gazdaságpolitika az első ötéves terv megindításakor 1948-1950 (Economic Policy at the Start of the First Five Year Plan 1948-1950), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1964).

2. William F. Robinson, The Pattern of Reform in Hungary (New York: Praeger Publishers, 1973), p.75.

3. B. Biszku, "Pártunk politikájának néhány időszaki kérdéséről" (Some Timely Questions on our Party's Policy). Társadalmi Szemle, Vol. XXIX, No. 3, 1974, p.5.

A politically correct decision once found, mathematics is surely necessary to find the right way to carry it out. First the task must be clearly set by those whom society authorizes to do so, only thereafter will the problem of optimization arise.

There are numerous additional articles and policy statements, in the case of Hungary, for example which provide a more fuller and specific elaboration of this law in that country.²

Lest someone suggest that the above is purely a Soviet inspired version of Marxism and that the more decentralized, less bureaucratic Chinese pattern is a negation of the above view, let us illustrate the official Chinese practice on politics and economics during the transition.

Following the seizure of political power by the proletariat, the main task is economic reform and economic construction... Socialist economic construction must be ensured by the systematic political work of the proletarian party... Socialist, Communist economy is unlike any other economy. It is not spontaneously generated or spontaneously developed. Socialist economy /is/ an economy which can be created only by a proletarian regime led by the vanguards of the proletariat, the Communist Party... Even after the birth of a socialist economy, its consolidation and

1. I. Friss, *op. cit.*, pp.7-8. (Italics added)

2. Zoltán Konocsin, *Népszabadság*, March 23, 1974; Resolution of the Hungarian Central Committee Plenum of March 19-20, 1974, *Népszabadság*, March 22, 1973; János Kádár's speech, *Népszabadság*, March 30, 1974; Imre Cserép, "A gazdasági munka pártirányítása" (The Party's Leadership in Economic Work), *Pártélet*, Vol. XIX, No.3, 1974, pp.83-86; Robert Klezl, "A népgazdaság fejlődése - a pártszervezetek gazdaságszervező munkája" (The Development of the Economy - The Economic tasks of Party Organizations), *Pártélet*, Vol.XVIII, No.10, 1973, pp.14-19; Jacob Dolgos, "A pártszervezetek gazdaságszervező munkájáról" (On the Economic Work of Party Organizations), *Társadalmi Szemle*, Vol.XXIX, N 10, 1974, pp.48-57; Imre Györi, "Politikánk szolgálatában" (In the Service of our Politics), *Társadalmi Szemle*, Vol. XXIX, No.11, 1974, pp.3-13; Béla Havasi, "Elvi irányítás és konkrét segítség" (Theoretical Guidance and Concrete Support), *Pártélet*, Vol.XX, No. 3, 1975, pp.71-74; István Tettinger, "A pártszervezetek gazdaságpolitikai céljainak megvalósításáért" (For the Implementation of the Economic Policy Goals of Party Organisations), *Pártélet*, Vol.XX, N 4.1, 1975, pp. 33-34; also useful are Imre Rakos "A párt vezető szerepe a gazdaságban" (The Party's Leading Role in the Economy) in his *A Párt Vezető szerepéről* (On the Leading Role of the Party), (Budapest: Kossuth Könyvkiadó, 1973), pp.136-155; and various chapters in *A pártélet és a pártmunka időszaki kérdései* (Timely Questions on Party Life and Party Work), ed. Dóra Kovács (Budapest: Kossuth Könyvkiadó, 1973).

development and its transition to a Communist economy cannot be spontaneous and unplanned, but can take place only through Communist Party leadership and the unified, planned management and adjustment of the proletarian government.... any spontaneous action, letting people do what they choose, and departmentalism, will seriously harm the cause of socialist construction.../As/ Comrade Mao Tse-tung has said, 'Political work is the lifeline of all economic work'.¹

The primacy of politics over economics means in short that the construction and design of the economic base of the future communist society cannot be the spontaneous byproduct of the interaction of autonomous units of production in response to existing or expected situational (or market) constraints. Eliminating the primacy of politics over economics, or suggesting that "inevitably" this is what is needed to make Socialism more goal oriented is a blasphemy not only to Socialist politicians, but also to the Socialist designers of market socialism. (The latter have been frequently and falsely accused of advocating the elimination of the primacy of politics and of advocating a primary generative rôle to the unrestricted interplay of supply and demand, that is to market forces. These false accusations can be found not only within the USSR and Eastern Europe but also quite frequently in the writings of some of the leading Western Marxists.²) The Socialist reformers would all respond with justifiable indignation that to give up the primacy of politics would be tantamount to eliminating the right of the working class to dominate and hammer out the conditions and products of its existence. Thus, while we may be justified in vigorously contesting the birthright of the Leninist-Stalinist forms of the primacy of politics over economics, we must not make the mistake that the primacy of politics itself is also merely a Leninist-Stalinist deviation, for giving up this general principle would be to give up the very essence of Socialism.

Given these strategic benchmarks of socialist political economy, let us illustrate the actual forms of political-economic interaction in the USSR and Eastern Europe during the transition to Socialism.

1. From "Political Work is the Lifeline of all Work", Hung-ch'i (Red Flag) No.6, Peking, March 31, 1964. Translated in Communist Political Systems A.Z. Rubinstein, ed., (New Jersey: Prentice-Hall Inc., 1968), pp.272-5.

2. See for example Paul M. Sweezy "Czechoslovakia, Capitalism, and Socialism" Monthly Review, October, 1968.

1. Economic Policy

To put things into perspective, we may use Anthony Wallace's concepts of 'goal culture' and 'transfer culture'¹ in connection with the strategy and tactics of Socialist-economic construction and the primacy of politics.

Briefly, the 'goal culture' of all Communist leaders is Full Communism, "...the defeat of world capitalism... and the victory of Socialism in the arena of world economy".² 'Transfer cultures' are ways of attaining the goal. Mao Tse-tung has his particular transfer culture, as had Allende, Tito, Castro, Dubcek, Stalin, etc. There isn't a single necessary transfer path that all rulers must follow and, given their scope for manoeuvre, each leader can blaze his own revolutionary path and define his and his Party's transfer culture. Communist economic transfer cultures are distinguishable, express themselves, via specific types of economic policy and specific types of economic mechanisms. Of these two elements of Communist transfer cultures, economic policy is of priority or of strategic import. The transfer culture's economic mechanism is a derivative of its economic policy - in a sense it is but one specific element of the economic policy - and it plays the role, or should play the role, of a supportive mechanism.

Traditionally, the economic policies of the Soviet and East European regime and their strategy of transforming the material arrangements of society in the direction of socialism has been expressed through the medium of economic planning, i.e. through the publication and enforcement of short-, medium - and long-range economic plans. Of these three types of plans, it was the first, the short-term, one-year and (more importantly) quarterly

1. The concepts originated with Anthony Wallace in Culture and Personality (New York, 1961). For their use in the Communist setting, see Chalmers Johnson, "Comparing Communist Nations", Change in Communist Systems, ed. Chalmers Johnson, op.cit., p.7.

2. Joseph Stalin, "Two World Centres", reprinted in Communism, Fascism and Democracy..., ed. C. Cohen, op. cit., p.247; italics added.

plans that actually turned (with the support of various incentives and administrative means) the economic wheels of Socialism from one day to the next.

These short-term plans were the products of the disaggregation of the global economic goals set initially for the whole of society by the Communist leadership. The global targets were but a reflection of the political preferences of the Communist leadership, the expression of the primacy of politics, and the disaggregated segments enforced upon individual enterprises were, in fact, the attempts of economic planners to systematically compartmentalize large scale political preferences. The plan served as a detailed guide to action; its targets were the principal objects of societal mobilization. As a legal document the plan was far more sacred than the national constitution of those states.

In the first instance, therefore, it is through the publication of economic plans, by the granting of the force of law to these plans, that the primacy of politics injects itself into the material arrangements of society, bringing in from above, and imposing upon the as yet underdeveloped economic base the political priorities of the Communist vanguard. The vanguard is entitled to draft the contents of the plans, we are told, because it is the most progressive element of the working class (as Stalin used to say, 'We Communists are special people, we are made of special material'), because they alone, we are told, are capable of discovering and applying the 'objective laws of historical necessity'. Allowing some other group or strata than the vanguard, to sanction economic policy, is to allow some other layer than society's most progressive one, to determine the course of socialism. Axiomatically this would result in 'second rate' Socialism, second rate or less than optimal transition. Therefore to advocate such a course is to restrict the possibilities of Socialism, to hinder the great task of transforming society's economic base. In effect, it would also result in a massive loss of power and influence of the Communist Party and therefore the Party will not permit the contemplation of this alternative, let alone, its implementation, as a movement in the direction of economic rationalisation.

2. The Mechanism of Economic Control.

Economic plans, which express the politically motivated economic policies of Socialist regimes, also perform another function. Serving as links between the political superstructure and the economic base of society, they are a basic component in the overall mechanism of socialist economic control.

The plan as the link between the political leadership and the individual producer is well expressed in the first Hungarian Five Year Plan, introduced in 1950.

The giant economic plan must be prepared. The resolutions of the Party and Government define the tasks that must be accomplished. On the basis of these resolutions, the components of the Plan are stipulated... The directors of the enterprises receive from their superiors that portion of the plan which is to govern their area of production, and they then break down this portion to the level of their plants, brigades, and individual workbenches... The Plan is broken down by the plant director to the level of each individual worker, and the worker finally finds himself face to face with the portion of the Great Five Year Plan which he must fulfil in the interest of the success of the whole plan... If he completes his task well, the great plan will be completed sooner... We can complete all of the new tasks, but only with a completely new and voluntary discipline.¹

Ionescu refers at one point to the Plan as the "backbone of development"² and this, I think, is a very apt description of the function of the plan in the overall economic mechanism. If the economic engine of Socialism was heading towards some point, speeding up, turning corners, slowing down, it was at the dictates of the command plan.

Economic plans do not, however, constitute the only element of the mechanism of economic control. Were we to interpret socialist economic performance as simply the reaction of sub-systems to centrally designed economic plans, we would indeed have a caricature of economic goal attainment in those states. As Marton Tardos, a director of the Hungarian Institute for Economic and Market Research points out, "The practice of socialist economy has always refused to interpret this problem in such a simple way".³

In other words, the short-term economic plans could not have functioned so effectively as vehicles for the stimulation of producers in the direction of party goals, or so well as links between the political superstructure and its economic base, unless they were backed up by a complex set of incentives and institutional supports along various critical points of their 'journey' between the top and the bottom of the political-economic hierarchy.

1. Ötéves tervünk: Béketerv (Our Five Year Plan: A Peace Plan), published by the Hungarian Ministry of Culture, Budapest, 1951, pp.198-199.

2. Gita Ionescu, The Politics of the European Communist States, op.cit., p. 48.

3. M.Tardos, Experiences with the Incentive System of the Enterprises in Hungary's Economy. Mimeograph, Budapest, 1972. p. 1.

We need not elaborate at length on the nature of setting up material balances, the various technical aspects of planning, aspects of the bargaining that took place during the preparation of the short-term plans between various levels of the planning hierarchy, etc. There is a vast literature available on the nature of Soviet-type economic planning, the nature of its incentive system and related economic questions.¹

From our own perspective of the politics of 'Socialist' economic control, we are more concerned about the political or superstructural supports that were devised to push the plans through to their fruition. In this connection, the comments of a recently promoted member of the HSWP's Central Committee are well worth repeating:

"The goals of our Party's economic policy are expressed and held together in the national economic plan. But beyond the economic plan we have also a number of additional tools available with which to enforce the goals set down in the plan. We must always improve our economic mechanism... but under no circumstances can we substitute the economic mechanism for the economic control practised by our local Party organisations. Control by the Party organisations must be exercised in all branches of the economy at all levels and along each link in the chain".²

During the more than half century of their existence, the political superstructures of the Soviet and East European states have created and perfected a set of highly complex and interlinked authority systems to promote the full implementation of economic plans and to uphold the primacy of politics in the mechanism of economic control. These hierarchical authority systems or superstructural supports are basically of three types: Party organisations, State organisations, and Social organisations.

1. To name just a few: Alec Nove, The Soviet Economy (New York: Allen and Unwin Ltd., 1961); Abram Bergson, The Economics of Soviet Planning (New Haven: Yale University Press, 1964); Nicolas Spulber, The Soviet Economy (New York: W.W.Norton and Co., 1969); Franklyn D. Holzman, ed., Readings on the Soviet Economy (New York: Rank McNally and Co., 1963); and Morris Bornstein and Daniel Fusfeld, eds., The Soviet Economy (Illinois: Richard D. Irwin Inc., 4th ed. 1974).

2. Imre Györi, "Politikánk Szolgálatában", op.cit., pp.7-8.

The Social organisations consist of such bodies as the Trade Unions, Co-operative Unions, the Young Communist League, the Union of Journalists, the Union of Writers, scientific unions, etc.¹

Because of the reality of State ownership of the means of production, and the rather widespread conventional view that the Party creates policy while the State administers it, it has been customary in the West to portray the organs of the State hierarchy as constituting the principal superstructural supports for socialist economic plans.² The usual diagram of the administrative structure of those economies is that of Figure I.1 and the conventional measuring rod of Socialist economic reforms is the extent of jurisdictional changes between the top and bottom of this state hierarchy.

But in actual practice the most decisive and primary institutional support for Socialist economic planning is the authority system of the ruling Communist Party. The Party is clearly in a commanding position by its systematically defined function as the vanguard of the movement towards Communism.³ All other organizations are subservient, in theory as well as practice, to the Party. Moreover, all other organisations are fused to the

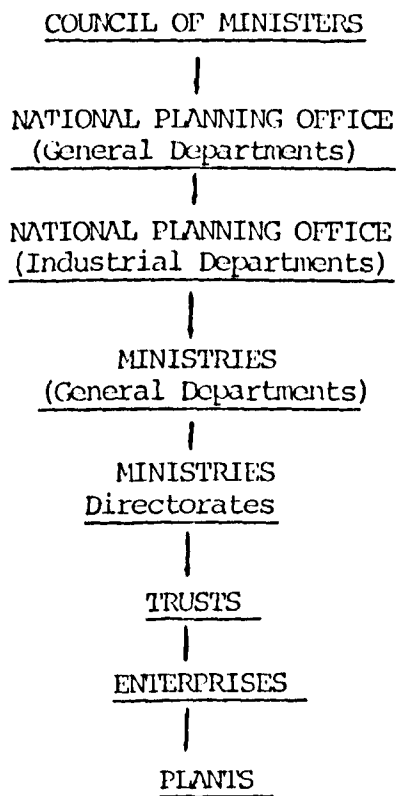
1. Under the Stalinist type command economy these were commonly referred to as 'transmission belts' between the Party and the producers. Though it would be inaccurate to say that the function of Social organisations is purely or entirely that of 'transmission belts' (and in this regard Emily C. Brown's Soviet Trade Unions and Labor Relations, Cambridge, Mass: Harvard University Press, 1966, is recommended), the function of serving as a support mechanism for the implementation of the Party's economic goals has been one of the most important functions of these organisations and has been indispensable for the process of plan implementation since the emergence of the first Socialist state. For official Communist backing of this see Stalin's The Foundations of Leninism; and Nikita S. Khrushchev, "The Role of Social Organisations in the Construction of Communism", Communist Political Systems, ed. A.Z. Rubinstein, op.cit., pp. 332-334; and for post-1968 Hungary, see János Lános, Szakszervezetek Magyarországon (Trade Unions in Hungary), (Budapest: Kossuth Könyvkiadó, 1973).

2. See for example Abram Bergson's chapter "The Administrative Apparatus", in his The Economics of Soviet Planning, op. cit., pp. 26-48.

3. See for example Károly Macsari, "A szakszervezetek szervezeti önállóságáról és pártirányításáról, a szakszervezeti jogok gyarkorlásáról" (On the Organisational Independence and Party Guidance of Trade Unions and the Exercise of Trade Union Rights), Társadalmi Szemle, Vol. XXIX, No. 4, 1974, p. 50: "...there are still problems because not everywhere is it understood correctly what we mean by the organisational independence of Trade Unions. Not everywhere is the principle applied consistently namely that the Trade Unions must be directed by the Communist Party through the Communists who work in the Union, using political and ideological means" (italics added). For another official Party statement see Tibor Baranyai, "A szakszervezetek pártirányításáról" (On the Party's Direction of Trade Unions), Társadalmi Szemle, Vol. XXIX, No. 10, 1974, p. 16: "We must emphasize once more: it is a decisive prerequisite for the development of Trade Union work that we strengthen the Party's leadership in the Unions, that we increase the efficiency of the party's leadership."

Figure I.1

The Traditional Hierarchical Command Structure of Socialist Economic Control



Party at the apex of their hierarchies as well as at key intermediate points due to the staffing of those commanding points by Communist Party members. In other words, the 'leading organisation' on the economic march towards Socialism is the Party and not the State or any of the social organisations, and this is especially so in economic administration.

The Party's hierarchical organisation can be diagrammatically represented as in Figure I.2. At each level of the Party hierarchy there is an economic department which receives from its superior Party committee a "piece" of the national economic plan that is to govern the economy at the jurisdictional level of that Party organisation. By the principles of democratic centralism, and as can be seen from the Party statutes¹ the decisions of higher levels in the hierarchy are binding on lower levels and may not be circumvented. In a mechanistic (as opposed to policy) sense, the primacy of politics over economics implies that the intermediate and local Party organisations are the ultimate supporting agents of plan enforcement and they must, moreover, dominate and mobilise the other hierarchies (Social and State) at their level, to do the same.

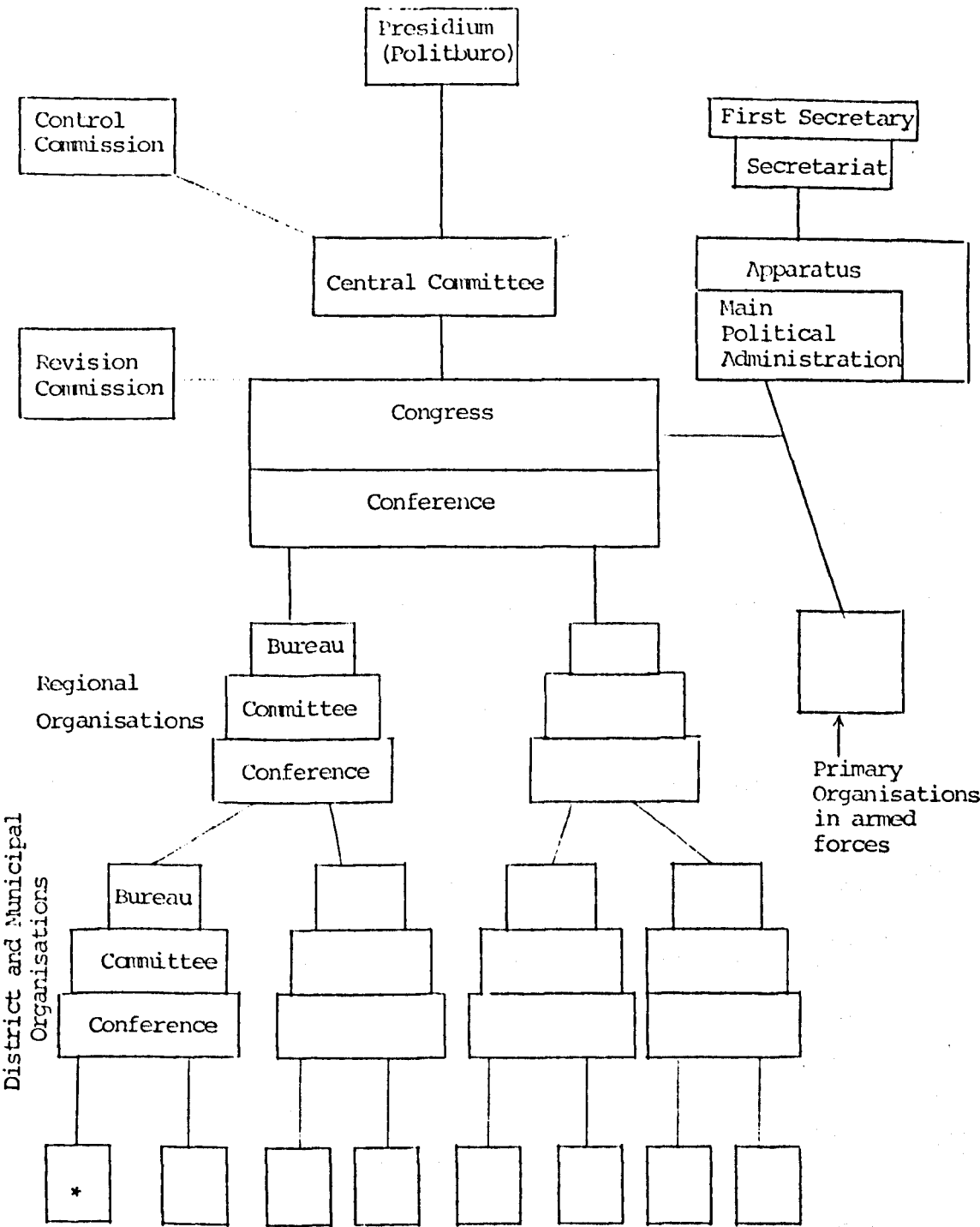
In short, the leading rôle of the Communist Party and the primacy of politics over economics is not exhausted by the Politburo's right to a final say on the content of the global economic policy. Rather this final say is augmented by the right and duty of intermediate and local party organisations to dominate the process of policy implementation as well, by mobilizing and guiding the planners, the state organizations, the social organizations and the individual units of production in pursuit of the party's policy targets.² As T.H. Rigby so rightly pointed out, the local Party committee "... exists not just to preach at or jolly along the administration from the outside. It is an integral part of the administration: its central core".³

1. For the most recent edition of the Hungarian Party Statutes, see Pártélet, Vol.XIX, No. 12, 1974, pp.5-15.

2. See Béla Havasi, "Elvi irányítás és konkrét segítés" (Theoretical Guidance and Concrete Support), op.cit.; Sándor Jakab, "A párt vezető szerepe és a demokratikus centralizmus" (The Party's Leading Role and Democratic Centralism), Pártélet, Vol.XIX, No.5, 1974; and Imre Pozsgay, "Gazdaság és politika" (Economics and Politics), Társadalmi Szemle, Vol. XXVIII, No. 11, 1973, pp.3-8.

3. T.H. Rigby, "Traditional, Market and Organisational Societies in the USSR", Communist Studies and the Social Sciences, ed. F.Fleron jr., op.cit., p.182.

Figure 1.2
Party Structure



* Primary Organizations in factories, farms, etc.

The local Party secretary is not of course the manager of the enterprise. Under the principle of one man management it is the firm's chief executive officer, the director, that is held responsible for the unit's economic performance. The local Party secretary's central involvement in administration of the firm is due to the fact that on the one hand he is politically accountable to his Party superiors for the economic performance of enterprises at his level, and, on the other, that the local Party secretary is equipped with a vast array of discretionary political powers (including, if he sees fit, the initiation of dismissal activities against the manager)¹ to help him channel enterprise activities in the direction of Party goals.

The main field of battle for Communism, as we said at the beginning of this chapter, is economics and, as such, the local Party secretary's personal promotion and career advancement is also primarily the function of his association with or ability to create the fullest possible congruence between plan targets and economic outputs. As Matyas Rakosi pointed out during the heyday of the Hungarian economy:

"In industry we say that the efficiency of Party work is reflected in the level of industrial production, that is its gauge. In industry we do not talk about compulsory delivery. If a locomotive comes off the assembly line at MAVAG, no one will put it into his pocket to take home to cook and eat. When the coal comes to the surface from the Salgotarjan mines, it cannot be spread on bread and taken out of circulation that way. In other words, in industry, production and delivery coincide. But with fattened pigs, with butter and potatoes, production and delivery do not coincide... In agriculture the gauge of good political work by the local Party secretary is first of all reflected in the level of deliveries and not simply by the level of production... Since the Party is responsible for all of society, similarly in all the districts it is the district Party secretary, the district Party organisation, the district Party committee that are responsible for everything that goes on there. We must get used to this comrades! Let us also talk of the relations between the chairman of local councils and the secretaries of local Party organisations... Naturally, the country is led by our Communist

1. "The Communist Party organisation in the firm is politically responsible for the economic management of the firm... if a director is unable to fulfil the requirements, then the local Party organisation must initiate proceedings for that director's removal". Bela Hary, "A pártszervezetek és gazdasági feladatok" (The Party Organisation and Economic Tasks), op.cit., p. 83. Rezső Nyers, in one of his last major publications on the operation of the NEM, was still (though he was certainly trying to qualify it *ex post*) forced to admit that "There isn't a single area with which the Party cannot concern itself, which it cannot monitor, control, and regulate". (In "Fő feladatunk: a gazdasági hatékonyság növelése" (Our Main Task: To Increase Economic Efficiency), Pártélet, Vol. XVIII, No. 9, 1973, p.9.

Party, and therefore the person ultimately accountable for developments in the counties is the county Party secretary, in the districts, the district Party secretary. The comrades must remember this! If anything goes wrong in the district we at the top hold the district Party secretary responsible first of all, and not the chairman of the local district council.¹ The comrades must know this, they must learn this".¹

To sum up, the local Communist Party secretary's 'leading role' does not involve directly taking over or duplicating the executive functions of the enterprise director, and it also does not mean that the local Party organisation is a purely propagandising or agitating body. What in fact is meant by the 'leading role' or the political primacy principle, when exercised through the transfer culture's economic mechanism - command or market - is that Party organisations "...at all levels of economic activity must support and enforce the leadership's economic policies with political means [and]...

To realise in practice the leading role of the Communist Party in the mechanism of the dictatorship of the proletariat, it is a natural prerequisite that all of the Communist Party members working in the State, Social or Economic organisations are bound by the decisions of the top Party leadership and must represent and enforce, with all the available political means, those decisions.²

3. The Primacy of Political Feedback from Economic Policy and Economic Mechanism

For Marxists everywhere - dogmatic or revisionist, classical or 'new left' - the reality of and necessity for the emergence of political effects from economic factors is a commonplace. The primacy of politics does not exhaust itself in the Party's domination of economic policy-making and policy-implementation. The model of transition and economic control should not ignore the impact of feedback effects during the process of mobilized economic change, and we must represent the primacy of politics in its fullest dynamic sense.

Communist political-economic practice has underlined on many

1. Mátyás Rákosi, A Szocialista Magyarorszáért; Beszédlek és cikkek (For a Socialist Hungary; Speeches and Articles), (Budapest: Szikra, 1953), pp.203-221.

2. I. Rákos, A párt vezető szerepéről (On the Leading Role of the Party), (Budapest: Kossuth könyvkiadó, 1973), p. 144.

occasions the fact that of all the feedback effects from economic policies and mechanisms, primacy is given to political effects, specifically to those that in one way or another influence the leading role of the Communist party. Economic policies or mechanisms are judged to be rational and efficient not primarily by economic terms, but ultimately by their ability to increase or protect the party's leading role. As far as those regimes are concerned a new form of resource allocation, which may indeed increase the rate of labour and capital productivity, and of economic growth over that achieved by the old mechanism but which simultaneously weakens the leading role of the party, is not a step in the direction of rationalization. In fact such new forms are seen by the Party to be profoundly irrational regardless of their positive economic effects.

Or as W. Keizer so aptly points out again;

"The 'power principle'... dominates all other political, economic and social objectives of the Party leadership... so that all political and economic goals, activities and instruments must be judged according to the effect they have on the general power positions of the Party leadership ... Hence it may be entirely correct for the Soviet authorities to condemn certain economic policies or mechanisms as 'irrational' in terms of their values, even if they are 'rational' in terms of the values of the Soviet consumers (or, for that matter, of Western economists) "1

4. External Political Supports.

Since 1945, the model we have described above has acquired some important external political underpinnings in all three of the areas discussed -- policy, mechanism, and feedback. The Soviet Union has, in effect, strongly influenced the type of economic policies that are being pursued in Eastern Europe. She has also frequently intervened to universalize her own form of political domination in the mechanism of economic control as well as in determining what are the permissible political effects of economic policies and mechanisms. This was especially the case during the heyday of Stalinism, when the feverish copying of Soviet economic practices became the principal *raison d'être* of East European Economic planning.

1. W. Keizer, op. cit., p. 45.

Marx used to say that to know the right goal is not enough; one must also know the correct road leading to it. Well now, ... comrade Stalin solved this task all along the line. He laid down every section of the road leading to Socialism... the Hungarian Communists are Stalin's disciples, and their successes will grow commensurate with their mastery and application of Stalin's teachings. During the next months and years we must master Stalin's epoch making work "The Economic Problems of Socialism in the Soviet Union" and his great pathfinding speech to the 19th Congress of the Soviet Communist Party and make these the basis of all our Party and State activities... As the People's Democracies build Socialism, their problems become increasingly similar to those of the Soviet Union.¹

While a number of important changes have indeed taken place in socialist interstate relations since Stalin's death, the fundamental reality of Soviet political domination of Eastern Europe is still unchanged. In the so-called Brezhnev doctrine, by her military intervention in Czechoslovakia in 1968, in her recent covert actions concerning Hungary's own economic reforms, the USSR has clearly reserved for herself the right to define not only the general parameters of Socialism, but also, if need be, the specific forms of political-economic interaction in Eastern Europe.²

In sum, the political superstructures of socialist states have, over the past half century, created complex and highly integrated political and social mechanisms for economic goal attainment through their state, social and party organizations. Specific political structures, political functions, political procedures and political values have been formalized into the system of economic goal attainment to provide dynamic support for the transformation, for laying down the economic base of Socialism. In fact, the mechanism of socialist economic control is not simply economic but is rather a complex, multidimensional and international system, consisting of economic, political, and social elements. Each of the elements is internally integrated (structures, functions, procedures, values), and

1. Mátyás Rákosi, "A 70 éves Sztalin" (The 70-Year Old Stalin), *A Békéért és a Szocializmusért* (For Peace and Socialism), *op.cit.*, pp.221, 226.

2. On these questions see T. Rakowska-Harmstone's "Socialist Internationalism" in *Survey*, Vol.XXII, No.1, 1976, and J.F. Triska, "Socialist World System in Search of a Theory" in D.N.Jacobs, *The New Communism* (New York: Harper and Row, 1969), p. 18-46.

all three elements are integrated into one system, i.e., the general mechanism of socialist economic control.

Based on this model, we can now turn to the formulation of a political theory of Socialist economic reform, which will then serve as the guide and central reference point for the argument presented in this dissertation.

III. A POLITICAL THEORY OF SOCIALIST ECONOMIC REFORM

It should be clear by now that a political theory of Socialist economic reform need not discount, or exclude the influence of social and economic factors in the movement towards reform. Indeed, instead of excluding them, the theory must integrate these forces into its logic or explanation. Reforms were, are, and will be necessitated by the interaction of social, economic and political factors, and not simply by any one of these three, acting in isolation from all the rest.

But what the political theory of economic reform must do, is to demonstrate the political significance of the other factors involved and, in the final analysis, to prove that economic or social forces of change can only be seen as demands or constraints which gain their determinancy not from themselves but ultimately from the ruling elite's own attachment of political significance to those economic and social forces.

Put simply, similar critical economic demands for reform may elicit quite divergent reform reactions in neighbouring Socialist states simply because of a difference in the political significance attached to those demands and to reform proposals by the rulers themselves. Moreover, similar critical economic demands for reform, within one Socialist state may elicit quite divergent reform reactions over time quite simply because of a shift over time in the attitude of the political rulers towards the political significance of those demands and towards suggested remedies.

Of course, the need for economic reform or the causes of economic reform must begin with the existence of economic problems. At this point we need not go over the by now fairly well travelled road of the economic problems of the Soviet and East European states.¹ We need only to mention - without

1. See for example, M. Bornstein and D. Fusfeld, eds., The Soviet Economy (Illinois: Richard D. Irwin, Inc., 1974); M. Gamarnikow, Economic Reforms in Eastern Europe (Detroit: Wayne State University Press, 1968); J. Wilczynski, Socialist Economic Development and Reforms (London: The Macmillan Press, 1972)

trying to suggest that they have a global monopoly on economic problems and without forgetting that those problems must be seen in the context of those societies and not necessarily in our terms that all of the Communist Parties in that part of the world were and are conscious of the existence of serious difficulties in their economy. These difficulties may involve capital and labour productivity, technological innovation, capital/output ratios, the quality of production, energy scarcity, foreign trade with the West, micro-economic efficiency, the planning and implementation of investments, and many others.

The command mechanism of economic control has also been recognized by all ruling Communist Parties as a source of many of their economic problems. To be truly effective, an economic mechanism should have at least three of the following attributes.

1. It should facilitate the discovery of social interest.
2. It should facilitate the fusion of social interest with the interest of producers.
3. It should be able to signal promptly and clearly any violations of social interest, regardless of the origin of those violations.

The traditional command mechanism failed to meet any of these three requirements. The recognition or discovery of social interest, first of all, was not one of its functions. Social interest was defined on the basis of the party leaders' divine right to interpret the laws of objective necessity. Lenin favoured electricity, Stalin, steel and metallurgy, Malenkov, light industry, Khrushchev, the virgin lands. Secondly the mechanism was unable to fuse social interests with the interests of producers. As one of the Hungarian reformers pointed out in the mid 1950s:

The plan was quite different from reality... it could not coordinate the will of the authorities with the interests of the workers. Let us just remember how many decrees we passed regarding technical development and still we could not solve the problem. It was also one of the goals of economic policy to increase productivity rapidly and to decrease the cost of production. These in spite of our goals, did not materialize... and because of the existence of the old mechanism we had a situation under which progressive endeavours to correct it could not emerge except at great circumspection and within very narrow and restricted parameters.¹

1. S.Kopátsy, "Tervgazdálkodásunk megjavításáért" (For the Improvement of Our Planned Economy) Közgazdasági Szemle, Vol. IV. No. 2, 1957. p. 138.

Thirdly, the mechanism could not signal clearly and speedily violations of the social interest regardless of whether these violations were committed by the leaders or the producers. The mechanism did not function as a correcting device on the road to socialism. Only after the leaders had died or were deposed did we find out that certain economic policies championed by them, and enforced by the mechanism of economic control, were contrary to the social interest.

There are differences in the emphasis given to these economic problems among Western as well as socialist economists. Some Western economists even utilize the same statistical numbers, that are the source of Socialist anxiety, in attempting to refute that there are serious economic problems in the Socialist countries. These Western attempts to downgrade the intensity of Socialist economic problems and to downplay the economic need for reform (in order to be able then to argue that the need is merely subjective or political) forget that Communist leaders judge their economic performance and problems, not on the basis of Western standards, nor even necessarily by standards found in the neighbouring Socialist states, but ultimately in terms of their own aspirations, values, capabilities and potentials. It is the ruling political party's reading of economic problems that decides the direction of economic reform in that part of the world and not our or even their neighbour's self-professed "objective" standards. It is quite useless for us to condemn them for ringing a false alarm, because we simply labour under a different set of preferences.

Let me illustrate what I mean by this. A Canadian government that could provide, in 1977, a 4-5% unemployment rate and an annual rate of inflation of about 4% would undoubtedly receive widespread popular acclaim from Canadian and Western economists, not to mention the Canadian electorate.

In Eastern Europe a government that was to give such a package of goods to its people would, all things remaining equal, be chased into the streets with pitchforks by the voters, the economic advisors of the government would all be banned from practicing their profession, and the USSR might even send in ten divisions of her unglorious Red Army to "preserve Socialism".

To make any sense of Soviet and East European political-economic dynamics and to understand the meaning of statistical numbers in that part of the world, one has to use Socialist terms of reference. We must reconcile ourselves to

the fact that our concepts of efficiency, rationality, and most other of our cherished "value-free" or "objective" economic categories, are profoundly relative and value laden. While the Western economist may consider the larger expenditure in his country on cosmetics than on education a rational allocation of resources, his East European colleague would argue that such allocation is the height of irrationality. While some East European levels of economic performance would no doubt make some Western premiers and some Western economists quite happy, the same levels leave some East European party leaders and some socialist economists genuinely worried. They can't understand why our proletariat is so slow to rebel. We are puzzled why they are so determined to reform. Asking them to relax is like a sadist asking a masochist to smile and be happy.

What needs to be debated, and indeed, this is what we shall do in this dissertation, is not so much the existence or absence of economic problems, but a rather prevalent conventional "theory" of economic determinism that derives the historical inevitability of market Socialism solely from the pressures of a higher stage of economic development and solely from the existence of such economic facts as deteriorating capital/output ratios, micro-economic waste, a decreasing economic growth rate, a lower rate of technological innovation, etc.

The political theory of Socialist economic reform will approach the problem of change not only from the side of past or existing economic weaknesses but also from the side of the notable achievements registered by those economies over time. Let us elaborate on this.

At the centre of Soviet type command planning lies the practice of physical resource allocation. Physical resource allocation is statically inefficient.¹ This static inefficiency of physical resource allocation has not, however, had a serious retarding effect on Soviet economic growth.

Regardless of how much abuse we heap on the inefficiency of those systems, it must be noted that all of the Socialist states that have utilized the

1. In the case of Hungary, see for example Béla Balassa, The Hungarian Experience in Economic Planning (New Haven: Yale University Press, 1959), pp. 88-91.

system of physical resource allocation have experienced not unimpressive economic growth rates; have carried out impressive industrial revolutions; have maintained full employment for their people as well as fairly stable prices; have eliminated widespread poverty; have implemented massive educational revolutions; have introduced and operate social security services that are second to none; and have even, on occasion, put people in outer space. In other words, while the Soviet type transfer path has shown evidence of static inefficiency, it has also shown vivid evidence of dynamic efficiency. When one reads all of the criticisms levelled against the economic inefficiency and wastefulness of those systems one indeed has to wonder how on earth those grandiose changes were possible.

The translation of static inefficiency into dynamic efficiency, micro-economic chaos into rapid economic growth, is the product of a practice known as the full utilization of resources. The principle of full resource utilization is generally depicted in the literature on socialist economies as consisting of a wide assortment of economic policies and economic mechanisms: for example, taut planning, high rate of accumulation and investment, the concentration of investments into a few dynamic areas of growth, the restriction of consumption, the elimination of parallel production and the reprofiling of the structure of production, etc.

In fact, the successful application of the principle of full resource utilisation was very largely due to the various political-institutional supports that we have discussed earlier. Not that the plan, and various economic incentives were of no consequence, but that, as S. Kurowski rightly pointed out in 1956.

The creation of an apparatus of administrators was not sufficient in itself to guarantee the functioning of the system which... in order to attain its strategic ends had to overcome the resistance of society. A separate apparatus, which we shall call an apparatus of stabilisation, was founded to overcome this resistance, to maintain the system, to execute administrative orders and control their fulfillment, and to defend the privileges of the bureaucracy. It is more than certain that a system of central administration of the economy in conflict with consumers' preferences would not last a month if it were not for the presence of this apparatus of stabilisation.¹

1. Quoted by J.M. Montias in Central Planning in Poland (New Haven: Yale University Press, 1962), p. 273.

One of the architects of the first theoretical solution to the problem of rational resource allocation under socialism, Oscar Lange, has written - and we should pay close attention to him since he was intimately involved in the management of the Polish national economy during the 1950s - that Socialist economic successes were not due to the effective application of the Lange-Lerner model, or the system of economic incentives but were achieved by the utilization of sheer political-administrative force:

We directed the economy through methods... based on appeals of a moral and political character as well as on orders of a legal and administrative character, in other words, through methods based on various means of extra-economic compulsion and not on economic incentives... The abuse of such methods and particularly the attempts to transform them into a permanent system... have had a cumulative effect and were the causes of the widening of the above mentioned disproportions in the national economy... The direction of the economy by means of moral and political appeals and through legal and administrative orders has already fully used up its possibilities.¹

With all due respect to the planners, the "secret" of Soviet and East European economic achievements during the formative years lay very largely in the concentration by the Party on a few, selected short-term objectives (e.g. emphasizing physical out-put, neglecting renewals) and in the severe restriction by the party, of the economic and political rights of producers. The enormous price of micro-economic inefficiency and waste was paid for and surmounted by the tremendous political and economic sacrifices of hundreds of millions of workers and peasants.

It was following the death of Stalin, and on the heels of rapidly accumulating evidence that the Stalinist societal-mobilisation system was inciting increasing number of workers into open acts of rebellion against the Party, threatening thereby the leading rôle of the Communist Party, that the search began for a new, and politically less destabilising pattern of economic control over the transformation of the material basis

1. From Oscar Lange's speech at the Second Congress of Polish Economists, on June 7-10, 1956, *Ekonomista*, No. 5, 1956. This English version is from Andrzej Brzeski, Economic Reform in Poland: The Cautious Avant-garde, typescript, part II., p. 4.

of society.

We shall argue that it was the political bankruptcy of the command mechanism of economic control, and the politically destabilising effect of this bankruptcy, that prompted, in the first instance, the Party to search for a revision of the traditional mechanism of economic control.

The traditional mechanism was far more a rational and logical system than we usually allow. Once its "forces of stabilisation" are relaxed, once economic sacrifice by producers is limited, up goes the economic operating costs -- the capital/output ratios -- of the mechanism of economic goal attainment. The political bankruptcy of command and increasing capital/output ratios are in a close cause and effect relationship, and it was the interaction of these two political-economic forces, feeding as it were on one another, that fuelled the search for a new economic mechanism in Hungary as well as in the other Socialist states.

While the above, and I must strongly emphasize this, is not the only cause of economic reforms, it certainly constituted, as we shall show, the original and primary impetus for reform in Hungary. Our political theory of reform in effect is a law of large numbers, it is to this law, to this primary impulse that we must then add on such accelerators as 'the need for reform in an open economy', 'the need for technological innovation' 'the need for greater productivity' or 'the ascendance of technocrats in the Politburo', etc.

The actual model solution adopted by ruling Communist Parties, can also not be explained solely by the 'law of large numbers'. Quite obviously, if we look around we shall find not one but a series of different reform alternatives existing side by side in Eastern Europe (how peacefully is another story). The explanation of these individual deviations, such as the guided market model that was adopted by Hungary, lies in the final analysis, in the complex interplay of political-economic circumstances, including chance. The strategy and tactics of the reformers, for example, in promoting their model solutions is highly significant in determining the final model solution opted for by the Party. In short, we need to document the flux and play of these additional circumstances, which together have made the NEM possible in Hungary.

After Stalin's death, most of the Communist regimes (with perhaps the exception of Poland and Hungary) were initially inclined to think that their political-economic problems could best be alleviated by a change in economic policy alone. Excessively ambitious economic policy targets were seen as the source of their problems. They sought peace by way of lower investment ratios, by reducing the rate of heavy industrial investments and by providing more consumer and social welfare benefits.

Soon, however, it became obvious to many socialist economists, if not to so many politicians, that economic policy and economic mechanism are inseparable and that the formation and implementation of the new economic policy is severely hindered over time by the traditional mechanism of economic control.

Within the parameters of socialist economic planning, under the state, or public, ownership of the means of production, and maintaining the primacy of politics over economics, there are two directions one can follow to rationalize resource allocation and to fulfill the above listed three demands of the "right" economic mechanism. As Jan Prybyla points out, "Rationality in a socialist economy could be obtained either by total central planning abetted by an electronic market computing efficiency indicators for every activity down to the tiniest sector, or by reliance on prices supplied by a competitive market within some system of indicative planning".¹

The two directions or modes of centrally planned, politically dominated economic control - frequently presented as centralization vs decentralization - are as we pointed out earlier not 'plan' vs 'market' but 'command' vs 'market'. The existence of these poles of command and market should not, moreover, be interpreted to mean that in fact there are only two possible or feasible modes of resource allocation available to those economies. We should refrain from presenting the economic problems of those societies and the solutions to those problems in such stark, either-or-categories.

1. J. Prybyla, "Patterns of Economic Reform in East Europe" East Europe Vol. 17, No. 11, 1968. p. 6.

There are, both in theory and in fact, numerous economically rational and economically feasible half-way houses between the poles of market and command. To argue that Czech or Hungarian variants of market Socialism are economically more efficient or rational than say the East German, Romanian or Soviet models, is not only factually misleading but it also disregards an elementary law of social change - namely that for every crisis there is if not more the one ideal solution then at least more than one possible solution.

We should not, in short, exaggerate the economic superiority of the most radically decentralized solutions over all the other possible economic models. We should not assume that each increase in the degree of economic decentralization, each transfer of decision-making prerogative from the branch ministries to the enterprises, brings with it a parallel decrease in economic irrationality, inefficiency and capital-output ratios.

And finally, we should not confuse the possible with the preferable. Marxists and Leninists have been waiting for 'The Revolution' as the only solution to the crisis of capitalism for over a hundred years now. We may also wait for another hundred years for 'market-socialism' to become the only solution to the crisis bequeathed by the command economy.

To my mind, and this dissertation will reflect this position, the superiority of any economic model of socialist transition must be based on a much more comprehensive, multidimensional scale than one that consists merely of a handful of conventionally esteemed economic values (e.g. growth rate of GNP, cost-output ratios, capital and labour productivity, the number of cars, telephones, televisions per capita, etc). Should these alone be the touchstones of model superiority, then let's applaud and apply the economic mechanism of Nazi Germany, which after all achieved quite astonishing economic feats, or let's apply the economic mechanism of Mussolini, which as we know, made the trains run on time all over Italy.

In the final analysis, and for all Socialists (for it is in their societal context that the thesis is offered) the touchstone of Socialist model accuracy and the superiority of one model over another should reside in the demonstrable ability of that model to increase the domination of producers over the conditions and results of their economic activity. This is the objective function of the Socialist transition, this is the essence of Socialism, and it is in terms of this objective function that we should evaluate model superiority. As W. Brus rightly points out:

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Hitherto, these arguments in favour of applying a market mechanism to a planned economy have chiefly emphasized the purely economic aspects. It is, however, quite clear that the functioning of a socialist economy does not only involve economic problems. The criteria for assessing the accuracy of a model solution must also include the social aspects. First to be considered here is the influence of these solutions on the position of man in economic activity on the possibilities of developing the creative initiative of the masses, and on the way in which the interests of individuals and social groups are brought into relationship with those of the whole economy. In this respect, the superiority of the decentralized model seems beyond doubt.

We must, however, grasp the profound conflict between this touchstone of Socialist "model accuracy" - this touchstone of Socialism - and Soviet or East European political practice. Increased domination by the producers means, to the present communist ruling elites, a reduction of their direct and onesided domination. Increased domination by the producers demands, indeed, a qualitative change (note - not the reversal) in the exercise of political primacy. And therefore, a model that is rational even from the perspective of the objective function of Socialism may appear to be irrational from the perspective of the politically dominant Communist ruling elite. And it is by this eternal contradiction that politics becomes a brake on history, a brake on the transition to Socialism. The dialectic repeats itself after the revolution, and the superstructure, dominating the process of historical change, dominating the transformation of the material basis of society, becomes at one and the same time the principal brake on historical change. The new economic model, alas, is not the immaculately conceived child of economic necessity, but the offspring of physical intercourse between the forces of economic need and the political needs or priorities of the ruling elite.

1. W. Brus, The Market in a Socialist Economy, op. cit., p. 155.

CHAPTER II

THE FOUNDATIONS OF THE HUNGARIAN COMMAND ECONOMY

Memory is necessary for all the operations of reason.

Pascal

I. THE NEED FOR MODERNIZATION AND THE ACCUMULATED DEBTS OF 1918-1945

1. The Legacy of Horthyism

The challenges facing Hungary's leaders after the end of World War II can only be understood in the context of the social, economic and political situation inherited from the Horthy era. While this inheritance is fairly well documented,¹ it tends not too infrequently to suffer from distortions, and to be lost in the thicket of rhetoric. Official Communist historians tend to overemphasize the severity of the challenge and the enormity of the burden on post war Hungary so as to diminish Soviet and Communist responsibility for the country's political-economic crisis of the early and mid 1950's. But Hungarian emigré writers also tend to distort the pre-1945 reality. They often downplay or bypass the fact that Hungary's interwar leaders had severely restricted the opportunities of the majority of Hungarians and that, generally speaking, the interwar regimes had retarded Hungary's advance into the 20th century.

What were the pre-1945 grievances and debts that could be rectified only by an immense national effort? Perhaps it's best to start with the

1. For perhaps the best work in English on Hungary's interwar years, see C.A. Macartney, October Fifteenth: A History of Modern Hungary 1929-1945, 2 vols (Edinburgh: Edinburgh University Press, 1957). The reader is also referred to Nicholas M. Nagy-Talavera, The Green Shirts and the Others (Stanford: Hoover Institution Press, 1970); I. Kovács, A néma forradalom (The Silent Revolution), Budapest 1938; Iván T. Berend and György Ránki, Magyarország gazdasága az első világháború után 1919-1929 (Hungary's Economy After the First World War 1919-1929), (Budapest: Akadémiai Kiadó, 1966); and, by the same authors, Magyarország gyáripára a II világháború előtt és a háború időszakában 1933-1944 (Hungary's Manufacturing Industry Before and During World War II, 1933-1944), (Budapest: Akadémiai Kiadó, 1958).

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Treaty of Trianon, signed on June 4, 1920. As a defeated power in World War I, Hungary was levied a truly gigantic penalty by the victorious powers. Enjoying relatively stable boundaries for centuries, the Treaty of Trianon divested the country of 71.4% of her territory and by revising her boundaries, reduced her population from 20,886,000 to 7,990,202. Of the 13 million loss in population, 3.2 million were of Hungarian ethnic origin who suddenly found themselves cut off from their nation and living in what had become Czechoslovakia, Romania or Yugoslavia.¹

Economically, the terms of Trianon were equally draconian and placed a handicap on the country that is vividly evident even today. From a relatively well integrated unit with geographic boundaries, with industries and manufacturing near the centre and raw materials at the periphery, the country lost virtually all of its natural raw materials base. It was left with an industrial production structure that had reflected its pre-Trianon raw material supply but was now cut off from those supplies by heavy and protectionist tariff regulations. Apparently even the leaders of the "successor states" themselves were alarmed at the generosity of the terms of the Treaty and at Hungary's crippled status. Benes of Czechoslovakia proclaimed "I am alarmed when they give me everything I ask for - It is too much," and M. Manoilescu, a Romanian politician, said "Romania got just too much at Trianon."²

Trianon needs to be the starting point for our study. The starting point in the need for modernization, for in a way, it was perhaps the single most important reason for the decades of inactivity, stagnation and decay that preceded 1945. Rightly or wrongly, Trianon placed citizens and governments in Hungary into a truly catatonic situation between 1920 and 1945.

1. The principle of 'national self-determination' in the name of which Hungary was carved up and the boundaries of the successor states drawn, was strangely contradicted by statistics. 33% of Czechoslovakia's population was of non-Czech-Slovak origin; 28% of Romania's population was of non-Romanian ethnic origin.

2. Both are quoted in Nicholas M. Nagy-Talavera, op. cit., p. 56.

N. Nagy-Talavera gives a very good summation of Hungary's reaction to the Trianon Treaty, a reaction that lasted in intensity for decades:

"Hungary had one answer for Trianon: 'No, no, never!' ('Nem, nem, soha!'). The quest for a revision of Trianon became a cardinal issue of Hungarian life, of politics, of education, and of thought."¹

If anywhere a change was needed, it was right here, in the attitudes of governors and the governed, that finally, the thought, and creative energies of the nation must be turned on to other matters, and that finally, for the sake of the whole East-Central European region, co-operation rather than blind animosity and revenge must become the norm.

The built up grievances and pressures for change within Hungary, which were left unattended by the paralysis which set in after Trianon, were apparent in many areas of Hungarian life - in politics, the economy, in society's structuring and norms, as well as in the country's internal relations.

Politically, there was the need to establish the foundations of democratic practice. The interwar years witnessed a gradual shift towards Fascism, so that by 1940 and certainly during the war years, participatory democracy in Hungary was but a façade. By the time World War II began, some of the fundamental civil and political rights taken for granted in many Western democracies were, in Hungary (as well as in the other East-Central European states), the privilege only of those who acquiesced with the dictates of the regime, or who could be trusted not to go beyond verbal articulation of protest. Before World War I the franchise extended to 10% of the population, but without secret ballot. After the war the franchise was for a short period extended to 39% of the population with secret ballot, but it was restricted during the 1920's and 1930's to 27% and, except for Budapest and some of the larger towns, the open ballot was reintroduced in the countryside. The unemployed - and often there were about 2 million of them - had no political rights whatsoever, for the electoral law did not permit them to vote. The Social Democratic Party was simply forbidden to

1. Ibid., p. 57.

field candidates or to canvas for votes outside the Budapest city limits. As a former director of the Hungarian National Bank pointed out:

The interwar governments retained their power not so much by genuine popular support, but by exerting pressure to achieve safe majorities in the elections... Far reaching reforms could be advocated... but the opposition... was never allowed to show its prowess in taking over government, and the government could seldom be compelled to yield or offer redress.¹

The economic state of affairs was equally depressing and in need of radical change. Agriculture was the mainstay of the Hungarian national economy up to 1945, but this mainstay suffered from severe structural distortions. Perhaps the most visible of these distortions stemmed from the uneven distribution of landownership. As Table II.1 shows, over half of the arable land was in the hands of only 1% of the landholders.

Table II.1

| Size of farm (in holds) | % of total number of farms | % of arable land |
|----------------------------|-------------------------------|------------------|
| 0 - 1 | 38.5 | 1.4 |
| 1 - 5 | 34.1 | 8.6 |
| 5 - 10 | 12.6 | 9.1 |
| 10 - 50 | 13.1 | 26.1 |
| 50 - 100 | 1.0 | 6.5 |
| 100 - 500 | .5 | 12.3 |
| 500 - 1000 | .1 | 6.0 |
| Over 1000 | .1 | 30.0 |

Beneath the thin veneer of wealth and advantage stood a vast peasant class - numbering around 3 million - made up of so-called "dwarf holders", seasonally employed farmhands, and estate servants, spending much of the year unemployed and in abject misery.²

1. L.D. Schweng, Political Social and Economic Developments in Postwar Hungary (Manuscript), National Planning Association, Washington, 1950, pp. 7-8.

2. See Imre Kovács, A néma forradalom (The Silent Revolution), op. cit.; Mátyás Matolcsy, Mezőgazdasági munkanélküliség Magyarországon (Agricultural Unemployment in Hungary) Budapest, 1933; Gyula Illyes, A puszták népe (The People of the Puszta), Budapest, 1936.

The great depression of the early 1930's had a disastrous effect on the country's economy generally, but particularly on the agricultural sector. Struggling with outdated farming methods, and unable to compete with American grain sellers in Europe, Hungarian agriculture served as an extremely shaky foundation for the economy.

The late 1930's did witness a remarkable growth of the industrial sector of the economy. Upon serious examination, however, we find firstly that this industrialization was largely the product of increased war preparation and primarily served Germany's grand design, and secondly, that Hungarian manufacturing was grossly overconcentrated, that it rested on an extremely shallow raw materials base, and that it was structurally very uneven - pockets of modernity in a sea of backwardness. By 1939 at the latest, Hungary was an economic satellite of Nazi Germany and her economic development reflected not Hungary's own needs but those of Germany. While in 1921 Germany's share of Hungary's imports and exports was 12.9% and 9.3% respectively, the share is up to 52.5% and 52.2% respectively by 1939.

Although certain progressive social policies were instituted by the interwar regimes¹, in general, the political and economic system of interwar Hungary operated not in the interest of the overall population, in the interest of large scale modernization, or in the interest of raising the abominably low living standards of Hungarian workers and peasants, but primarily to perpetuate the existing class and social differentials and the privileges of the narrow strata of aristocracy, the gentry and the upper middle class. The glitter of the Budapest opera house, the lobbies and ballrooms of Budapest's majestic hotels nestling on the shores of the Danube, the charming little cafes, the great restaurants, concert halls, museums, and the hunting lodges in the countryside, all so well publicized among the international tourist community, all used as evidence of Hungarian 'civilization', were very largely off limits for the vast majority of Hungary's people. Nor was a life of relative comfort and access denied only to the peasants and workers themselves: the prospects for their children

1. On these, see Béla Kövrig, Magyar társadalompolitika 1920-1945, New York, 1945.

were equally bleak, and the doors leading out of the status of inferiority - higher education for example - were inaccessible to most people of peasant and working class origin.

Instead of attacking the roots of the country's tremendous socio-economic problems, Hungary's interwar governments elected to wallow in self-pity and were far more concerned with finding convenient scapegoats - Jews, Trianon, Pan-Slavism, the Free Masons, Communist atheist agitators, etc. - on whom to pin all the blame for the various problems faced by the country.

Nagy-Talavera sums up the critique of Hungary's 'neobaroque' system admirably in the following passage:

What did this 'neobaroque edifice', as the distinguished Hungarian historian of the period, Gyula Szekfu, called it, look like? As we know, the baroque is more concerned with form than content... for the many, what lay behind this impressive facade? Above all what did the times hold for the most important single group, the peasantry?... Wide segments of the Hungarian people reached the point where they gave up hope for the improvement of their economic situation and fell into an all-encompassing lethargy, looking forward quietly to inevitable destruction. That was the fate of the peasantry, to which the neobaroque age always referred to as the 'backbone' or the 'mainstay' of Hungary, and which was depicted so attractively in colourful costume on travel posters of the interwar period.¹

Internationally, the major demand of 1945 was for national sovereignty and independence from foreign domination. Hungary did not lose her independence only in 1945, subsequent to the entry of the Red Army into Hungary. By 1939 at the latest, her sovereignty was purely nominal; in fact she was an economic and political satellite of Nazi Germany and to a much lesser extent of Italy. A widespread fear of Communism, a belief that Germany would assist her in regaining territories lost after World War I, a feeling that support for Germany would be far less costly than opposition and, finally, sheer economic and geographical factors, all these contributed to Hungary's joining World War II on the side of Germany.

1. N. Nagy-Talavera, op. cit., pp. 59-61.

It is true that one heroic premier, Pál Teleki, committed suicide in 1941 rather than submit to German dictates. We also know that another premier, Miklós Kállay, made some attempts during 1942-43 to unhitch the Hungarian state from the Nazi bandwagon that was by then clearly heading for disaster. During the closing stages of the war the Regent, Admiral Miklós Horthy, himself made a desperate last ditch effort to extricate Hungary from the fate of unconditional surrender by ordering his troops to join the side of the Allies.¹ These attempts did not, however, prove successful. Within minutes of his announcement to the nation, Horthy was thrown out of office by the local Nazi quisling, Szálasi, and his fellow Arrow Cross Party enthusiasts. The new government immediately rescinded Horthy's surrender order and thereby committed the nation to go under with the rapidly sinking ship of Germany.

1945 was to be the beginning of a new era for Hungary. The country was ripe for radical change and reform. Most of the progressive elements of the post 1945 political order were united in the conviction that the socially irresponsible and ultra-conservative ruling class had had its day. 1945 was also to be the dawning of a sovereign and independent Hungary, one that was to live at peace with her neighbours and work arm in arm with the other Central European states for the rapid modernization of her economy, for the betterment of her people and of the region as a whole.

By 1945, the radical modernization of Hungary's polity, economy and society simply could not be postponed any longer, and this wave of modernization promised to demand a great national effort and sacrifice. Perhaps no one was more willing to participate in this enormous task than the Hungarian working class and peasantry, which, during 1945-1946 displayed a truly heroic, almost superhuman effort in the first steps of economic reconstruction. Often working on empty stomachs, at first frequently without pay or even a roof over their heads, and then with their meager incomes ravaged by inflation, they worked 12-14 or more hours a day, often seven days a week, in the hope that, this time around, the sacrifices

1. On these attempts, as seen by the actors themselves, see Nicholas Kállay, Hungarian Premier, London 1954; and Nicholas Horthy, Memoirs, London 1956.

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demanded of them would really be in their interests.

The most immediate drag on this post war modernization came from the accumulated debts of a lost war, and it significantly increased the costs of this great national effort.

2. The Scars of World War II

The extent of economic damages sustained during the initial years of the war was slight, and was confined primarily to a mounting German financial debt column to Hungary. It was only after March 1944, when German forces occupied the country in preparation for the coming battle with the westward advancing Red Army, that Allied bombing began in earnest. From September 1944 until April 1945 the country was also the scene of extremely vicious ground fighting.

As the German and Hungarian armies retreated westward under a constant barrage of bombs and artillery they blew up behind them all of the country's river bridges¹ and approximately 1000 railway bridges. Railway tracks were ripped up and most of the rolling stock was taken out of the country to Austria and Germany. Some of the ships of the Danube merchant fleet were sunk by the Nazis so as to hinder navigation on the river, while the rest of the fleet,

1. I have relied on a number of separate studies on the extent of war damages in Hungary. Among these are: A Magyar ipartelepek 1944 őszén elrendelt felrobbantása, illetőleg megbonítása ellen végrehajtott akció (The Implementation of the Order to Blow Up and Paralyse Industrial Factories During the Fall of 1944), Vol. 1 (typescript), published by the Ministry of Industry, October, 1945; A Magyar ipar és a békekötés (Hungarian Industry and the Peace Treaty), Department of Industrial Policy, Ministry of Industry, Budapest, 1946; Magyar ipar, June 15, 1947; Közgazdasági Szemle, No. 3, 1954; and Magyar Statisztikai Zsebkönyv, Budapest 1947.

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including all barges and tugs, was shipped upriver to Austria. Most of the automobiles and motor transport vehicles were also removed by the retreating armies.

In order to prevent the Red Army from drawing on Hungarian economic resources, a policy of systematic industrial dismantling and removals was initiated on the orders of the German High Command. As a consequence, about 500 important factories not severely damaged by Allied bombs were either wholly or partially dismantled and their equipment taken out of the country or scattered around the countryside. Parallel with this action, a great number of immovables were rendered useless by Nazi explosives experts. The list of removals and destruction is very long indeed, consisting of vast amounts of industrial and agricultural goods. Even the country's entire gold and silver reserves were taken away to Germany.

The removals did not consist simply of equipment and articles. Approximately 500,000 people retreated with the Germans into Austria. This figure includes all the members of the government, most of the public administration personnel, large numbers of managers and owners of enterprises - a large number of whom were ordered to leave - and, of course, those segments of the ruling classes whose blatantly pro-fascist and anti-Communist public records compelled them to seek refuge from the menace of the advancing Red Army.

In statistical analyses published after the war it was claimed that financial losses from the war owing to material damage or removals equalled approximately 40% of Hungary's 1944 national wealth.¹ The severest losses, and the most significant for future development, were registered in the heavy industrial sector of the economy, primarily in the iron, metallurgical and machine-building industries (see Table II.2). The machine-building industry's losses alone were 33% of Hungary's total war losses, and within this industry losses in machinery far outweighed losses in buildings or stocks. Finally, at the cessation of hostilities Hungary was compelled to pay a heavy price for her involvement in the war on the side of Nazi Germany. The Soviet

1. Magyar ipar, June 15, 1947; and Magyar gazdasághkutató intézet helyzetjelentése, No. 54, Part II, 1947.

Table II. 2

Damages Sustained by Hungarian Industry During World War II

| Branches | Value in millions of 1938 Pengos | The share of the total | | | | Average reduction in capacity | |
|---------------------------------|----------------------------------|------------------------|------------------|--------------------|---------------|-------------------------------|-----------|
| | | Buildings | Power generators | Equipment & stocks | Machine tools | Damaged firms | All firms |
| 1. Iron and metallurgy | 236 | 25.2 | 8.7 | 8.6 | 57.5 | 44.1 | 26.3 |
| 2. Machine manufacture | 712 | 19.2 | 5.4 | 18.2 | 57.2 | 48.1 | 36.2 |
| 3. Machine repair shops | 22 | 55.1 | 4.2 | 15.0 | 25.7 | 46.5 | 38.3 |
| 4. Electrical energy production | 88 | 13.8 | 7.8 | 73.0 | 5.4 | 42.4 | 24.8 |
| 5. Stone, clay and glass | 43 | 45.2 | 5.7 | 28.9 | 20.2 | 48.1 | 29.4 |
| 6. Lumber | 70 | 61.4 | 9.4 | 11.4 | 17.8 | 51.0 | 28.2 |
| 7. Bone and synthetic materials | 1 | 8.6 | 13.3 | 18.4 | 59.7 | 43.9 | 27.4 |
| 8. Leather | 46 | 59.2 | 5.3 | 20.4 | 15.1 | 46.9 | 16.6 |
| 9. Rubber | 5 | 46.9 | 2.3 | 42.1 | 8.7 | 35.5 | 17.8 |
| 10. Bristle, hair, feather | 2 | 49.8 | 9.5 | 8.7 | 32.0 | 42.6 | 23.7 |
| 11. Spinning and weaving | 301 | 43.1 | 5.8 | 7.9 | 43.2 | 41.3 | 22.1 |
| 12. Clothing | 49 | 33.9 | 9.7 | 13.2 | 43.2 | 55.7 | 28.6 |
| 13. Paper | 33 | 29.2 | 21.9 | 4.3 | 44.6 | 40.6 | 18.9 |
| 14. Foodstuffs | 209 | 46.1 | 8.7 | 28.4 | 16.1 | 42.6 | 16.0 |
| 15. Chemicals | 192 | 27.1 | 3.3 | 41.3 | 28.3 | 48.0 | 26.1 |
| 16. Printing | 33 | 38.4 | 3.2 | 11.6 | 46.8 | 35.7 | 17.9 |
| TOTAL | 2,042 | 28.6 | 6.4 | 25.1 | 39.9 | 45.7 | 23.9 |

Source: *A Magyar Ipar és a Békékötés* (Hungarian Industry and the Peace Treaty), published by the Hungarian Ministry of Industrial Affairs, Department of Industrial Policy, Budapest, 1946, pp. 64-65.

Union was given rights to war booty, and all formerly German-owned assets were transferred to Soviet ownership. Also, the country was burdened down with massive reparations payments to the Soviet Union, Czechoslovakia, and Yugoslavia.¹ While most of her neighbours in East Central Europe - for example, Poland and Czechoslovakia - received sizeable financial and material support from the UNRRA to aid them in reconstruction, Hungary received scarcely anything.

But this initial hurdle stemming from the economic havoc wreaked by the war was massively accentuated quite unexpectedly by another obstacle after 1945. This new obstacle was externally imposed on the country, and indeed it came to equal, if in a different way, the intensity of those pre-1945 constraints which had for so long denied decent socio-economic standards for Hungary's people.

The additional hurdle to socio-economic progress in Hungary may be termed Soviet economic exploitation. It consisted of the following principal ingredients: 1. massive industrial and agricultural lootings during the closing stages of the war by the Red Army, and the direct Soviet military management of most of the major Hungarian industrial enterprises for eight or nine months during 1944-45; 2. the enforcement of an excessively punitive reparations penalty against Hungary between 1946 and 1953; and 3. the taking over - until 1955 - of all formerly German and Italian assets in Hungary, and the drastic restructuring of Hungarian trade and commerce, leading Hungary to become a colonial dependent of Soviet economic interests.

There is no detailed and credible statistical analysis of the aggregate financial cost to Hungary of Soviet economic demands arising from the war. The task of compiling such an analysis, moreover, is hazardous, and the derivation of an exact figure impossible. There are a number of reasons for this. Initial losses were not monitored because the head offices of most of the major enterprises in Hungary were located in Budapest and cut off from their factories in the countryside as the battlefront moved westwards

1. For the text of the Armistice Agreement signed between Hungary and the Allies on January 20, 1945, see William Juhász, ed., Hungarian Social Science Reader (1945-1963) (Munich: Aurora Editions, 1965), pp. 1-6.

across the land. The breakdown of public administration towards the end of 1944 and its absence during the first half of 1945 also prevented the collection of accurate central records. By the time figures could have been compiled, furthermore, they were suppressed since no information whatsoever was allowed to be published that might throw unfavourable light on the Soviet Union which, at tremendous cost in lives to her population and to her economy, had liberated Hungary from Nazi oppression. And, finally, after 1947 under the leadership of Matyas Rakosi (and ever since then), Hungarian historians have been instructed to do nothing but praise the magnanimous behaviour of the Soviet Union from the first time that a Soviet soldier stepped on to Hungarian soil in 1944.¹

We are not concerned with the moral or the legal aspects of post-war Soviet economic claims; we are concerned only with the impact of these claims on Hungary's post-war economic development and on the evolution of Hungary's economic system into one of command planning. The information at my disposal suggests that the impact was enormous and decisive. To ignore it would lead one to an imperfect diagnosis of the sources of Hungary's economic problems with command planning. Inadequate diagnosis of the 'ills' of the system then makes it difficult to cure the disease and results in the blaming of other variables that actually had a far less damaging influence. Ignoring the impact of these Soviet claims may also lead to the erroneous conclusion that new economic reforms are entirely responsible for improvements in economic performance and to neglect of the consideration that this improvement may at least in part be due to the parallel removal of harmful external influences.

Let us now examine the above mentioned three ingredients of post-1945 Soviet economic exploitation.

1. And praise it they did. See for example F. Pikkler's article in Magyar-Szovjet Közgazdasági Szemle, No. 2, 1948; or Z. Vas' article in the same journal, No. 5, 1947; and T. Földi and Gy. Ránki, "A Szovjetunio gazdasági segítsége az újjáépülő Magyarországnak" (Soviet Economic Help in the Rebuilding of Hungary), in Tanulmányok a Magyar népi demokrácia történetéből (Studies from the History of the Hungarian People's Democracy), Institute of History of the Hungarian Academy of Sciences (Budapest: Akadémiai Kiadó, 1955), pp. 375-398.

II. THE CONSTRAINTS OF SOVIET ECONOMIC EXPLOITATION

1. Soviet Military Management of Hungarian Industry: 1944-45

As the Red Army advanced westward through Hungary, all enterprises falling within its territory - some vacated only a few hours earlier by Nazi explosives experts - were assigned Soviet military commanders who saw to it that those factories that still had equipment in working order and stocks to work with began production immediately for the war effort against the retreating Germans. Soviet military personnel also supervised production in the coalmines, and deliveries to the army began forthwith.

An extremely interesting collection of documents, which sheds a great deal of light, indirectly and perhaps unwittingly, on this period of Soviet military management, has recently been published by the Hungarian National Archives.¹ These documents have been published to illustrate the significant role played by factory committees and trade unions in the reconstruction of the war-torn economy during 1944-45.² In doing so, they also paint a vivid picture of Soviet military management that contradicts what official Hungarian historians have written on this subject. The documents provide clearcut evidence of the following (and hitherto officially denied) aspects of Soviet military management in post-war Hungary between November 1944 and July-August 1945.

1. The complete depletion of economic stocks by the Red Army. (Stocks had already been considerably depleted by the Nazis.)
2. Wholesale removal by Soviet military personnel of all liquid assets from Hungarian banks and enterprise safes.
3. Widespread dismantling and removal of equipment from factories by Soviet military personnel.

1. F. Gáspár, K. Jenei, and G. Szilágyi, eds., A munkásság az üzemekért a termelésért: 1944-1945. Dokumentgyűjtemény (The Role of the Workers in the Factories and Production: 1944-1945. Documents), A publication of the Hungarian National Archives (Budapest: Tancsics, 1970).

2. For additional studies on the truly heroic behaviour of Hungary's working classes in helping to rebuild the war ravaged economy, see Béla Balázs, Népmozgalmak és nemzeti bizottságok: 1945-1946 (Popular Movements and National Committees: 1945-1946), (Budapest: Kossuth Könyvkiadó, 1961); and Károly Jenei, Az üzemi bizottságok a munkáshatalomért (The Factory Councils in the Struggle for Workers' Power: 1944-1948), (Budapest: Tancsics, 1966).

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4. Breakneck production under tremendously difficult working conditions, with no attention whatsoever paid to the maintenance of equipment.
 5. Soviet requisitioning of industrial products without remuneration (which drove many firms into bankruptcy).
 6. The difficulty of ensuring labour supply because of the prevalence of arbitrary street arrests by Soviet patrols and because of deportation to the Soviet Union of large numbers of skilled workers.
 7. The non-payment of workers' wages by the Soviet military managers.

These points can be substantiated with a few examples selected not for their uniqueness, but rather because they seem to represent the norm that existed in Hungary during the nine to ten months of Soviet military command in 1944-45:¹

...before takeover we had stocks which were sufficient for making 100,000 pairs of boots. After takeover these stocks were removed... Consequently the majority of our workers left to find work at the Ujpesti (Boschan) shoe factory and at other smaller factories. Now they want to return to us but the Russian commandants at these factories will not permit them to do so... Our other employees, in spite of the fact that they possess permits issued by the Russian command, are frequently arrested by Soviet patrols when they travel to and from the factory... Each morning our foremen are faced with a great uncertainty as to what proportion of our skilled workers will turn up for work... There is a complete absence of remuneration for our products... The factory's financial stocks are rapidly disappearing and unless we are given funds we shall be unable to pay our workers.²

...we request official Russian passes for our workers, which would allow them to travel to and from work without being arbitrarily arrested... we also ask permission to begin the production of primer caps for the coal industry, since without these the coal mines will come to a halt, and

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1. For earlier statistical studies on Hungarian firms working under Red Army management, see Közgazdasági Évkönyv (Statistical Yearbook) 1947, pp. 229, 239; and Magyar ipar, July 1947 and July 10, 1947.
 2. "A Wolfner Gyula és Társa Rt. újpesti borkyára üzemi bizottságának jelentése a Szovjet katonai parancsnoksághoz, Február 21, 1945" (Report of the factory committee of the Wolfner Gyula and Társa Rt. Ujpesti leather plant to the Soviet military command), in F. Gáspár, et al, op. cit., pp. 258-259.
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since no other firm in Hungary has the technology to manufacture primer caps...¹

...From all of our banks and enterprises, practically all of the means of payment and other valuables have been removed by the Soviet military command. Owing to this, the continuation of production is well-nigh impossible. It is urgently requested that enterprises be provided with the means of payment necessary for the purchase of materials and labour needed in production.²

Subsequently the Soviet command loaned back some of this money to Hungary³ - with interest - and also began to print Hungarian currency on its own printing presses and make formal loans out of these funds as well as using them for payment. This aspect of the Soviet money-lending is totally ignored by Communist historians. The fact that Hungary had to re-borrow her own money - and to pay a high interest rate on the loan - as well as buy Hungarian Pengos manufactured by the Red Army⁴ (which cost the Russians nothing since even the paper and ink needed for their manufacture was procured without payment), is nowhere mentioned. What we are told, on the contrary, is that the financial and material aid given to Hungary by the Soviet Union at this time again showed the great concern of the Soviet Union for Hungarian economic revival.⁵

1. "A Vadásztöltény - Gyutacs - és Fémárugyar Rt. üzemi bizottságának kérelme a budapesti szovjet városparancsnokhoz" (Demand handed in to the Soviet military commander of Budapest by the factory committee of the Shotgun-cartridge, Primer Cap, and Alloy Manufacture Company), February 25, 1945, *ibid*, p. 273. Incidentally, permission to manufacture the essential primer caps was denied by the Soviet commander. Instead, the company was instructed to manufacture razor blades (*ibid*, p. 288). Meanwhile, coal production was crippled because gunpowder had to be used instead of the proper detonators, and hours of work were apparently lost because of the dangerous level of dust in the mine shafts.
2. "Feljegyzés a szovjet városparancsnokság képviselőjének és az ipari vállalatok érdekképviselőiteinek a budapesti gyárak üzembehelyezése ügyében tartott értekezletéről" (Notes from the meeting between the representative of the Soviet military commandant of Budapest and the representatives of industrial companies and concerns regarding the commencement of production), February 23, 1945, *ibid*, pp. 267-270.
3. 100 million Pengo notes were lent to the Hungarian government by the military command on March 11, 1945, and an additional 250 million on April 11, 1945. A final 500 million Pengos were lent in May 1945. See the Monthly Bulletin of the National Bank of Hungary, Nos. 1-6, January-June, 1945, p.12.
4. "Pengo bank notes issued by the Allied (Soviet) High Command ceased to be legal tender on February 28, 1946. The banks exchange these notes up to March 30th and must hand them over to the National Bank by April 5th the latest." Monthly Bulletin of the National Bank of Hungary, Nos. 1-6, January-June 1946, p. 24.
5. T. Földi and Gy. Ránki, A Szovjetunio gazdasági segítsége az ujjaépülő Magyarországnak, *op. cit.*

...we mentioned that our firm had supplied 2 million Pengós worth of goods to the Soviet command - for which it received neither payments nor receipt slips. The firm's financial position as a consequence is such that it can no longer pay its employees... The only way to ensure the success of further production is to make the Soviet military manager understand the complexity of the enterprise and its functioning...₁

...on January 29, Russian soldiers arrived with trucks and removed from our premises 4-5 wagons of coal to an undisclosed destination. During the first days of occupying the firm, they also removed a number of machines... Our workers at the moment are working voluntarily, without receiving any payment either in money or in food...₂

...at the beginning of the year some strangers came to our factory and removed our machines in trucks... After the cooperation of certain Russian individuals, eight of these were returned to us.. the others at the moment are standing in railway cars at Szólnok under the control of the Red Army... Until the middle of June 1945 the factory was under Russian control and had to do whatever was requested of it by the Russian commandant, and therefore it was impossible to set up a program of production...₃

...the Chinoin pharmaceutical company is the largest of its kind in South-east Europe. As such, it holds an important position in the national economy. In the past its profits derived mainly from exports... our factory suffered only slight bomb damage. This has been almost completely repaired and the rest is easily repairable. At the moment we possess 85-90% capacity... For these reasons it would be urgent to begin production as soon as possible... The hospitals are daily requesting medical supplies. Unfortunately our Russian commandant, on the orders of his superiors, has requisitioned all our stocks and will not permit us to fulfill civilian requests... We cannot even make changes to our personnel without his permission. I must mention here that a significant number of our skilled workers have been taken out of the country by the Russians because of their German sounding names... and unfortunately there were many among them who were extremely important to our firm... Our trucks and automobiles have been taken by the fascists. Our horses have been requisitioned by the Red Army... What little we do manage to produce is immediately taken away by the commandant and thus our supplies and warehouses are rapidly running out...₄

1. "A Ganz és Társa Villamosági, Gép-Vagon, és Hajógyár Rt. vagongyári üzemi vezetőinek megbeszélése a Vörös Hadserég képviselőivel a gyár foglalkoztatásáról" (The discussion of the representatives of the wagon factory of Ganz and Partners Electrical, Machine Wagon and Shipbuilding Factory Co. with the representative of the Red Army, concerning the factory's production), March 10, 1945. F. Gáspár et al, *op. cit.*, pp. 294-295.
2. "A Hutter és Schrantz Rt. Fémárugyár üzemi tanácsának jelentése a Szakszervezeti Tanácshoz" (Report of the factory committee of the Hutter and Schrantz Alloy Manufacture Co. to the Trade Union Council), February 2, 1945. *Ibid*, pp. 230-231.
3. "A Magyar Philips Művek Rt. jelentése a gyár kitelepítéséről, a háborús károkról, a helyreállítási munkákról és a pénzügyi helyzetről" (The Report of the Hungarian Philips Works Co. on removals, war damage, reconstruction work, and its financial situation), August 1945. *Ibid*, pp. 200-203.
4. "A Chinoin Gyógyszer és Vegyészeti Termékek Gyára Rt. üzemi bizottsági elnökének jelentése a népjóléti miniszterhez" (The report of the president of the factory committee of the Chinoin Pharmaceutical and Chemical Products Factory Co.), February 17, 1945. *Ibid*, pp. 249-254.

...we are working under Soviet military command... Although there is no electricity the Soviet commandant ordered production which we must therefore do manually, and we have been given strict orders to work continuously and systematically... Since the beginning of production, right up till today, we are completely unlooked after either in terms of wages or in terms of food...¹

...at the moment all of our production is requisitioned by the Soviet military command... Our monthly deficit as a consequence is 4 million Pengos, which the government should charge up under the account of retribution, and forward to us...²

When Soviet military management ended in July-August 1945, the firms that had been affected by it were in utter chaos. Thousands of valuable machines and tools were lost, stocks were all used up, and machines were badly damaged in many of the factories due to lack of repairs and other maintenance. Most of the firms that were under Soviet management were also hopelessly in deficit because of non-payment for services by the Soviet command.³ The magnitude of direct Soviet military intervention in Hungary's economic revival during the critical first months after the war, and the immense strategic advantage held by the USSR with respect to the shaping of that revival, can be seen even in the official Hungarian figures.

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1. "A Lugossy Testvérek Krolupper Művei igazgatóságának és üzemi bizottságának jelentése a Szakszervezeti Tanácshoz" (Report of the directorate and factory committee of the Lugossy Brothers Krolupper Works to the Trade Union Council), March 9, 1945. *Ibid*, pp. 189-190.
 2. "A Salgotarjáni bányai igazgatóság jelentése a budapesti központnak" (Report of the mining directorate of Salgotarjan to its head office in Budapest), February 21, 1945. *Ibid*, pp. 171-172.
 3. I think that the conventional argument on Soviet dismantling and looting of Hungarian industrial plants, according to which the removal of machines and equipment to the Soviet Union was designed purely to strengthen Soviet industrial capacity and to replace Soviet losses, is not fully accurate. There were many confirmed reports at that time about Hungarian industrial machines and products lying scattered and rusting in fields and in sealed boxcars under Soviet military guard. These reports suggest that Soviet economic tactics in Hungary during 1944-45 were geared not only towards utilizing Hungary's existing industrial capacity for the ongoing drive against Germany, but also to ensure that the Hungarian private industrial sector would be placed in a critical and virtually hopeless position after the war and would require massive state intervention and takeovers to get back on its feet. That state controlled modification was to be strictly under the command of the Communist Party to ensure that the revival would go not in the direction of the reemergence of private enterprise but the strengthening of state capitalism.
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According to Ivan T. Berend, during the nine months of Soviet military management, 75% of Hungary's industrial output was channelled directly by and for the Red Army.¹

The situation in the agricultural sector of the economy was similar to the one described above. The Red Army requisitioned without payment vast quantities of agricultural goods and drove away tens of thousands of cattle, horses, and other livestock. According to Stephen Kertész, member of the Hungarian delegation to the Paris Peace Conference:

During the war years, the pro-Nazi Hungarian government sabotaged agrarian exports to Germany. As a result of this policy Hungarian livestock increased by 11% during the war, and at the time of the Russian invasion eighteen million metric quintals of cereals were housed in public stores. The Red Army seized this hoard and also about half of the country's livestock and took it out of the country. A minimum fraction thereof was given as a loan to the supply agency headed by Zoltán Vas in Budapest... The liberators, of course, later demanded that the Hungarian Government make return in kind.²

From the middle of 1945, requisitioning on behalf of the Red Army was, in the main, carried out by the Hungarian authorities, who did make certain payments for the goods taken from the peasants. But the only difference that this change made was that instead of the peasants bearing the brunt of the cost of supplying the more than 200,000 strong occupation army, the load was shifted on to the shoulders of the Hungarian treasury.

There should be no misunderstanding here. We are not questioning the right of one of the victorious allied powers to exact certain payments from their defeated enemy. Hungary was, after all, defeated on the battlefield. One should also not belittle the sacrifices, the tre-

1. Figure cited by I. T. Berend, Ujjépítés és a nagytőke elleni harc Magyarországon, 1945-1948 (Reconstruction and the Battle Against Capitalism in Hungary, 1945-1948), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1962), p. 29.

2. Stephen D. Kertész, "The Methods of Communist Conquest: Hungary 1944-1947," World Politics, Vol. III, No. 1, 1950, p. 36.

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monstrous damage inflicted on the Soviet economy during the heroic fight against the forces of fascism. Hungarian acts of war against the USSR could certainly not be expected to be suddenly forgiven and forgotten by the Red Army. Nor could the Red Army be expected to leave Hungary's factories alone and thereby be forced to rely on supplies being shipped to it over hundreds of miles of difficult terrain. The Soviet military management was by no means entirely illegitimate within the context of the rules of war. Our concern here stems from the fact that, since 1945, Communist economic historians have consistently claimed that the period of Soviet military management was very brief, that it benefitted Hungary under the circumstances, that it enabled the Hungarian economy to revive quickly, that it laid the foundation for rapid economic recovery during the Three Year Plan, and that it showed great Soviet concern for the well-being of the Hungarian populace. The factual evidence simply does not bear this out. On the contrary, Soviet military management greatly accelerated the collapse of Hungary's private sector, greatly contributed to the economic catastrophe of 1945-46, resulted in extreme hardship for millions of Hungarian workers and peasants, and posed an almost insurmountable challenge for the country's new and inexperienced public administrators. The effects of Soviet military management logically demanded the most deepgoing and encompassing central planning and control of national economic revival. The Communist Party, capturing for itself in 1945 the commanding post in economic reconstruction -- the Supreme Economic Council (SEC) - was thereby provided with a tremendously important opening, enabling it to cut away the jugular vein of private capital and hasten the arrival of the Stalinist type command system.

2. The Retribution Payments

When the firms were finally handed back to civilian management in July-August, 1945, the period of retribution payments began. No sooner had Hungarian industry finished supplying the bulk of her production to the Soviet command for no financial remuneration, than she had to begin to do so all over again, this time under a different heading. There was, moreover, no question of deducting any of the earlier unpaid for deliveries from the retribution bill. Under the terms of the Paris Peace agreements, the Soviet Union forced Hungary to waive all claims arising from Soviet management.

The Hungarian Government waives all claims against the Allied and associated powers in the name of the Hungarian Government or Hungarian nationals arising directly or indirectly from the state of war. The Hungarian Government is to make reasonable compensation in Hungarian currency to those persons who have by requisition provided materials or other services for the armed forces of the Allied or associated powers on Hungarian territory, and shall make compensation for damages caused on Hungarian territory by the armed forces of the Allied and associated powers not due to military operations.¹

1. Monthly Bulletin of the National Bank of Hungary, New Series, Third Year, Nos. 1-2, January-February 1947, p. 8. (Italics added.)

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The reparations agreement with the USSR, Czechoslovakia, and Yugoslavia was signed on June 15, 1945. It laid down the prices of the various reparations goods that Hungary was to ship to these countries, set the product mix of the reparation package, and stipulated that deliveries should be made in six equal yearly instalments. The total sum of 300 million dollars does not seem excessive at first glance.¹ We must look deeper, however, at the price structure of these goods, the total product mix, their share of exports, and the timing of the deliveries, in order to gauge the true impact of this agreement on Hungary's post-war economic development.

a. Product Mix

It has already been mentioned that war damages caused by bombing and Nazi sabotage were the greatest in Hungary's heavy industrial sector and, within this, primarily in the engineering and machine building branches. From the outset this had seriously handicapped the pace of economic reconstruction since it was this sector of the economy that was responsible for producing the new machines and engineering appliances needed to replace those that had been damaged or removed from the country. The reparations agreement exacerbated this handicap of economic revival out of all proportion. It stipulated that the greatest share of reparations goods to the USSR was to be made up of heavy industrial manufactures. Consequently, after the switchover to civilian production in 1945, almost 90% of Hungary's heavy industrial production during 1945 and 1946 was tied down by reparations orders. Even at the end of 1946 and during 1947, when (due to the staggering of deliveries over eight years instead of the initial six) reductions were introduced in the quantity of yearly deliveries, retribution production still tied down about 60% of heavy industry's total production.² Figures presented in the economic report of the Hungarian General Creditbank also show that at the end of August 1946, 75,000 out of the 95,000 workers employed in heavy industry were engaged in retribution work, and that in December of that year the share was 60,000.³ The Creditbank report also adds that "Production for civilian consumption has, however, owing to dismissals effected in the meantime and the practically general reduction of

1. USSR, \$200 million; Yugoslavia, \$70 million; Czechoslovakia, \$30 million. In addition, Hungary had to pay the cost of transport up to the point of the goods' final destination. After 1948 Hungary was responsible for transportation costs only as far as her own borders.

2. Iván T. Berend, *Ujjáépítés és a nagytöke elleni harc Magyarországon*, op. cit., p. 246. See also L.D. Schweng, *Political, Social and Economic Developments in Postwar Hungary*, op. cit., p. 169.

3. *Economic Report*, Hungarian General Creditbank, Aug-Dec. 1946, p. 13.

working time to 40 hours, risen only to a smaller extent."¹

Although agricultural goods contributed a smaller percentage of total deliveries - 15% - these were also extremely difficult to meet, and thus presented tremendous problems to the economy and to the civilian population. From the end of 1944 right up to the beginning of 1947, when the Paris Peace Treaty was signed, Hungary was also required, under the terms of the Armistice agreement, to supply all of the food requirements of a 200,000 strong occupation army. Initially the requisitioning was conducted by Soviet military personnel who paid nothing to the peasants for the goods so taken.

A severe drought in 1945, the low acreage sown at the end of 1944, initial dislocations caused by the land reform in 1945, and the hopeless undermechanisation of new farms, as well as the food requisitions for the occupying army, were responsible for the chaotic agricultural situation in the fall of 1945. Compulsory agricultural deliveries for retribution, coming at a time like that, compounded the damage and greatly hindered the development of the newly formed farming system.

b. Pricing

The June 15 agreement reiterated the terms put forth in the Armistice agreement, namely that the price of the retribution goods was to be calculated at the level of 1938 U.S. dollars. For a great many reasons (e.g. a 400% rise in transportation costs and a 700% increase in the import price index)² the costs of producing the goods stipulated in the June agreement were significantly higher in 1945 than they had been in 1938. According to the Hungarian premier, "...the Hungarian delegation protested vainly that the goods could not be produced at the rates indicated"³ and that, because of the undervaluation of the products, the deliveries would in effect equal three or five times the amount set out in the retribution agreement.

The underpricing of the goods was not the only factor which raised the nominal costs of the reparations package to a much higher real level. We

1. *Ibid.*, p. 13.

2. *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 11-12, November-December 1948, p. 278.

3. F. Nagy, *The Struggle Behind the Iron Curtain* (New York: Macmillan, 1948), p. 125.

also know that the Hungarian currency, the Pengo, was overvalued with respect to the dollar at the time of the signing of the agreement. According to Ivan T. Berend, the actual cost of the reparation package was increased two-fold as a result of this.¹ Nicholas Spulber claims that because of the exchange rate between the forint (the new currency introduced in August 1946) and the dollar, the increase in the value of the reparation package was four-fold: "...the average Hungarian 'reparations dollar' appears to have been equal in 1946 to 43 forints or nearly 4 current dollars. That is, to obtain credit for one dollar of reparations, Hungary had to deliver goods worth almost 4 dollars at the current exchange rate".²

Combining these effects, it is not excessive to say that they pushed up the real value of the reparations bill to about 1.5 billion dollars.³

c. Retribution Payments as a Share of Exports

The share of foreign trade (and the dependence on imports for raw materials) in Hungary's national income was already very high in 1938. One of the greatest negative effects of the retribution payments on the Hungarian economic revival was that it kept exports to a minimum. As Table II. 3 shows, for the first three post-war years, the value of retribution deliveries was greater than the entire export trade of the country, and even in subsequent years retributions came to about 50-60% of exports. It needs little elaboration to say that this posed tremendous problems for Hungary's balance of trade, monetary and import policy, and economic reconstruction in general.

d. Timing

The June 1945 agreement, the terms of which were retroactive to January 1945, directed that deliveries should be forwarded in six equal yearly

1. Ivan T. Berend, Ujjáépítés..., op. cit., p. 46.

2. Nicholas Spulber, The Economics of Communist Eastern Europe (New York: M.I.T. Press and John Wiley and Sons, 1957), p. 170.

3. After 1948 the Soviet Union reduced the amount outstanding by 50% and at the end of 1949 Hungary freed herself of the obligation to Yugoslavia as a consequence of the Stalin-Tito quarrel. Taking into account these reductions, the lowering of transportation costs, and certain favourable price adjustments agreed to by the Soviet Union, I would put the final bill of goods at approximately 800-900 million 1949 U.S. dollars.

Table II.3

Value of Reparations and Export: in Hungarian Foreign Trade

| million forints | | | | |
|-----------------|---------------------|---------|---------|--------------------|
| | 1945* (July-Dec) | 1946 | 1947 | 1948 (Jan-Sept) |
| Exports | 1.0 | 420.5 | 1,044.8 | 1,122.6 |
| Reparations | 35.0 | 1,032.0 | 1,053.1 | 854.1 |

* figures for 1945 are in millions of Pengös

Source: Monthly Bulletin of the National Bank of Hungary, New Series,
Third Year, Nos. 7-8, July-August 1947, p. 186;
Third Year, Nos. 11-12, November-December 1947, p. 298;
Fourth Year, No. 9, September 1948, p. 212.

installments. This meant that reparations for 1945 had to be produced and delivered in six months instead of the normal twelve. Should deliveries lag, a penalty setting a fine of 5% per month on the value of the goods outstanding was also included in the terms.

The pressure on the treasury had already been severe prior to the signing of the agreement because of demands for state investment in reconstruction, for state subsidising of the firms which had incurred large deficits under Soviet military management, for the state's financing of the maintenance costs of the Red Army, and for a host of other reasons. State revenues were virtually nonexistent; the country's gold reserves had been lost; and no export revenues were to be had because of the collapse of foreign trade. In short, the six months target for the 1945 reparations payments meant that massive financial outlays had to be made immediately, without any appreciable increase in state revenues, and that an inordinately large proportion of current production would be taken out of the country without payment into the treasury, with only a small fraction of production remaining for home consumption.

Faced with the threat of stiff financial penalties and a stream of Soviet protest notes about the slowness of deliveries, the treasury reacted with a mad scramble to print more and more money so as to finance the companies producing for the retribution column. This action quickly snowballed into the most severe inflation ever experienced in world history.

One morning the Minister of Finance came to me and said, "Mr. Prime Minister, we cannot afford to print the currency unless we leave out one colour". Another day he came and said, "We cannot afford to print the bills unless we leave out the number on them". I said - "leave it out".¹

It would be incorrect to say that the Hungarian inflation started only with the beginning of reparations payments, with the payment of the Red Army's maintenance costs, or with the Red Army's printing presses churning out Hungarian currency during 1944-45. The rate of inflation was increasing steadily already during the war. It was with the reparations, however, that this trend went out of control, so that, by the end of 1945 the cost of living (not counting rent) was increasing at a rate of 15% per hour.

The first and foremost prerequisite for financial stability was to bring into some semblance of balance the state's revenue and expense column. The only way to achieve this was to reduce the burden of Soviet external claims. This would reduce the drain on the budget and would increase exports earnings and the level of production for home consumption. These prerequisites were met after August 1946. In August the USSR agreed to the staggering of retribution payments for eight years instead of six, and this reduced the size of the yearly instalments. She also agreed to purchase the Petrozsény coal-fields from Hungary and to enter the amount under the retribution column for 1946.² Moreover, the Paris Peace Treaty in the beginning of 1947 removed the burden of maintenance costs for the occupation army. Together, these added up to a 66% reduction in state reparations expenses for 1946-47. In the new August 1946 budget, reparations went down to 28% of the total state expenditures.³ (The actual amount spent from the state

1. From F. Nagy's testimony to the Select Committee on Communist Aggression, Fifth Interim Report of Hearings Before the Subcommittee on Hungary, United States House of Representatives, 83rd Congress, 1954, p. 113.

2. Petrozsény was Hungary's largest coal mine in Romania, and was valued at about \$40 million. The USSR only agreed to enter it under the retribution column at \$12 million.

3. The Stabilisation of the Hungarian Currency, Hungarian General Creditbank, August 1946, Budapest, pp. 8-9.

budget for reparations in 1946-47 surpassed the 28% mark and at the end went up to 39%.)¹ As the report of the General Creditbank points out:

A factor of exceptional significance in ensuring the sufficiency of stocks of goods for the domestic market was the acceptance by the Soviet Union on the eve of the stabilisation of the proposals made by the Hungarian government under the terms of which reparations payments are to be made over a period of eight years.²

As we will show when we look at the practices of the Communist controlled Supreme Economic Council (SEC), these Soviet claims and pressures were fully integrated and in line with the SEC's secret policy of driving Hungary's private sector into bankruptcy and of generating the need for ever greater state involvement in the direction of the economy, ostensibly so as to safeguard the national interest.

3. Soviet Takeover of Formerly Italian- and German-owned Concerns and the Creation of Joint-Stock Companies

According to the Potsdam Agreement, the Berlin Foreign Ministers' Conference, and the Paris Peace Treaty, all formerly German- and Italian-owned assets and companies in Hungary were to become the property of the Soviet Union.³ Moreover, by Order in Council No. 15,720/Korm. of January 4, 1948, it was stated that "claims which arose before January 20, 1945 cannot be enforced against trading companies in which half or more of the share capital or of the shares were handed over to the Soviet Union as German property. The same applies to individual firms ceded to the Soviet Union".⁴

On March 8, 1947 the Hungarian government published a full list of the German-owned companies whose ownership, under the terms of the Potsdam Agreement, was transferred to the Soviet Union.⁵ The broad distribution of these

1. Monthly Bulletin of the National Bank of Hungary, New Series, Third Year, Nos. 7-8, July-August 1947, p. 188.

2. The Stabilisation of the Hungarian Currency, op. cit., p. 9.

3. The Hungarian Government's Order in Council No. 11,700/ December 23, 1945.

4. Monthly Bulletin of the National Bank of Hungary, New Series, Fourth Year, Nos. 1-2, January-February 1948, p. 23.

5. Monthly Bulletin of the National Bank of Hungary, New Series, Third Year, Nos. 3-4, March-April 1947, pp. 71-72.

companies according to types is as follows:

| <u>Number</u> | <u>Type of Companies</u> |
|---------------|---|
| 28 | siderurgical, metallurgical and engineering companies |
| 23 | chemical companies |
| 22 | textile companies |
| 8 | stone, clay and building companies |
| 5 | paper and printing companies |
| 8 | foodstuffs companies |
| 2 | mining companies |
| 2 | electric power generating companies |
| 2 | banks |
| 12 | insurance companies |
| 89 | other undertakings (including the Budapest amusement park and Gundel Restaurant). |

Altogether a total of 201 formerly fully German-owned enterprises, with over 3,500 plants and premises, were handed over to the Soviet Union for full ownership.

In a different context, Berend and Ránki write that, "...according to Premier Pál Teleki, 'The German empire in 1939 had such an extensive and widespread network of economic interest in our country, that through this she could check and indeed influence the whole of Hungarian economic life'"¹ and they add that:

The share of German capital in Hungarian economic life increased during the war, first of all in the manufacturing industry. Studies by the Statistical Office have shown that between 1938 and 1942 the stock of industrial and commercial shares held by German interests in the Hungarian economy increased by 50%, and in credit concerns closely associated with industry, the ownership of German shares went up by 100%. During these years, when the country became increasingly subordinated to Germany, beyond those companies in which Germany had total or majority shareholdings,

1. Iván T. Berend and Gy. Ránki, A Magyar gazdaság száz éve, op. cit., pp. 211-212.

German capital also acquired shares in all important Hungarian concerns.¹

All these German assets, through which Germany had practised a strategic economic control over Hungary, were unilaterally transferred to the USSR after the war.

After profiting greatly from these companies for a period of about eight years (until 1953-1954), the Soviet Union began to sell them back to Hungary² and to use some of the money from these sales as investment in the Soviet-Hungarian joint-stock companies. We know from official sources that in 1952 the Soviet Union calculated the value of these assets as being equal to 3.6 billion rubles, or 900 million dollars at the current rate of exchange.³

Above and beyond the more than 3,500 plants and premises that were fully German or Italian owned prior to 1945, there were also a large number of concerns with partial German-Italian shareholding, and these shares were also transferred into Soviet ownership. As a result of switching and amalgamating these Soviet shares, the Soviet Union arranged the creation of five new Soviet-Hungarian joint-stock companies in 1946.⁴ Each country had a 50%

1. Ibid., pp. 213-214.

2. Izvestia, November 10, 1954.

3. L. Kóvári and Gy. Lázár, using official Party sources, try to document what they see as Soviet magnanimity shown towards Hungary in the mid-fifties, in an article in Közgazdasági Szemle, Vol. IV, No. 6, 1957, p. 600. They say that in 1957, and earlier, the Soviet Union waived 2 billion rubles - 55% - of the moneys owed to her by Hungary as a result of Hungary's repurchase of the Soviet owned concerns. This would mean that when the concerns were initially re-sold to Hungary in 1953-54, the Soviet Union handed in a bill for 3.6 billion rubles, which was 900 million U.S. dollars at the going rate of exchange. Taking the 55% reduction into consideration, the actual amount paid by Hungary to the USSR for these shares was roughly 450 million U.S. dollars. This is the only place where an actual figure was quoted by a Hungarian source. Berend, in a recently published volume, simply says, "the shares were bought up by the government in the mid-fifties", A Szocialista gazdaság fejlődése Magyarországon, 1945-1948 (The Development of the Socialist Economy in Hungary), (Budapest: Kossuth Könyvkiadó, 1974), p. 15.

4. "Besides the fully German-owned companies there were also a large number of companies in Hungary in which there was partial German shareholding. These shares were also transferred to the Soviet Union. They formed one of the bases of the so-called mixed Soviet-Hungarian companies which were formed in the spring of 1946". Iván T. Berend, Ujjáépítés..., op. cit., p. 128. He makes the same point in A szocialistagazdaság fejlődése, op. cit., p. 14. The collusion between the Soviet Union and the Hungarian Communist Party is clearly evident from the manner in which the agreement for setting up the joint companies was reached. As Ferenc Nagy writes: "In July 1945 the Soviet government proposed a trade agreement. The proposal offered us iron ore, coke, cotton and various metals in exchange for goods... We appointed a trade delegation with the Minister of Commerce, Ernest Gerő as its chairman, to go to

share holding in the companies. Operative control of the joint-stock companies' business affairs was vested in the hands of the general manager who, by law, had to be a Soviet citizen.¹

These companies were given preferential treatment in most of their activities, and were in fact placed in a much more profitable position than any other companies in Hungary. At the time of their establishment a series of government decrees were passed exempting them from the following obligations to the Hungarian treasury:²

1. Customs duties and other public taxes;
2. Import permit payments and import turnover tax;
3. Company tax;
4. Stamps and fees on transfer of assets and documents; and
5. Tax on dealings in securities and fees for the issue of shares or their exchange and legal charges.

After they had begun operations, a new series of government regulations were passed exempting the joint companies for a period of fifteen years from the

(cont) Moscow to discuss and conclude an agreement". A few days later Antal Bán, who was appointed as vice chairman of the delegation, hurried back from Moscow with the information that Gerö was on the verge of signing a very general agreement, including the setting up of joint companies. A message was sent to Gerö immediately by the government refusing authorisation for such an agreement, but when Gerö returned to Budapest, the government found to its amazement that he had in fact signed the agreement with the Soviet Union. Nagy writes: "How could you do that without authorisation? I asked. 'I was duly authorised', replied Gerö. 'My authorisation from the Prime Minister provides for signing of accords beyond the trade agreement.' I glanced at Prime Minister Miklós /Nagy became Prime Minister only in November 1945/. Red in the face and flustered, he stated that he had delegated no such powers. Gerö pulled the Moscow authorisation from his briefcase. The paper which Miklós in his ignorance of administrative affairs had signed really did convey wide powers. It was on this basis that Gerö had signed the preliminary agreement." Ference Nagy, The Struggle Behind the Iron Curtain, op. cit., pp. 136-138.

1. For information on the terms of association, share capital figures and management structures of these companies, see Monthly Bulletin of the National Bank of Hungary, Nos. 1-6, January-June 1946, p. 12, and Nos. 7-9, July-September 1946, p. 58.
2. By virtue of Orders in Council Nos. 7,160/M.E., 8,710/M.E., 9,070/M.E., 9,470/M.E., 24,690/M.E. See Monthly Bulletin of the National Bank of Hungary, Nos. 7-9, July-September 1946, pp. 58-59, and Nos. 10-12, October-December 1946, p. 111.

following tax, tariff, and commercial obligations:¹

1. Company tax;
2. Company assets tax;
3. Freight and import duties;
4. Fees for the conveyance of immovable assets;
5. Fees on contracts for leases, in respect of their real estate serving for the purposes of their business, and the equipment, machinery, employees' dwellings, and buildings for welfare and cultural purposes;
6. Fees on workers' dwellings;
7. Fees payable on increases of capital and the issue of new shares;
8. The conveyance fees of immovable property and appurtenances brought to the company as a capital contribution; and
9. Fees for entry in the land register in the event of the issue of mortgages, and bonds issued for business purposes.

In the case of those joint-stock companies that were in a monopolistic position (eg. the Pécs and district coal mines, an affiliate of Mészart), a radical upward adjustment of prices was ordered on the demands of the Soviet manager and was approved without question by the Hungarian Price Office.²

The substantial financial debts of these formerly German-owned companies to Hungary (debts that had been run up during the war), were unilaterally cancelled by the Soviet Union upon gaining control of the shares. However, in the case of those formerly German-owned firms that were owed payment by Hungary, the Soviet Union demanded payment in full, with high interest and

1. By virtue of Orders in Council Nos. 4,200/M.E., 4,120/M.E., 4,210/M.E., 4,220/M.E., 4,230/M.E., 4,240/M.E., 4,250/M.E., 12,620/Korm, 12,920/Korm, and Decree No. 26 and Decree No. 27. Monthly Bulletin of the National Bank of Hungary, Nos. 3-4, March-April 1947, pp. 72-73, and Nos. 11-12, November-December 1948, pp. 266-267. See also Economic Treaties and Agreements of the Soviet Bloc in Eastern Europe, 1945-1951, 2nd edition, Mid-European Studies Center, New York, 1952, pp. 13-15.

2. Compare the price index of Pécs coal with that of the Hungarian-owned coal fields:

| Coal | Price index in February 1948 (August 1946=100) |
|----------------|--|
| screened Pécs | 148.1 |
| cubes Tata | 122.6 |
| screened Dorog | 138.5 |

Source: Monthly Bulletin of the National Bank of Hungary, Nos. 1-2, January-February 1948, p. 23.

a substantial mark-up to cover the effects of inflation. Initially the Soviet Union demanded 200 million dollars as the amount owed by Hungary to these firms and to Germany in general. Finally it settled for \$45 million. Investments in the joint-stock companies were to be on a fifty-fifty basis, shared between the two countries. The source of the Soviet share of investment was the above-mentioned \$45 million that Hungary ostensibly owed Germany. In other words, the Hungarian treasury in effect covered the full 100% of investments in these firms.¹

Two of the joint companies, Mészart and Maszovlet, apart from controlling a number of diverse affiliates (such as Hungary's best and most productive coal-fields in Pécs), enjoyed a full monopoly on Danube shipping and civil aviation respectively. The other three companies -- Hungarian-Soviet Crude Oil Ltd. (Maszovol); Hungarian-Soviet Oil Works Ltd. (Molaj); and the Hungarian-Soviet Bauxite-Aluminum Co. Ltd. (which controlled two affiliates, the Hungarian Bauxite Mine Co. and the Danube Valley Alum Earth Industry Co.) -- were also strategic companies. They had a virtual monopoly on bauxite mining (Hungary's major mineral resource), aluminum processing, petroleum refining and oil prospecting.

With respect to the concessions won by the joint-stock companies, Nicholas Spulber writes that the "...exemptions amounted to a virtual subsidy by the local governments to each of these companies.../Moreover they were given/ complete latitude in the utilization of their foreign exchange... Enjoying complete extra-territoriality, they could cut across both the local frontiers and the local planning. Although in principle they were supposed to adjust themselves to local economic plans, in practice the local economic planners had to adjust their plans to the objectives of the joint Soviet companies".²

We have stated earlier that, as a consequence of Trianon, Hungary lost all of her important mineral resources, and that, after Denmark, she is the poorest country in Europe in mineral resources.³ In this bleak resource

1. Magyar ipar, December 25, 1947, and Economic Report of the Hungarian General Creditbank, July-December 1947, Budapest, p. 17.

2. Nicholas Spulber, The Economics of Communist Eastern Europe, op. cit., pp. 199-201.

3. See V.H. Winston's chapter, "Mineral Resources", in Resources and Planning in Eastern Europe, ed. N.J. Pounds and N. Spulber, Indiana University Publications, Slavic and East European Studies, Vol. 4, 1957, pp. 36-86.

picture there are four bright spots: Hungary's bauxite reserves are considered the second largest in the world; after 1946 significant uranium deposits were found in the Western part of the country; in the Komló region of Pécs there were good deposits of high grade black coal with high calorific value (Hungary's other coal fields are all of the low calorific, brown coal or lignite variety); and she had some oil deposits (though certainly not enough to make her self-sufficient in it). After 1946, control over all of these mineral resources -- in effect, Hungary's only mineral resources -- was under Soviet ownership for a decade. (The uranium fields, which are by now largely depleted, are still under Soviet management.)

After the war, the Soviet Union became Hungary's major trading partner, and since 1946-47, about one-third of Hungary's foreign trade is with that country (a figure virtually identical to that for Hungarian-German trade prior to the war). In this respect it is extremely important to note that the commercial servicing of this trade was not carried out via the Hungarian owned Foreign Trade Bank, which of course must, under Hungarian law, handle the country's foreign trade transactions with all countries. Instead, and until 1955, all of Hungary's trade with the Soviet Union was channelled through the Hungarian Commercial and Industrial Bank. This bank was under full Soviet ownership and management from 1946 until 1955.¹

In spite of irrefutable evidence that the entire German-Italian share in the Hungarian economy was handed over to the Soviet Union at the end of the war, and that after receiving such a dominant control over the Hungarian economy the Soviet Union was given even greater economic preferential treatment and imperialistic rights than Nazi Germany ever had, Hungarian historians have since 1945 insisted that:

Hungary's industry up to the time of the liberation was a mere colony of foreign capital -- especially German... Up to the time of the liberation not a single one of the bauxite mines in our country was owned by us. Our bauxite was extracted exclusively by German and Swiss interests. Moreover, the bauxite so extracted was not even processed by Hungarian industry. Not less than 94% was shipped out of the country in raw form. Afterwards

1. Gy. Ránki, Magyarország gazdasága az első Három-Éves Terv időszakában, 1947-1949 (Hungary's Economy During the Three Year Plan Period), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1963), p. 146.

Hungary had to buy back for a high price the aluminum which was processed outside of the country from our own bauxite. After liberation, this ruthless foreign exploitation of our bauxite treasure came to an end... With the Soviet Union's help we have won our independence in this regard.¹

As we have mentioned, the fully Soviet-owned concerns and the Soviet shares of the joint-stock companies were sold back to Hungary during the mid-fifties for, as far as we know, \$450 million. The precise calculation of net financial extraction by the Soviet Union during the first post-war decade is well nigh impossible. There are currently only two "informed guesses" available on the net financial cost to the Hungarian economy of Soviet economic imperialism between 1945 and 1955. Jan Wszelaki has proposed the figure of \$1 billion, which is, as he admits, a very conservative estimate, and which does not include any amounts incurred after 1947. He writes that his calculations "... which are unfortunately impossible to check... point to an amount in excess of \$1 billion. By 1954, when mixed companies were dissolved, they must have been much higher."² The other figure, \$1.3 billion, suggested by Paul Marer is, in my opinion, also a conservative estimate.³ It must, however, be repeated that due to the secrecy surrounding Soviet-Hungarian economic transactions, none of the figures is, at least as yet, verifiable. What can nonetheless be registered is an unmistakable and irrefutable tendency on the part of the Soviet Union to grossly exploit the Hungarian economy during the first and certainly most critical decade of Socialist construction.

No country can afford to lose such a vast amount of capital and to have such a large percentage of her industrial capacity tied down by ex-

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1. Öt éves tervünk: Béketerv (Our Five Year Plan: Peace Plan), published by the Hungarian Ministry of Culture, Budapest, 1951, pp. 32-37.
 2. Jan Wszelaki, Communist Economic Strategy, National Planning Association, Washington D.C., 1959, p. 69.
 3. Paul Marer, "The Political Economy of Soviet Relations with Eastern Europe", Testing Theories of Imperialism, ed. S.J. Rosen and J.R. Kurth (Lexington, Mass.: Lexington Books, D.C. Heath and Co., 1974), p. 238. According to Marer, "Until after Stalin's death in 1953, the Soviet Union's political domination of Eastern Europe was accompanied by conventional kinds of economic extraction from the region, with the size of unrequited flow of resources from East Europe to the Soviet Union being approximately of the same order of magnitude as the flow of resources from the United States to Western Europe under the Marshall Plan." Ibid., pp. 231-232.

ternal demands and by reparations at precisely the point in time when she also needs to rebuild her war torn economy as well as to begin a long overdue process of rapid political, economic and social modernization.

Many conclusions follow from the above. But most certainly the principal ones are that this enormous externally imposed burden on the Hungarian national economy, coming hand in hand with the necessities of a massive industrial revolution and societal modernization could not but open the door to a massive and direct state interference in economic processes, to a very high degree of economic centralisation and to the extortion of immense sacrifices from Hungarian producers and consumers. It is hard to see how the targets of modernization, the need to overcome the pre-1945 roots of backwardness, and the paying off of the massive Soviet imposed debts could be maintained by any other means than the strictest of political regimentation and mobilisation. The roots of the Rakosiite political-economic system, its political excesses, were deeply conditioned if not determined by these initial excessive Soviet demands and exploitation.

But these two interrelated variables - the need for rapid modernization and reconstruction, and Soviet economic exploitation - are not sufficient to explain the impulse towards totalitarian, command economic control by the Hungarian communists. To these two must be added a third set of variables, that of the HWP's own post war political-economic strategy.

III. THE 1945-1950 POLITICAL-ECONOMIC STRATEGY OF THE HUNGARIAN WORKERS PARTY

To tie one's hand beforehand, to openly tell the enemy, who is now better armed than we are, whether and when we shall fight him is being stupid, not revolutionary. To accept battle at a time when it is obviously advantageous to the enemy and not to us is a crime.

Lenin

1. The Political Foundations of the 'Dry Road to Socialism'

After the end of World War II, the enormity of physical damage, the inflationary collapse, severe reparations payments, and the need to wipe out the profound social injustices of the past had all ensured that some form of economic planning would be introduced. The question, of course, was: What kind of planning?¹ The excessive radicalism and, at times, outright cruelty of the 1919 Socialist revolutionaries under Bela Kun's leadership² had left large segments of the Hungarian population in a state of not unjustifiable fear of Communism. These fears had, of course, been systematically reinforced by the political socialisation³ process of the Hungarian Catholic Church and by each successive Horthyite administration up to 1945. The Hungarian cultural milieu has traditionally been uncollectivist. The Byzantine influence, which was dominant in Russian and South-East Europe, is absent. Rome, Protestantism, Cartesian rationalism, the Enlightenment, these are the strongest cultural 'pulls' (although they are not as pervasive in Hungary as in Western Europe). Collectivist economic planning - let alone detailed physical command planning - was missing from Hungary in the interwar years both as a viable theoretical option⁴ and as an operational mechanism, if we except the logically expected increase in state interference that was largely the aftermath of the depression. Some commentators do not

1. On the prospects for economic development in post World War II Eastern Europe, see the celebrated article of P.N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and Southeastern Europe", Economic Journal, Vol. 33, 1943.

2. See Rudolph Tökés, Bela Kun and the Hungarian Soviet Republic, New York, 1967.

3. The term 'socialisation' is used here in a sociological sense. "Political socialisation is the process by which an individual becomes acquainted with the political system and which determines his perception of politics and his reactions to political phenomena." M. Rush and P. Althoff, An Introduction to Political Sociology (London: Thomas Nelson, 1971), p. 13. For a more detailed treatment of political socialisation, see H. Hyman's Political Socialization: A Study in the Psychology of Political Behavior (New York: The Free Press, 1959).

4. Most of the leading economic scientists of the interwar years, e.g. Frigyes Fellner, Farkas Heller, Gyula Abay-Neubauer, were followers of the marginal (cont...)

share this view. L.D. Schweng has written:

The purposeful interference of the state in matters of economics to ensure a more efficient utilisation of the country's resources and to promote industrialisation had been a standard feature of the Hungarian scene /and/ it became even more marked in the interwar period.¹

Schweng himself, however, gives us a good description of the "standard features of purposeful state interference in the economy" when he discusses the two concrete examples of Hungarian economic planning - the One Billion Pengő Plan of 1938, and the Ten Year Plan for Agriculture that was introduced in 1942. With respect to the first of these, Schweng writes: "No detailed and comprehensive plan was drawn up and no special machinery was created to coordinate and control the plans prepared by individual government departments".² The Agricultural Plan, moreover, "counted on an increase in output /but/ this was not specified... An overhaul and reorganisation of the agricultural administration was proposed... but the Act did not go into details ... To improve the efficiency of farming the Minister of Agriculture was given wide powers to control and direct production.../but/ in the two years the Act was in force little use was made in general of the wide powers granted".³ Clearly it is unwarranted to speak of national economic planning existing in Hungary between the wars.

But what of the demands for some form of planning after the war? The political leadership of the Smallholders Party did not attach much importance to this question, though its senior economic advisors (József Bognár and István Varga - 'fathers' of the 1968 NEM) were concerned with it. The National Peasant Party restricted its thoughts almost entirely to agricultural matters and was non-committal on the question of national economic planning.

(cont.) utility school or the Austrian school. Marxist economic analysis was not permitted to be published during the Horthy era and most of the Marxist economists spent the interwar years in the Soviet Union. The most prominent of the Hungarian Marxist economists, Jenő Varga, became the director of the Moscow Institute for World Economy and World Politics in 1927 and served in that capacity until 1947. He was the key economic advisor to the Hungarian Communists between 1945 and 1948, although he remained a resident of the Soviet Union even after the war. For a brief survey of the development of economic science in Hungary from the 19th century to the present day, see Sándor Balázs, "Economics", *Science in Hungary*, ed. T. Erdey-Grúz and I. Trencsényi-Waldapfel (Budapest: Corvina Press, 1965), pp. 124-147.

1. L.D. Schweng, *Economic Planning in Hungary Since 1938*, Mid European Studies Center, New York, 1951, p. 1.

2. *Ibid.*, p. 3.

3. *Ibid.*, pp. 5-8. For a recently published study on the role of the state in the development of Hungarian agriculture between the wars, see Miklós Szuhay, *Állami beavatkozás és a magyar mezőgazdaság az 1930-as években* (State Interference in Hungarian Agriculture During the 1930's), (Budapest: Akadémiai Kiadó, 1969).

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The question was of serious importance to only two parties: the Social Democrats (whose top economic advisor was Imre Vajda, who spent the war years in London and who is also one of the 'fathers' of the NEM) and the Communists. These two parties were also receiving active 'foreign' advice, the Social Democrats benefitting from the advice of Nicholas Káldor of Cambridge University, and the Communists being actively advised by Jenő Varga in the Soviet Union,

Of the leading Hungarian economists of the time who were not members of the Communist Party before 1945 (eg. J. Bognár, I. Varga, I. Vajda, T. Nagy, B. Csikós-Nagy), none were known as advocates of Soviet type command planning or as supporters of physical resource allocation at any time prior to 1948. We are less certain about the disposition of the 'Muscovite' Communist economists (István Friss, Andor Berei, László Háy, Árpád Haász, etc.), but again we have looked quite thoroughly through manuscripts written by them and have, in this regard, heard the personal opinions of some people who were familiar with their thinking at the time, and have found no evidence to indicate that it was they who swayed the leadership in the direction of physical resource allocation. On the contrary, George Kenény, a leading political figure in the SDP in charge of economic matters, who worked closely with the Communist economic specialists during the integration of the SDP's and the CP's Three Year Plan variants in early 1947, writes: "There was in particular a group of Moscow trained men in key positions who had a marked preference for the freer play of the mechanism of the market".¹

There is no evidence whatsoever for the determining influence of 'social forces' - say, working class agitation - in the direction of physical resource allocation.

But if there seems to be no domestic demand for Soviet type command planning, why was it introduced? The answer to this lies in Hungary's external societal environment, in her immediate post-war economic and political domination by the USSR, and in the subservience of the Hungarian Communist

1. George Kenény, Economic Planning in Hungary, 1947-1949, Royal Institute of International Affairs, London 1952, p. 81.

Party leadership to Stalinist operating principles. After 1945 the real 'vanguard' of Hungary's movement towards Communism was the Soviet Party leadership. To use the words of Rakosi: "As Stalin said, 'the Leninist theory of the dictatorship of the proletariat is not purely a Russian theory but is compulsory for all nations' (my emphasis - Mátyás Rákosi)",¹ and as Gerő so clearly explained to the Hungarian economists:

Of course, there certainly will be those who will tell us: why is it necessary that we choose either the bourgeois economic principles or Socialist economic science? Cannot we find something in between? Could we not proceed so that the goat will be fed and the cabbage will remain as well? Couldn't we bring about some kind of amalgamation between the two economic sciences? No!... Not only in politics but also in economic science, there is no such thing as a third road.²

The transformation of Hungary into a Socialist People's Democracy, and the transformation of her economy into the traditional Soviet-type command economy, were carried out by a series of overt and covert political actions brilliantly coordinated by the Hungarian and Soviet Communist Parties. Though immediate constraints had an important role to play in the evolution of tactics, the general strategy and procedures were carefully thought out and formulated in the Soviet Union years before the end of the war and years before the entry of the Red Army into Hungary. The strategy and tactics of socialisation were not identified publicly as such until years later, after the Hungarian Communist Party had gained a monopoly of political power. They were not, as the leader of the Hungarian Communist Party admitted, worked out in response to certain bellicose actions on the part of the Allies towards the USSR after 1945, and they were not a domestically designed Hungarian Communist blueprint for the road to Socialism in Hungary.

Stalin showed us... a new road to the building of Socialism, and with his help we worked out its theoretical problems. Those comrades who did not know about our strategic plans, which we worked out during the war, were frequently surprised later, and on more than one occasion were hostile to our participation in the coalition government. Many times we heard from

1. Mátyás Rákosi, A szocialista Magyarországért, op. cit., p. 138.

2. Ernő Gerő, Speech at the Opening of the Hungarian Economics University on October 15th, 1948, in Harcban a szocialista népgazdaságért (Fighting for a Socialist People's Economy), (Budapest: Szikra, 1950), pp. 316-317.

these good comrades - 'this is not what we expected from you'... but we couldn't inform them about these questions in 1945, and only within very narrow circles did we discuss these problems. We did not mention this to the Party members at that time, since to mention even theoretically that our goal was the dictatorship of the proletariat, would have created great difficulties for our winning the support of the petty bourgeoisie, and even that of the majority of the workers. As we have said, the Hungarian Communist Party, already during the war, had worked out the tactics that it was to pursue during its fight with the fascist, imperialist and feudal elements... we formed the Supreme Economic Council with which we gradually won control over all of the key economic areas.¹

Let us now outline the forms of this process of exogenously introducing command planning into Hungary. (We cannot, of course, provide a detailed discussion of the political struggle for power between the Communists and the other parties after the War, and besides, many elements of that story are very well known by now.²)

From December 23, 1944 the liberated territories of the country and those of its affairs that were not directly related to the still ongoing war, were to be administered by a coalition government appointed by the First National Assembly in Debrecen. The new Hungarian government was instructed to follow the economic program put forward by the National Independence Front (NIF - a loose coalition of various anti-fascist groups, including the Communists). The contents of the economic program were in fact drafted and then actively promoted by the Hungarian Communist Party.³

1. Mátyás Rákosi, A békét és a szocializmus építéséért (For Peace and the Building of Socialism), (Budapest: Szikra, 1951), p. 222; and his "Lecture at the Higher Party School on February 29, 1952", A szocialista magyarorszáért (For a Socialist Hungary), (Budapest: Szikra, 1953), pp. 135-37, 142, and 157-8.

2. See for instance Stephen D. Kertész, "The Methods of Communist Conquest: Hungary 1944-1947", World Politics, Vol. III, No. 1, 1950; Ferenc Nagy, The Struggle Behind the Iron Curtain (New York: Macmillan, 1948); and Hugh Seton-Watson, The East European Revolution (New York: Praeger, 1966), pp. 190-202.

3. See Felszabadulás 1944 Szeptember 26 - 1945 Április 4. Dokumentumok (Liberation...Documents), published by the Institute of History, Hungarian Academy of Sciences (Budapest: Szikra, 1955).

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The economic program of the NII first of all instructed the government to introduce a radical land reform. Secondly, it stipulated that the country's future and long-term economic progress was to be based on respect for and guarantee of private property, and in accordance with this the government was instructed to promote private initiative in the reconstruction of the war-torn economy.¹ After reading these recommendations, Oscar Jászi was so moved as to write:

The old demagogy of the first Bolshevik revolution was completely absent: Communism has become respectable and gentlemanly... Generally speaking, there is not much talk about Communism in Hungary today. The leitmotif is democracy with intensely patriotic overtones.²

The first post-war national elections were held in September 1945, and were the first open and democratic elections in Hungary's history. One of the pre-war opposition parties, the peasant based Independent Smallholders Party, won an absolute majority of the popular vote (57%), and their leader, Ferenc Nagy, was appointed premier.³ When Nagy began to form his cabinet, which in Parliamentary forms of government consists entirely of followers of the Party that wins an absolute majority at the polls, the chairman of the Allied Control Commission, General Sviridov, intervened. Nagy was forbidden to set up a cabinet made up entirely of Smallholders, and was forced by the Soviet military commander to distribute the portfolios among the other parties also.

Nagy's premiership lasted till the spring of 1947. In March of that year, while spending a few weeks holidaying in Switzerland to recuperate from the political battles at home (and after apparently securing the promise of his coalition partners that 'no intrigues are to be sprung while I am away'), Nagy was forced to resign. The reason given for his resignation was that the

1. See especially Article 3, point 3 of "Magyarország demokratikus ujjaépítésének és felemelkedésének programja. Az M.K.P. javaslata" (The Programme for Hungary's Democratic Reconstruction and Revival. The Hungarian Communist Party's Proposal), *ibid.*, p. 173; and "Az ideiglenes nemzetgyűlés szózata a Magyar néphez" (The Provisional Assembly's Proclamation to the Hungarian People) and "Az ideiglenes nemzeti kormány nyilatkozata" (The Declaration of the Provisional Government), *ibid.*, pp. 204, 208.

2. Oscar Jászi, "The Choices in Hungary", *Foreign Affairs*, Vol. XXIV, No. 2, 1946, p. 462.

3. "The posters of the Communist Party read 'Land, Bread, Freedom'... The Smallholders had two posters. One, in firm, black, block letters, read 'Law Order, Security'. The other in lovely pastel shades portrayed a cluster of grapes, a loaf of white bread, and a prayerbook. Below stood the text: 'Wine, Wheat, Peace'." Ferenc Nagy, *The Struggle Behind the Iron Curtain*, *op. cit.*, p. 152.

Smallholders Party's former Secretary-General, Béla Kovács -- arrested a few months earlier by Soviet military police -- had apparently confessed to his Soviet captors that Premier Nagy was the secret leader of an anti-democratic conspiracy planning a coup d'état.¹

Nagy's premiership, from the outset, had been based on shaky foundations. Having only a limited parliamentary experience and none whatsoever in the art of governing, being rather provincial in outlook, hounded by the problems of inflation, constantly pressurised by the A.C.C., and having to fight a continuous rear-guard battle as batches of his parliamentary colleagues were carted off to jail to face various conspiracy charges,² his leadership

1. The 'confession' was passed on by the Soviet military command to Mátyás Rákosi, who was acting premier during Nagy's absence. A photocopy of Kovács' 'confession' in his own handwriting, can be found in Fehér Könyv. A Magyar köztársaság és demokrácia elleni összeesküvés okmányai (White Book. Documents of the Conspiracy Against the Hungarian Republic and Democracy), published by the Hungarian Ministry of Information, Budapest, June 1947, pp. 149-150. Apart from this written statement, nothing was heard from Béla Kovács after he was arrested by the Soviet military police on February 25, 1947, until 1956. It was presumed that he died in captivity, and it was to general surprise that he emerged during the 1956 uprising and joined Imre Nagy's revolutionary government. In a most interesting section of his book, Ahogyan láttam (The Way I Saw It, Budapest: Gondolat Könyvkiadó, 1965, pp. 252-53), a former high ranking member of the Smallholders Party, F.Z. Nagy, writes about Kovács and about what happened to him between February 1947 and 1956: "After his arrest in Budapest, he was taken to Moscow, and from there to one of the big Siberian camps... During all those years, Béla Kovács was not there as a sentenced spy, but as Rákosi's personal prisoner who was being kept in the Soviet Union... he was never formally sentenced... At the end of 1955, the camp commander called Kovács to his office, and told him that since in his case no sentence was ever passed there can be no amnesty ever either, but that he /the commander/ had had enough of this wrangling /sic/: Kovács should pack up, and will be given a pass with which he can travel on the Soviet railways back to Hungary... The general secretary of the Smallholders Party returned home after nine years with a completely changed world view... Upon arriving in Hungary, he was immediately arrested and kept in prison for over three months... When we asked Rákosi about Kovács's whereabouts, he would merely reply, 'There is no notice of an amnesty from Moscow'. But now we know why there was no such notice forthcoming... there was never a sentence given and therefore there was to be no amnesty either."
2. Rákosi, in a number of his speeches, made allusions to the great educational function of these conspiracy cases. Within two days of Ferenc Nagy's resignation in 1947 he said: "What is the significance of Ferenc Nagy's resignation? ...it caused great consternation and confusion among the ranks of the Smallholders. The peasants are shocked. The whole world can see that there must be something gravely wrong with a party whose general secretary and president have been exposed as conspirators". Speech to Budapest Party Activists on June 2nd, 1947, in M. Rákosi, A fordulat éve (The Year of Change), (Budapest: Szikra, 1950; 3rd edition), pp. 116-17. Later on he would elaborate on these tactics in more detail. "There was only one position that our Party, right from the beginning, had claimed for itself, and over which it made no concessions to the principle of proportionality in the coalition. This was the State Security Authority /the secret police, or A.V.H./...from the moment that it was set up, we kept this organisation firmly under our control, and made sure that in the battle for the People's Democracy it will remain a reliable

was neither secure nor inspired.

By birth and breeding I am a peasant. My family's means did not prepare me to rise above the level of our tradition; without the benefits of formal education and that preparatory concourse with great statesmen which fits the leader for his tasks, the hands of destiny fell on my shoulders... I thought how wonderful it would be if one could relinquish public life to others and stay at home to rebuild the little house, plow the fields, drink wine in the vineyards with old friends, and at night tell stories to little Lacika about good fairies and a happy future..."¹

Nagy was permitted to muddle through for a year and a half between 1945 and 1947 because the international situation at the time was not conducive to a Communist coup d'état in Hungary. While the Communist parties of France, Italy and Belgium had some hope of winning a parliamentary majority in the West European national elections, it would have been most imprudent to give any signs to the effect that Hungarian Communists were disrespectful of parliamentary procedures and decisions. As Mátyás Rákosi pointed out in one of his later speeches, "This relatively peaceful transformation of ours into a People's Democracy is a great attraction to other peoples and classes who are struggling for their freedoms".² With the growing misfortunes of the West European parties in the beginning of 1947, Nagy's days as Premier were numbered. He was one of the more fortunate Hungarian politicians of the time: at least he could return to his first love, the activity to which he was best suited -- a few months after his forced resignation he established himself as a farmer in Vermont, U.S.A.

Having painted the rough outlines of the domestic political situation, let us turn to the economic tactics, the 'Dry Road to Socialism' tactics used by the Hungarian Communist Party between 1945 and 1948. As Oscar Jászi

(cont.) weapon in our hands...'salami tactics' was the name given to that precision work with which we sliced and chiselled off day by day the reactionaries hiding in the ranks of the Smallholders...the fact that the leader of the Smallholders didn't return to Hungary proved in front of everyone that the accusations against him were true...All this naturally left a deep impression on the working classes, and increased their sympathy for us". From his lecture to the Higher Party School of the Hungarian Workers Party, on February 29, 1952, in M. Rákosi, A szocialista Magyarorszáért (For a Socialist Hungary), op. cit., pp. 164-187.

1. Ferenc Nagy, The Struggle Behind the Iron Curtain, op. cit., pp. vii and 94.

2. M. Rákosi, A szocialista Magyarorszáért, op. cit., p. 184.

and a host of other commentators missed at the time, the proclamations of the Hungarian Communist Party, their action program of economic revival based on private initiative, their publicly demonstrated behaviour inside the various strategic economic departments of the new administration, etc., were completely contradicted by their actual practice. The tactics used by the Communists vividly demonstrate how closely economic power is linked with political power -- a basic Marxist principle -- and how Hungary's bourgeois politicians and political commentators fundamentally misunderstood this relationship. Stephen Kertész, a prominent diplomat of the new regime, wrote: "Political expediency at all times guided the Communist attitude. They sought control. This was the aim and driving force of all Communist actions. Economic and social reforms played a secondary rather tactical role beside this chief goal".¹ This basic misconception about the relationship between economic control and political power is perhaps nowhere stated more clearly than in Ferenc Nagy's political autobiography. For some peculiar reason -- perhaps knowing that he might reject the offer, or that, if he did accept, he would be unable to handle it well and would thereby lose mass support -- the Communists proposed that Nagy accept the post of minister in charge of economic revival. Instead of immediately recognising the political importance of this post, Nagy rejected the offer: "...it was the foolhardiness of former leaders who had flirted with the Germans that had led the country along the road of destruction. Was I, a peasant, to rebuild my land? No, I would not abandon the peasantry for any post of honour." ²

But while economics was seen by the bourgeois politicians as playing a secondary role, its importance was clearly recognised by the Communist leaders who were provided with a dynamic storehouse of means by which they could further their goal of attaining full political power when the bourgeois leaders neglected economics. Let us look at these means.

The economy was for the Communists in 1945, as it is today, "the main field of battle". The very first economic reform put forward by the Party - the 1945 Land Reform - was of tremendous political importance in terms of the struggle for political control. In one fell swoop the land reform in 1945 severed the main economic power base of the Party's two principal rivals:

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1. Stephen Kertész, "The Methods of Communist Conquest: Hungary 1944-1947", *op. cit.*, p. 39.
 2. Ferenc Nagy, The Struggle Behind the Iron Curtain, *op. cit.*, p. 121.

the landowning aristocracy and the Catholic Church. By removing the main source of their economic power, the Communist Party had certainly dealt a tremendous political blow to these two groups and greatly facilitated its own chances of eventual political control.¹

During Nagy's premiership all of the important economic initiatives and all of the major economic positions in the administration fell under the control of the Communists. These positions and economic policies were utilised in a truly brilliant fashion to transform Hungary's political-economic system into the well-known Soviet command type. There were four basic economic conditions resulting from war liabilities and Soviet economic claims, that necessitated a vigorous state control of the economy already in 1945. These conditions were as follows:

1. Most of industry, and especially heavy industry, was entirely dependent on state credits to finance deficits and production for reparations. As a quotation from a Supreme Economic Council memorandum says, "Since the end of the war, the Hungarian manufacturing industry is in a much more one-sided relationship with the treasury than ever before. Almost 75% of its revenues are from state payments".² This dependence on the treasury required a close central supervision of enterprise behaviour, so as to ensure a judicious utilisation of the state's scarce resources.

2. The inflationary collapse and the transmission of state credits to enterprises through the banks, also required a close central supervision over banking activity.

1. Nagy could however decipher the connection between land reform and political power prior to 1945. "The upper classes had always been able to block agrarian reform. The big landowners, the church, state officialdom, and capital generally joined hands to defend the large estates. It was as if they felt that, once the large estates were broken up, not only would their influence be weakened, but reforms might easily be introduced in other fields. On no other question was opposition to social progress so unified as on the defence of large estates." *The Struggle Behind the Iron Curtain*, op. cit., p. 108. On the 1945 Land Reform, see *A földreformra vonatkozó jogszabályok Az Országos Földbirtokrendező Tanács elvi jelentőségű határozataival* (The Legal Provisions and Principles of the National Land Reform Committee), published by the Hungarian Ministry of Agriculture, Budapest, 1945; *Földreform 1945: Tanulmány és dokumentumgyűjtemény* (Land Reform 1945: A Collection of Studies and Documents) published by the National Archives Centre and the Institute of History of the Hungarian Academy of Sciences, Budapest, 1965; and *Bálint Szabó, Forradalmunk sajátosságai 1944-1948* (The Characteristics of our Revolution, 1944-1948), (Budapest: Kossuth Könyvkiadó, 1962).

2. Cited by Iván T. Berend, *Ujjáépítés...* op. cit., p. 101.

3. Economic collapse brought on by inflation necessitated a very strict central control over prices and wages, foreign trade, and monetary and credit policy.

4. The widespread scarcity of raw materials and energy resources required tight central supervision and allocation of these resources to ensure the fulfillment of state priorities.

A supra-ministerial committee, the Supreme Economic Council, was set up in 1945 ostensibly for the purpose of coordinating the above tasks and to permit quick and flexible reaction in upholding state financial interests. Its powers were formidable, and by virtue of the authority vested in it by law, the SEC was empowered to supervise, control and direct any economic activity in the country if it so wished, according to its own convictions, so as to ensure the successful completion of reparations schedules, uphold the interests of the treasury, and maintain the stability of the currency.¹ The executive and initiative powers of the SEC were vested in its Secretariat, which was headed by Zoltán Vas, one of the leading Muscovite members of the Hungarian Communist Party.

The president of the SEC was Ferenc Nagy, and although the executive power was with the Secretariat, Nagy could have practised some control over the behaviour of this body. The political significance of the body, it seems, was scarcely recognised by Nagy (just as it is not recognised by most historians who have written on this period). Apparently Nagy frequently did not even bother to turn up to meetings of the SEC, let alone play an active role in its deliberations.

The position of the secretary of the SEC was in practice (and from the point of view of furthering Communist interests) at least as important as that of the minister of the interior, and yet it is seldom even mentioned by Western students of the period. As Gy. Ránki correctly observes: "by the beginning of 1947, economic policy was one of those areas in which the Communist Party could best implement its desires... The Supreme Economic Council had a decisive role to play in the implementation of the political-

1. Orders in Council Nos. 12,900/M.E., 230/M.E., 3,650/M.E., and Decree No. 6/G.F. and Decree No. 10/G.F. In Monthly Bulletin of the National Bank of Hungary, Nos. 1-6, January-June, 1946, pp. 26-27.

economic policies of the Communist Party and it combined very dynamically the tasks of rebuilding the war-torn economy with the restriction and elimination of capitalism".¹

The economic policies covertly pursued by the SEC Secretariat entirely contradicted the economic program of the National Independence Front, a program which, as has been pointed out, was written and publicly promoted by the Communist Party. Rather than promote free enterprise initiative in economic revival, the Hungarian Communist Party - via the SEC and with the active tactical support of the Soviet Union via the Red Army's economic management and the various subsequent Soviet economic claims - was actively working towards the financial collapse of the entire private sector of the economy. The Communist Party was in fact using every economic means at its disposal so as to drive private enterprises into deficit and bankruptcy and thus to make a relatively easy -- 'dry' -- state takeover possible. The SEC Secretariat, through its full control of export-import licences, tax, credit, price and wage policy, the distribution of vital energy resources (especially critical was the shortage of coal and oil) and materials,² was also able to bring about a sharp restructuring of industrial production well before what we are told is the beginning of the Stalinist type of developmental policy in 1950. Although the SEC had consistently stated in public that, following the 1945-46 inflation, its severe deflationary policies were dictated by the necessity to safeguard the new financial stability and to prevent the re-emergence of inflation, its confidential internal memoranda suggest the contrary motive.

We must make the widest possible use of the situation which exists, whereby most private enterprises have taken state credits or will have to rely on state credits. We must force these enterprises, with the threat of bankruptcy, that in return for postponing repayment, they should hand over to the state, or to the nationalised banks, a significant portion of their shares. Until the time that we can rely on wholesale nationalisation, we must increase state control so that private capital should be forced to convert into the state capitalist sector.³

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1. György Ránki, *Magyarország gazdasága az első Három Éves Terv időszakában* (Hungary's Economy During the First Three Year Plan), *op. cit.*, pp. 14, 27.
 2. "The functioning of the whole system of distribution was under the direction of the secretary of the Supreme Economic Council". Iván T. Berend, *Ujjáépítés...*, *op.cit.*, p. 104.
 3. Cited by Iván T. Berend, *ibid.*, p. 41.
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The "situation" -- i.e. the forcing of enterprises into a one-sided dependence on state credits -- as well as the effects -- forcing them to convert into the state capitalist sector -- were under Soviet and Hungarian Communist control.

To control the allocation of scarce materials and price formation during the stabilisation period following the inflationary collapse, the government set up the Office of Prices and Materials. However, the executive powers vested in this body by Order in Council No. 5,740/M.E., May 1946,¹ were severely curtailed in practice by the SEC and later by the Ministry of Industry (headed after 1947 by a high-ranking member of the Red Army, I. Kossa). Throughout its existence, and under the chairmanship of the Smallholder Party's economic advisor, István Varga, the Office of Prices and Materials was frequently condemned for being favourably inclined towards the principles of capitalist profitability. And on a number of occasions, when it had decided to implement price changes to reflect scarcity conditions, its decision was vetoed by the SEC. For example, in December 1946 the Prices and Materials Office wanted to introduce an upward adjustment in industrial wholesale prices so as to bring them into line with the severe increases that had taken place in the prices of raw materials and in wages.² This move was vetoed by the SEC and, rather than increasing the wholesale industrial price index, a reduction was forced through by the SEC (see Table II.4). This action brought with it the bankruptcy of a large number of firms.

In this connection, Iván T. Berend, after consulting Party archives, rightly points out that this "...battle against increased prices was not at all simply a question of economics" but was a consciously applied mechanism in the battle for political power.³

1. Monthly Bulletin of the National Bank of Hungary, Nos. 1-6, January-June 1946, p. 27.

2. Industrial wholesale prices were already artificially set too low at the time of the introduction of the new currency in June 1946, and did not reflect relative scarcities, but the political priorities of the Communist Party's financial team that was in charge of prescribing the new price levels. The team was headed by Istvan Friss, and was actively assisted by Jenő Varga in the Soviet Union.

3. Iván T. Berend, Ujjáépítés..., op. cit., pp. 220-224. Berend mentions that Varga was also severely condemned by the SEC on another occasion when he advocated a more permissive credit policy than the one utilised by the SEC, as a means of increasing production and cutting down unemployment. Ibid, p. 208.

Table II.4

Industrial Wholesale Price Index in December 1946

(August 31, 1946 = 100)

| | |
|--------------------------------|------|
| Agriculture and stock breeding | 97.9 |
| Agricultural industry | 96.4 |
| Other industries | 99.8 |
| Overall average | 98.7 |

Source: Economic Report, Hungarian General Creditbank, July-December 1947, Budapest, p. 18. Contrast these decreases with the increases approved for the Soviet managed joint-stock enterprises (see p.98 above).

Ever since the signing of the first trade agreement with the Soviet Union after World War II, Hungary's foreign trade policy was under close Soviet and Hungarian Communist Party supervision. The enormity of reparations had made it imperative during the first three post-war years that the state should have maximum control over this sector. As we have pointed out, as of 1946, Hungary's entire foreign trade with the Soviet Union was handled by the Soviet-owned Hungarian Commercial and Industrial Bank. The granting of export and import licenses to individual firms was the prerogative of the SEC Secretariat. The granting of foreign currency for all trade transactions was the prerogative of the National Bank, and the department of that bank responsible for the allotment of foreign currency was headed by a high-ranking Muscovite member of the Hungarian Communist Party, László Ilay.¹ By 1948 all movements in the volume, destination, and structure of foreign trade were undertaken strictly in response to central Communist Party commands.

Perhaps the greatest acceleration towards command planning came with the introduction of the first Three Year Plan in August 1947.

1. Iván T. Berend, Ujjáépítés..., op. cit., p. 293.

2. The First Three Year Plan

The political nature of the Plan is perhaps most clearly evidenced by the fact that the two key administrative organs supposedly in charge of the formulation and execution of the Plan directives came into existence two weeks after the economic Plan had come into effect. The contents of the Plan were the joint product of the Communist Party and the Social Democratic Party. Both had worked out separate plans of reconstruction during late 1946 and early 1947, and the finally adopted Three Year Plan was the result of the coordination of the two variants.¹

The visible differences between the two variants were not as marked as might have been expected. The Communist variant called for a greater percentage of total investments falling to the capital goods production sector, and less to consumption, than the SDP plan. The Communist plan also called for a higher share of investments to agriculture than the SDP. The Social Democrats envisioned that some of the investments could be financed from Western financial loans. The Communists bitterly opposed this last idea, and there was a great deal of haggling over this in the plan coordinating committee, until a compromise was reached whereby the Plan should be published in two variants. Variant "A" would include foreign loans, while variant "B" would omit them. In the end no Western loans were contracted, and variant "B" was put into effect² (see Table II.5).

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1. For the original versions worked out independently by each party, see A Magyar Kommunista Párt és Szocialdemokrata Párt Határozatai, 1944-1948 (Resolutions of the Hungarian Communist Party and the Social Democratic Party, 1944-1948), published by the Party History Institute of the Central Committee of the Hungarian Socialist Workers Party (Budapest: Kossuth Könyvkiadó, 1967): "A Magyar Kommunista Párt Háróméves Tervjavaslata, Január 11-12, 1947" (The Three Year Plan Proposal of the Hungarian Communist Party, January 11-12, 1947), p. 312-397; and "A Szocialdemokrata Párt XXXV Kongresszusán elfogadott gazdasági Terv. Február 1-5, 1947" (The Economic Plan Passed at the XXXV Congress of the Social Democratic Party, February 1-5, 1947), pp. 405-445.
 2. One source of foreign capital could have been the Marshall Plan, but this was vetoed outright by the Communist Party, and the Smallholders, who had just suffered a radical thinning of their ranks during the spring of 1947, could not press the point. The official line of the Communist Party on the rejection of the Marshall Plan even today is that the terms of the loan required a specific production pattern from Hungary, concessions to the USA in trade matters, and in Hungarian domestic policies. In general it is argued that the Marshall Plan was nothing but a form of 'buying off' Hungary (see Rákosi's speech to the Greater Budapest Party Activists on July 30, 1947, in A fordulat éve, op. cit., p. 151). This reason for the Party's veto is fictitious, since what the Party vetoed was not the acceptance of the terms offered, but the sending of a delegation to the preliminary conference in Paris to find out about the terms of the loan. In other words, Hungary could not have rejected the Marshall Plan because of its terms, since

Table II.5

Investments under the Three Year Plan
(Planned)

| Destination of investment | Three year total | 1947- 1948 | 1948- 1949 | 1949- 1950 | |
|---|------------------------|---------------|---------------|---------------|----|
| Investments in million forint | | | | | |
| <u>A. Agriculture</u> | 2000.0 | 579.4 | 651.0 | 769.6 | A |
| 1. Directly serving the development of agricultural production | 912.0 | 263.4 | 302.0 | 346.6 | 1 |
| 2. Technical instruction and conduct of agricultural research | 90.0 | 25.0 | 29.0 | 36.0 | 2 |
| 3. Indirectly serving the development of agricultural production | 105.0 | 29.0 | 34.0 | 42.0 | 3 |
| 4. Assistance to manufacturing industry with the object of increasing agricultural production | 189.0 | 85.0 | 51.0 | 53.0 | 4 |
| 5. Rural electrification, construction of roads and houses, etc. | 704.0 | 177.0 | 235.0 | 292.0 | 5 |
| ** Further investments in case of foreign loans forthcoming | 300.0 | - | - | - | * |
| <u>B. Mining and Manufacture</u> | 1745.0 | 554.0 | 599.0 | 592.0 | B |
| 1. Mining | 493.0 | 140.0 | 173.0 | 180.0 | 1 |
| 2. Smelting | 58.0 | 26.0 | 22.0 | 10.0 | 2 |
| 3. Iron and steel production | 119.0 | 46.0 | 42.0 | 31.0 | 3 |
| 4. Metallurgy | 20.0 | 4.5 | 7.0 | 8.5 | 4 |
| 5. Manufacture of machinery | 413.0 | 159.5 | 130.0 | 123.5 | 5 |
| 6. Generation of electric power | 200.0 | 50.0 | 80.0 | 70.0 | 6 |
| 7. Building materials industry | 16.0 | 3.5 | 6.0 | 6.5 | 7 |
| 8. Wood industry | 8.0 | 2.0 | 2.5 | 3.5 | 8 |
| 9. Leather industry | 8.0 | - | 3.0 | 5.0 | 9 |
| 10. Textile industry | 84.0 | 37.0 | 20.0 | 27.0 | 10 |
| 11. Paper industry | 15.0 | 4.0 | 4.5 | 6.5 | 11 |
| 12. Foodstuff industry | 22.0 | 7.0 | 7.0 | 8.0 | 12 |
| 13. Chemical industry | 252.0 | 66.0 | 90.0 | 96.0 | 13 |
| 14. Printing industry | 7.0 | 1.5 | 2.0 | 3.5 | 14 |
| 15. Handicraft industry | 30.0 | 7.0 | 10.0 | 13.0 | 15 |
| ** In case of foreign loans forthcoming | 380.0 | - | - | - | ** |
| <u>C. Means of Communications</u> | 1676.0 | 427.3 | 560.0 | 688.7 | C |
| 1. State railways | 724.3 | 175.7 | 245.3 | 303.3 | 1 |
| 2. Municipal transport company of the city of Budapest and other public railways | 187.2 | 48.2 | 58.7 | 80.3 | 2 |
| 3. Shipping | 80.6 | 31.7 | 29.2 | 19.7 | 3 |
| 4. Air transport | 39.0 | 9.3 | 12.7 | 17.0 | 4 |
| 5. Highway traffic | 418.7 | 108.6 | 141.7 | 168.4 | 5 |
| 6. Postal services | 226.2 | 53.8 | 72.4 | 100.0 | 6 |
| ** In case of foreign loans forthcoming | 219.6 | - | - | - | * |
| <u>D. Building, Social and Cultural Purposes</u> | 1164.0 | 235.3 | 375.0 | 553.7 | D |
| 1. Building program | 488.4 | 81.0 | 151.0 | 256.4 | 1 |
| 2. Sanitary and social institutes | 365.0 | 81.5 | 127.1 | 156.4 | 2 |
| 3. Schools, institutes of science, arts etc. | 192.6 | 48.9 | 59.3 | 84.4 | 3 |
| 4. Public constructions, utilities | 118.0 | 23.9 | 37.6 | 56.5 | 4 |
| ** In case of foreign loans forthcoming | 150.0 | - | - | - | * |

Source: The Hungarian Three Year Plan, Budapest, Hungarian Bulletin, 1947.

The nature of the Three Year Plan is generally misunderstood in Western literature, and most analysts point to 1950 and the first Five Year Plan as the beginning of the policies and mechanisms of the command economy in Hungary.¹ There are a number of reasons for this misunderstanding.

On the one hand, the Communist Party, from the outset, had vigorously denied that the Plan had anything to do with the building of Socialism. On the contrary, the purpose of the Plan, it was claimed, was to bring about a planned and proportionate reconstruction of the war-torn economy, to guide economic development through the tremendous hurdles bequeathed by the war and reparations. Thus, even in a speech to fellow Party members at the Communist Party's Party Academy, Ernő Gerő said that:

There are those who will say that what we really want to achieve with this Plan is nothing less than Socialism. What we say to these people is: No! There is no question here of Socialism, but only of laying the basis for the peaceful progress of our economy. Not only do we not want to interfere with the private property of the little people, but the Plan will even protect such property from the encroachment of the big capitalists. Even more, the implementation of the Three Year Plan cannot even be imagined without the enthusiastic cooperation of our 200,000 artisans and handicraftsmen. Their skill and ant-like diligence is greatly needed by the country in the pursuit of fulfilling this great national task... And there is no question whatsoever of the elimination of the big capitalists. We want to give them the opportunity, while they keep their own financial interests in mind, to contribute to the national cause.²

Four years later Gerő¹¹ was to admit that the above statement was a lie, necessitated by tactical political considerations (see Rákosi's comments

(cont.) these terms were never in fact put to her.

Another source of foreign financial aid could have been the International Monetary Fund. Since this was an international body, it was difficult to argue that moneys given by it were a form of political payoff to win Hungary's support for the U.S. Still, the Communist Party vetoed the idea of going to the IMF on the grounds that it would endanger Hungary's sovereignty and stifle her economic independence. Ultimately both decisions were Soviet inspired, and were undertaken to ensure that Hungary would remain firmly under Soviet hegemony.

1. For example, Nicholas Spulber in his The Economics of Communist Eastern Europe, op. cit.; M. Kaser and J.G. Zielinski, Planning in East Europe, op. cit.; and Béla Balassa, The Hungarian Experience with Economic Planning, (New Haven: Yale University Press, 1959), p. 31.
2. Ernő Gerő, "Lecture at the Political Academy of the Hungarian Communist Party on December 20, 1946", in Harcban a szocialista népgazdaságért (Fighting for a Socialist People's Economy), (Budapest: Szikra, 1950), pp. 204-205.

in this regard on pp. 106-107), and that in fact the Party, contrary to its public statements, was already laying the economic basis for Socialism during the Three Year Plan.

Naturally, in 1946, when that speech was made, the Party couldn't show all of its cards... because it would have helped our class enemies... This is why it was necessary during the introduction of the plan to mention merely that we were trying only to reconstruct our war-torn economy, and not to build Socialism... but in actual fact we were, already during the course of the Three Year Plan, building Socialism in Hungary.¹

There are additional reasons for the existence of the conventional, and incorrect, view that the Hungarian Three Year Plan "...did not contemplate any major structural change in the economy.../and that it/ resembled more the plans of Western Laborite Governments immediately following World War II, than the Soviet Plans or the subsequent Hungarian Five Year Plan".² In 1948 Hungary introduced a statistical moratorium, and consequently there was no accurate information available on the nature of economic restructuring achieved by the end of the Plan period.³ While the Planning Office had issued a 180 page statistical analysis of achievements at the end of the first plan year, at the end of the Three Year Plan only a very general and brief document was published. According to Timár, the Hungarian Central Statistical Office was not completely sure, even in 1968, of what the situation was at the end of 1949.⁴

Once again the 'dynamic role' of the SEC has been more or less ignored by Western commentators, although George Kenény does mention that:

Clause III /of the Parliamentary Act on the Three Year Plan/ authorised the government to establish a Planning Board and a National Planning Department for the elaboration of the Plan and for controlling the work of carrying it into effect. It may be mentioned that the Planning Board never acquired a leading role. It was but an interdepartmental advisory body. The power of decision was vested in the Supreme Economic Council...

1. Ernő Gerő, in the introduction to his book, ibid., pp. 1-5.

2. Béla Balassa, The Hungarian Experience with Economic Planning, op. cit., pp. 27-28.

3. Alexander Eckstein, "Postwar Planning in Hungary", Economic Development and Cultural Change, No. 2, 1954, p. 382.

4. M. Timár, Gazdasági fejlődés és irányítási módszerek Magyarországon, op. cit., p. 30.

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The Supreme Economic Council also had a very good statistical 'cover' for its actions in the person of its general secretary, Zoltán Vas. Vas was not only the general secretary of the SEC but he also held the editorship of the prestigious statistical journal, Gazdaságstatisztikai Tájékoztató,¹ and was therefore in an excellent position to make sure that no statistical evidence should emerge about the SEC's deviation from the Plan directives.² We also know that a later official eulogy to the accomplishments of the Plan, again written by Vas, contains statistical falsifications of over 100% in some crucial areas.³ For over twenty-five years, Western

1. Published by the Central Statistical Office.
2. There were protracted battles between the political parties about which Party members would be in charge of the various departments of the National Planning Board. The department of information was, right from the beginning, run by a member of the Communist Party, as were the departments of industry and economics.
3. Zoltán Vas, The Success of the Three Year Plan - A Victory of the Hungarian People, published by the Information Department of the Hungarian Ministry of Foreign Affairs, Budapest, April 1950. By this time, Vas was the Director of the Planning Office. In this publication he falsifies the internal and confidential figures presented to him by the Central Statistical Office. For example, in issue No. 13, 1950, of the C.S.O.'s Bizalmas Közlemények (Confidential Reports), average real wages in industry were calculated to be 24.3% higher in 1950 than in 1938. Vas instead published the figure of 40%. The reference to Bizalmas Közlemények No. 13 is in Gy. Ránki, Magyarország gazdasága..., op. cit., p. 393. Ránki, who was given partial access to archival material of the C.S.O. and the Communist Party, pertaining to the Three Year Plan period, cites on a number of occasions from internal or confidential C.S.O. calculations and reports figures that are grossly at variance with those publicly circulated (see especially pp. 187 and 239). This would indicate that we cannot assume in the case of Hungary, as Abram Bergson did in the case of the Soviet Union (Soviet National Income and Product in 1937, New York: Columbia University 1953, p. 7) that there was no double book-keeping of national accounts -- one for the public and one for the planners. It should also be mentioned that, on the basis of Ránki's studies, even the internal confidential reports of the C.S.O. were often unreliable. With respect to the rise in average industrial real wages between 1938 and 1950 Ránki says that the figure could be anywhere between 7.1% and 48% (Ránki, op. cit., p. 392). He adds that "Of course, the average real wage figures apply only to industrial labourers -- the wages of all other employees were well below the pre-war levels... the living standards of industrial employees were only about 65% of what they were prior to the war. Similar ratios must have been realised among the 'intelligentsia' as well as other categories of employees. The lower living standards of the intelligentsia and other employees affected a significant strata of wage earners - about 500,000 in all. One should add to this the more than 100,000 pensioners" (ibid., p. 395).

commentators have been using this document as their primary source on the achievements, investment ratios, and industrial restructuring put through during the course of the Plan. As we shall show later on, the statistical distortions were much the product of the leadership's efforts to hide the extent of Hungary's expenditures into military investments and preparations for a World War III.

Another source of the confusion about the nature of the Three Year Plan is the original Plan document itself which does not promise the traditional Soviet type industrialisation policy.

The wholesale destruction of means of production, of buildings, of livestock and of transport facilities upset the balance of the national economy... it takes careful and farsighted planning to restore the economic equilibrium... The Three Year Economic Plan is based on the common understanding of the four political parties represented in the coalition cabinet... The purpose of the Three Year Plan is to establish a flourishing agricultural economy and set up a well to do, cultured and contented agricultural population. /The largest share of the total investments/ 30.4% have been allocated to agriculture and to the improvement of the material and cultural well being of the agrarian classes... however vital the reconstruction of our national economy may be, it must not be lost sight of that economic activity as such is not an aim in itself; its significance lies in the welfare, social elevation and cultural progress of the masses... it will be possible for the present day real incomes earned by the working population to be increased by 80% by the end of the period covered by the Plan... such an improvement in the standard of living in so short a time is without parallel in the economic history of our country.¹

Agricultural investments, which were to constitute the largest share of the overall investment package of the Three Year Plan, actually came to less than 15% of all the investments realised during the course of the Plan, and instead of agriculture, military expenditures received the largest share -- over 30% -- of overall investments.² After August 1948 industrial investments were drastically revised upwards -- by 60% -- and within this figure over 90% was directed to the development of heavy industry.³

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1. The Hungarian Three Year Plan, published by Hungarian Bulletin, 1947, Budapest, pp. 1,2,4, 22, and 41. I found a number of paragraphs in this document which are word for word repetitions of passages from some of Gerö's speeches, and would conclude that the document was prepared by his office and was governed by the previously mentioned necessity of "not showing all our cards". (Italics added in the passage cited.)
 2. György Ránki, Magyarország gazdasága..., op. cit., p. 175.
 3. Ibid., pp. 162-177.

At the start of the Plan period, and during the first year of its operation, the collectivisation of agriculture was never publicly contemplated. Indeed, anyone who even dared to mention that the Communist Party was thinking along these lines, was condemned as a reactionary scaremonger. As Rákosi himself so clearly put it: "The reactionaries are trying to frighten the peasants with the 'kolkhoz story', but the peasantry can be certain that we Communists will protect their land and private property with all our strength"¹ and, "...we do not want kolkhozes, but strong and prospering small farms".² Another member of the Party's leading triumvirate, József Révai, also put himself on the record as late as August 1947 as saying: "We declare: the system of private farming must be made even stronger".³ And finally, Ernő Gerő proclaimed that "The history and traditions of the Hungarian peasantry differ from that of the Russian peasants. We would be extremely foolish, indeed insane, if we did not realise that our peasants want to progress by way of private farming".⁴ And to those who would cast doubt on the sincerity of such declarations, Gerő replied that such sceptics "...should all realise, that in this country the time has ended once and for all, when decisions would be taken behind the scenes, and behind the people's backs, on questions of vital importance."⁵

These and similar statements, on which everyone should supposedly have been able to build "as securely as on solid rock" were designed simply to buy the votes of the peasantry -- unsuccessfully as it turned out -- in the elections of 1945 and 1947. By the end of 1948, collectivisation of agriculture was in full swing. As Rákosi pointed out:

Once our Party had secured for itself all strata of our working people, we brought up, during the fall of 1948, the question of large scale collective farming and the socialist transformation of the countryside.⁶

and:

...we demanded that the situation must cease whereby we stand with one leg on a united, socialised industry while with the other we stand on hundreds of thousands of disunited, privately tilled farms... the kolkhozes show the true way to the socialist transformation of our economy... this is the road which the Soviet peasants are following with great success, and this is the road that the masses of private farmers in the people's democracies

1. M. Rákosi, Speech to the Central Committee on September 11, 1947, and Speech to the Greater Budapest Congress of the Hungarian Communist Party on September 6, 1947, A fordulat éve, op. cit., pp. 281-282 and 240; also in Népszava, April 27, 1948.

2. Szabad Nép, October 17, 1945.

3. Szabad Nép, August 18, 1947.

4. Szabad Nép, January 19, 1947.

5. E. Gerő, Speech in Kispest on April 17, 1945, Harcban a szocialista népgazdaságért, op. cit., p. 31.

6. M. Rákosi, A szocialista Magyarországért, op. cit., p. 195.

must follow too.¹

In the handicraft and artison industries, similar deviations from the original Plan policy had begun to emerge by 1948, i.e. by the end of the first year of the Plan period. Rather than relying on what Gerö had called the "ant-like diligence" of the little people, by the summer of 1948 we find that the state is busy cancelling about 1,500 permits per month² and had introduced a series of severely discriminating credit, tax and price policies. As a consequence of these actions, the percentage of workers employed in this sector rapidly declined during the Three Year Plan, as can be seen from the figures in Table II.6.

Table II.6

Employed in Handicraft Industry as a Percentage of Total Industrial Employees

| Year | Percentage |
|------|------------|
| 1946 | 43.9 |
| 1947 | 40.4 |
| 1948 | 37.0 |
| 1949 | 28.7 |
| 1950 | 19.4 |

Source: A Magyar ipar, Statisztikai adatgyűjtemény (Hungarian Industry. Statistical Data), (Budapest: Központi Statisztikai Hivatal, 1961), p. 34.

Radical transformations had also taken place in the system of wholesale trade from the time when the Plan was introduced to the end of the Plan period in 1949. In a confidential memorandum, the Supreme Economic Council informed the responsible authorities that the prospective nationalisation of the whole-sale sector must be implemented with great circumspection so as not to arouse the suspicions of the other political parties. "These decisions must be im-

1. Mátyás Rákosi, A békeért és a szocializmus építéséért, op. cit., pp. 507-10.
2. M. Timár, Gazdasági fejlődés és irányítási módszerek Magyarországon, op. cit., p. 33.

plemented in such a way that to outsiders and superficial observers they should appear as merely fragmentary decisions."¹ Through a combination of 'dry road' policies (i.e. driving wholesale dealers into bankruptcy via the denial of credits, or by setting a very high interest rate on commercial credits), discriminatory pricing, and outright nationalisation, almost the entire wholesale trade sector was converted into the state sector by the end of 1948.

We know that industrial wholesale and producer prices did not express relative scarcities during the course of the Three Year Plan. Already, when they were set administratively by the Communist Party at the time of the introduction of the new currency in June 1946, they were artificially set too low. During the next year, as we have shown, the SEC continuously vetoed attempts by the Prices Office to readjust the prices in line with relative scarcities. Finally, on May 31, 1948, the Prices and Materials Office was disbanded by Order in Council No. 5,400/Korm. Control over material allocation devolved to the Planning Office, while the SEC took it upon itself to control price levels. Operative control of producers with respect to prices and materials was via the industrial directorates, whose decisions were legally binding on the producers (see below).²

Ever since the stabilisation of the currency in 1946, and with the introduction of tight central regulations aimed to prevent the re-emergence of inflation, the country's banks were, as we have pointed out, very closely supervised by the central authorities, i.e. by the SEC. But the new credit control system introduced after 1946 was a powerful form of state control not only over enterprise behaviour, but also over banking activity, and in actual practice the banks were not much more than transmission belts for the SEC's economic policies, since all substantial bank credits and investments had to be given a prior approval by this body.

In 1947, parallel with the introduction of the Three Year Plan, the Communist Party demanded that all of the banks should be nationalised, since

1. György Ránki, *Magyarország gazdasága...*, op. cit., p. 99.

2. *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 5-6, May-June 1948, p. 143.

only in this way could the Plan targets be realised and financial control maintained. But since the SEC was already in a position to exercise extensive control over banking activities, it would seem that this motive for the nationalisation of the banks was not the true one. According to Ránki, the Party's primary purpose in asking for the nationalisation of the banks at this time was in fact related to the political interests of "unleashing another blow to the power of the bourgeoisie".¹

After the nationalisation of the banks in 1947, a radical organisational reform of the banking system was introduced, and this reform was an exact replica of that existing in the Soviet Union. All enterprises were instructed to switch over to the single account system, through which the state could practise (via the National Bank) extensive financial control over the behaviour of both nationalised and private firms.²

While there was considerable camouflage of the actual investment proportions realised during the Plan period, the transformation in the functions of the Plan from a document presenting global estimates for branches of industry into one that actually assigned specific short term targets to single enterprises was less hidden. Although not specific about it, the original Plan document, already at the time of its publication, pointed towards the coming of binding, short term central commands and detailed plan breakdown, as opposed to the widespread utilisation of indirect financial incentives and economic regulators.

While the Plan allocates the yearly amounts to be spent on investments, in point of fact it will be necessary to frame detailed plans for every month... control can be really effective only if it reaches down to each single enterprise... The law makes it binding for every Hungarian and every foreigner in possession of a working permit in Hungary to collaborate to the maximum of his powers and abilities in furthering the aim of the Plan, and to place all moral and material means at his command in the service of the Plan... the law declares any contravention of such decrees and, in general, any obstruction of the accomplishments of the Plan to be a criminal offense, thus making it possible to punish with the full rigour of the law the enemies of the Hungarian people, enemies that might seek to thwart the aims of the Three Year Plan.³

1. György Ránki, *Magyarország gazdasága...*, op. cit., p. 48.

2. On the new system, see *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 5-6, May-June 1948, pp. 117-122.

3. *The Hungarian Three Year Plan*, Hungarian Bulletin, op. cit., pp. 57-60; italics added.

Once the National Planning Office and Planning Board had established themselves and had collected and compiled a comprehensive statistical profile of all enterprises' capacity, productivity, profits, product mix, assets, manpower, wage bills, etc., a widespread program of nationalisation was introduced. With the slogan, "The Factory is Yours, You're Working for Yourselves", suddenly and without giving prior notice -- even to Parliament -- all firms employing more than 100 people were nationalised at the beginning of 1948, only six months after the introduction of the Three Year Plan. All of the newly nationalised firms were assigned new managers on the eve of the nationalisation. These new managers appointed by the Communist Party had no advance notice of their promotion, had not applied for the jobs in advance, and were not selected on the basis of their administrative skills (they did not possess such skills). They were chosen by the Party from the ranks of physical labourers at the enterprises concerned, on the basis of their political reliability and record of active cooperation with the Party during the preceding three years.¹

Within a matter of days of their appointment, the new managers of the now nationalised firms were made greatly subservient to the central planning bureaucracy. Ostensibly under the circumstances of the entrepreneurial inexperience of the new worker-managers, the planning authorities greatly expanded their own already extensive set of central regulatory rights, arguing that the new managers were to be given all of the 'expert guidance' they needed to help them carry out the great national tasks that lay ahead.

1. Berend gives a colourful description of the implementation of nationalisation and the appointment of the new managers. Apparently hundreds of workers who had proven themselves by their loyalty to the Communist Party were sent registered letters by couriers on March 25, 1948, asking them to come to an urgent meeting to be held that afternoon at 4 p.m. in the Vasas headquarters building. The agenda of the meeting was not mentioned in the letter. At the meeting the audience was informed, to its complete surprise, of the decision to nationalise all firms employing more than 100 people. After a few seconds of stunned silence, the auditorium exploded into wild cheering: "...people jumped on to their chairs, threw their hats into the air, and wildly cheered the government, and then they began singing the Internationale. But the surprise was even greater when the second speaker at the platform, Ernő Gerő, announced to the gathering that they are the first managers of the newly nationalised enterprises... Immediately after the meeting adjourned, many of the new managers hurried away to their factories to take up their places... The labourers and employees greeted the expropriation of the capitalists with great joy... In the Chinoin factory they showered the newly appointed manager with kisses." Ivan T. Berend, Ujjáépítés és a nagytőke elleni harc, op. cit., pp. 374-375.

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In May 1948, without any prior debate or mass participation in the formulation of the new administrative structure, 29 industrial directorates of the branch ministries were, by Order in Council No. 5,380/Korm., set up by the government to practise strict economic control over units of production. Let us look at the official powers of these new industrial directorates, as set out in the decree:

The activities of the industrial directorates cover all firms in each particular industry, except those having less than twenty employees. Their tasks are: to provide for the preparation by the required date of the special economic plans and ensure the fulfilment of approved plans; to control prices and the administration of materials; to carry out measures for increasing the rentability of production; to order the collaboration and to coordinate the production of certain undertakings; to direct them to furnish data; and to enforce the use of norms. Price control, the allocation of materials, and the compulsory use of norms extend to the small firms (of less than twenty employees) as well. In addition, the industrial directorates have the right to supervise the business management and the trend of production of concerns under them. The heads of the industrial directorates are the directors appointed by the government ...the competent ministers exercise their right of supervision over the directorates and provide in the state budget for the salaries of the staffs and for operational expenses.¹

While Zoltán Vas was careful to conceal statistically the real thrust of the economic policy of the Party during the Three Year Plan, he was not so concerned to conceal the transformation towards the Soviet type command mechanism that took place, as he himself says, during the course of that Plan.

We started the first Plan year by setting up global production estimates for the entire industry. Only later was the Plan broken up according to individual factories... One of the great tasks to be accomplished in the Three Year Plan period (as well as the solution of the production and investment problems) was the simultaneous reorganisation of our entire economic life in accordance with our Socialist aims. After the nationalisations, our economic control could no longer limit itself to direction, but had to become the real master of our economic life. We had to reorganise the internal and mutual relations of the enterprises as well... It would have been difficult to exercise planned control over industry, to organise production economically, introduce the Socialist methods of the single account system, had the companies continued to engage, in addition to production, also in commerce, investing, and other varied activities... Immeasurably valuable to us was the fact that the Soviet Union put at our disposal her rich store of experiences in the field of economic planning, her outstanding scientific results, and those modern methods of work which have such exceptional results in increasing the productivity of labour.²

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1. Monthly Bulletin of the National Bank of Hungary, New Series, Fourth Year, Nos. 5-6, May-June 1948, p. 144; italics added.
 2. Zoltán Vas, The Success of the Three Year Plan - Victory of the Hungarian People, op. cit., pp. 5-6, and 28; italics added.

And so, having been given 'control' over their factories, and having had the private ownership of the means of production (which Marx considered the greatest obstacle to the genuine freedom of the proletariat) removed, the working classes still found themselves back where they had started in terms of their initiating or decision making powers in the process of production. They had no such powers. From the moment of occupying the office of the former bourgeois manager, the new worker-manager's sole privilege was that of supplying the central bureaucrats with information as requested and of fulfilling to the letter all the detailed instructions sent down to him from the industrial directorate's 'experts'. The Plan, which had not been formulated by the workers but was rather the product of the preferences of their political vanguard, was placed in a sacred position. The new enterprise managers thus had been given a new 'freedom': of placing "all moral and material means at their command" in the service of the Plan. Those workers who did not see the wisdom of certain Plan directives found themselves either dismissed for their false consciousness or, depending on the nature of their opposition, persecuted "with the full rigour of the law, as enemies of the Hungarian people, enemies that might seek to thwart the aims of the Three Year Plan".¹

The Communist Party, which up to now had been saying that the proletariat had been working like slaves under capitalism, suddenly also began to proclaim that the workers should work even harder now than before:

We looked at the statistics... and it turns out that our workers are producing much less for our democracy than they did for Horthy. But we cannot progress this way comrades... Increasing productivity; this is the decisive question for our democracy. We must create order in this area.²

And 'order' they did create. Upon his return to Hungary with the Soviet troops in 1944, István Kossa, who was, as has been noted, a high-ranking Soviet military officer, was immediately appointed (under Soviet pressure from the Allied Control Commission, and without a polling of trade union members) general secretary of the Hungarian Trade Unions.³ In 1948 he was

1. For example, the new worker-managers of the Péti Chemical Works were tried and sentenced to a long jail-term for sabotage in 1948 because they invested money into the creation of a new lubricant plant without asking the permission of the central authorities. Reference to this is made in György Ránki, *Magyarország gazdasága...*, op. cit., p. 114.

2. Mátyás Rákosi, Speech in Csepel on February 4, 1948, *A fordulat éve*, op. cit., p. 411.

3. See Robert Gábor, *The Bolshevization of the Hungarian Trade Unions, 1945-1951*, New York, 1952; Sándor Brunauer, "The History of the Hungarian Labour Movement", M.E.S.C., No. 269, 1953; Ernő Kabos, ed. *Tanulmányok a magyarországi szakszervezeti mozgalom történetéről* (Studies on the Hungarian Trade Union Movement), (Budapest: Táncsics, 1969); and Károly Jenci, *Az üzemi bi-*

appointed Minister of Industry, in effect jumping from being the representative of labour to being the representative of management. By 1948 the trade unions were placed into that well known 'transmission belt' function which only the Stalinist type command economy has been able to reserve for them. Their primary function became the promotion of the speedy fulfillment of the central planning authorities' preferences. Wage levels were centrally designated in the ministries and were binding on all workers. By Act No. 34 of 1947 the right to strike had been withdrawn, and labour union opposition to the centrally defined wage or norm levels and to any of the other plan directives was outlawed. There was some hostile reaction to this initially from the working classes, especially at times when they had overfulfilled the centrally designated norms and, instead of receiving the payments stipulated in their contracts, were informed that their fulfillment of the norms was due to the fact that the norms had by mistake been set too low by the 'experts' in the directorates, and that no payments would be made as a consequence. The most celebrated case of this kind was the series of wild-cat strikes in the Csepel industrial centre during October 1947. Csepel had a long tradition of being the centre of left-wing trade unionism in Hungary (a position that was reaffirmed in 1956 and holds true even today). The ring leaders in the 1947 Csepel strikes were arrested and shot, and once the situation was safe, Rákosi went out in person to Csepel to tell the workers why there should never be a repetition of such an incident:

The question had cropped up, that if striking is a good thing in France, then why isn't it a good thing in Hungary. These comrades, due to their poor theoretical knowledge, didn't recognise the difference between the anti-people government of France and the people's democratic government of Hungary. And they didn't recognise that what is a necessary and correct defensive battle in France, is nothing but a reactionary manifestation in Hungary... One has to be blind not to see that those people who started this strike were members of that same general anti-people reactionary offensive... who wanted to weaken the basis of the Hungarian democracy... We took action against this strike... but we must be aware that those forces which precipitated the strike still have maintained their roots here... Let us make sure that never again will there be a repetition of strikes here, like in October, which to tell you the truth, have left their mark on the good name of Red Csepel.¹

(cont.) rottságot a munkáshatalomért, 1944-1948, op. cit.

1. Mátyás Rákosi, A fordulat éve, op. cit., pp. 390, 427-429.

By the last year of the Three Year Plan period, the traditional Leninist Stalinist methods of boosting production by labour competitions, 'voluntary labour donations', working on holidays, overtime, on lunch hours, for an extra shift -- all without financial remuneration -- had become widespread. These labour donations were not the spontaneous donations of the Hungarian workers, but were reactions to centrally directed commands (transmitted to the workers through the Communist Party-dominated trade unions) which the planners had calculated as being essential for the achievement of their plan indices.¹ Labour competitions and labour donations would be ordered by the labour unions to their members on virtually any pretext -- Stalin's or Rákosi's birthday, the execution of the 'Rajk gang', to celebrate a victory by the national soccer team, or just to celebrate the celebration of another factory. Hundreds of thousands of workers were bullied around by a band of roving Stakhanovites-- elite 'shockworkers' -- whose feats were widely publicised and whose achievements -- conducted under the most favourable possible conditions -- all workers had to emulate. But even this was seen to be insufficient by the local mini-Stalin, who decided that even the Hungarian Stakhanovites were not productive enough. And so, "Soviet heroes" were imported into the country who surpassed the achievements of the Hungarian Stakhanovites by leaps and bounds, and this then became the level that everyone had to strive for. As Rákosi pointed out:

With great difficulty we managed to replace the time rate wage system with the piece rate system, so that now our workers are paid according to their production... but our workers, and I might add our intelligentsia as well, who have been trained under capitalism and are used to capitalist measures, stand on many occasions doubtful and disbelieving before the gigantic accomplishments of Socialist production.../and/ this behaviour is one of our most dangerous enemies... Right here at this conference, one of our construction workers, comrade Kallai, said that when he saw in the cinema the achievements of the Soviet Stakhanovist, Smilin, he simply did not believe that it could have been true, and thought that it was mere propaganda... comrade Bikov told me in person that when he visited our country recently, to show us his rapid welding technique, our workers greeted him with great disbelief. They even felt the palm of his hands, to check whether he was real worker or not. He told me that this doubt-

1. For example, Iván T. Berend cites from a confidential internal memorandum of the Planning Office, dated 1950, with regard to the increased production in the mining industry. "We must point out that this achievement was made possible only because our coal miners have been putting in Sunday and holiday shifts". *Gazdaságpolitika az első öt éves terv megindításakor, 1948-1950* (Economic Policy at the beginning of the first Five Year Plan, 1948-1950), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1964), p. 112.

fulness shown towards him had a very bad effect on him, and that he had never suffered from as great a stage fright /sic/ as he did when he had to demonstrate his rapid welding techniques to Hungarian workers ... The Soviet comrades Dubjagin and Barygin have told this conference that the accomplishments of even our Hungarian Stakhanovites are two or three times lower than theirs... I know that some of our comrades are getting worried about this excessive drive, and have said 'all right, all right, but there must be a limit to the increase in production'. To this I simply reply: "The sky is the limit".¹

There was no talking back to this massive mobilisation for the attainment of Party goals. "When we say Rákosi, we mean the Hungarian people. And when we say the Hungarian people, we mean Rákosi! On Rákosi, on the Communists, and on the words of the Hungarian Workers Party, one can build as securely as on solid rock."²

IV. EXTERNAL POLITICAL ACCELERATORS

In this progression towards the Stalinist type command economy, i.e. the speeding up or discarding of the 'dry road' tactics, three external political developments must be pointed to as having played an important role:

1. The drastic worsening of relations between the United States and the Soviet Union during 1946-47;
2. Stalin's veto of a proposed coordinated industrialisation program for Eastern Europe; and
3. The Soviet-Yugoslav dispute.

As I have shown, the subservience of Hungary to the Soviet Union was, with the termination of the war, a very real fact of life. Occupation of the country by the Red Army, the wholesale takeover of vast sectors of the Hungarian economy by the Soviet Union, and Hungarian reparations responsibilities had given the Soviet Union extremely important economic and military

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1. Mátyás Rákosi, Speech to the First National Conference of Stakhanovites on February 17, 1950, in A lélekért és a szocializmus építéséért, op. cit., pp. 301-321.
 2. Ernő Gerő, Speech in Jászberény at the electoral meeting of the People's Front, April 24, 1949, in Marchban a szocialista népgazdaságért, op. cit., p. 82.

leverage over the domestic affairs of Hungary. This leverage was complemented by the fact that the leadership of the Hungarian Communist Party was made up of Soviet agents who firmly believed that the Soviet Party and its leadership were entitled to dictate what road to Socialism should be followed by Hungary.

One of the important functions of the "dry road" strategy had been to give outsiders the impression that Communism was possible within a parliamentary system. Until 1947 it seemed that some of the Western European Communist parties might win at the polls, and great efforts were made by the Eastern European Communists to give no cause for alarmist stories about those parties' true intent. With a change of fortune for the Western Communist parties during mid-1947 and the growing tension between the USA and the Soviet Union, the "dry road" became increasingly unnecessary. It was above all this change in the international political setting that accelerated the transition to the command system in Hungary in early 1948 - as is admitted in one of the Party's own confidential memoranda:

As you know, our original plans were that socialisation was to be carried out by way of the 'dry' road. At that time we did not count on such a rapid transformation in the international situation... and did not calculate these into our plans. In my opinion, we would be making a mistake if we stuck to our original schedule and not utilize the favourable situation.¹

The worsening of Soviet-American relations also had another impact on Hungarian policy; namely, that from then on, military considerations and preparation for a coming war with the West began to dictate much of the content of the HWP's economic policy. Instead of concentrating all its resources on healing the deep scars left by World War II, the Hungarian Communists, at the command of the Soviet Politburo, were feverishly beginning to prepare for World War III. Again, this preparation, and this economic policy could hardly be attained by any other means than strict,

1. Gerő, in a speech to the Hungarian Communist Party's Politburo on the eve of nationalization in 1948. György Ránci quotes from confidential Party archives in Magyarország gazdasága..., op. cit., p. 105. (Italics added.)

and ruthless political control.

The second external accelerator mentioned above was Stalin's veto of a Bulgarian initiative to coordinate the economic plans and industrialisation of the East European economies.¹ Stalin's veto, it seems, was once again motivated by Soviet state interests and imperialistic designs, as well as by military calculations, and not by the demands of creating the most favourable conditions for Socialist development in East Europe. Apart from the potential threat to full Soviet hegemony of an independent and integrated East European bloc, the Soviet Union also recognised the strategic importance of scattered heavy industrial centres, and the need for heavy industrial goods in the preparation for war. The effects of this externally imposed condition and the forcing through of an autarkic posture were extremely disorienting for Hungary, which lacked the major raw materials needed for the industrialisation drive. In opting out of coordinated development and forcing through a radical and rapid heavy industrialisation drive, the role of the state in the economy logically had to be severely expanded, and that of other extra-economic pressures greatly increased.

A third and again externally imposed condition that had profound economic consequences for Hungary was Stalin's quarrel with Tito. This final development, coming during 1948, had greatly escalated the negative economic effects stemming from the first two previously mentioned external political in-puts. By the beginning of 1948, good working relations with Yugoslavia had become of great economic importance for Hungary, since that country was fast becoming the most important supplier of the necessary raw material needed in Hungary's expanding iron and steel production. During 1946-48, a series of economic agreements had been signed between the two countries with respect to trade, and the joint development of resources and industries. After the circulation of the Cominform letter criticising

1. Editorial in Pravda on January 28, 1948. See also V. Dedijer's Tito (New York: Simon and Shuster, 1961); and M. Kaser and J. G. Zielinski, Planning in East Europe, op. cit., pp. 24-25.

the behaviour of the Yugoslav communists,¹ Hungary quickly broke off all relations with Yugoslavia. As soon as the Hungarian-Yugoslav trade agreements had been cancelled, the Soviet Union graciously consented to deliver the necessary raw materials and to buy the goods that had been destined for the Yugoslav market. Thus Hungary not only became even more hopelessly entwined in the Soviet economic net, but was also put in a gravely worsened financial position. The price of the Soviet raw materials was much higher than that of those Hungary had contracted with Yugoslavia, since now the prices had to reflect the cost of shipping over huge distances (e.g. iron ore from Krivoi-Rog). From this point on, Hungary's heavy industrial production became even more of a financial burden, even more of a drain on the economy, and once more increased the sacrifices exacted from Hungarian workers.

The Soviet break with Yugoslavia had another escalating effect on Hungary's post-war transformation into a Soviet-type command economy. With Tito's expulsion from the Socialist "peace camp", came a drastic intensification of the drive to pattern all aspects of life in Hungary on those prevailing in the Soviet Union. Originality and experimentation with new social, political, or economic policies and mechanisms was from then on classified as the greatest of crimes and was labelled "domesticism" or "deviationism". All efforts at managerial or organizational innovation, different from the Soviet pattern were outlawed. And so, the Hungarian national economy was set on a one-way street, blindly mirroring and imitating the economic policies and mechanisms of the USSR, heedless of any thought about the unsuitability of such a pattern of economic construction for Hungary's own internal post-1945 political, social and economic needs and capabilities.

Perhaps no other leadership in Eastern Europe was as zealous and ruthless in stamping out even the minutest deviations from Stalinist

1. For the exchange of notes between the Soviet and the Yugoslav leadership, see The Soviet-Yugoslav Dispute (London: Royal Institute of International Affairs, 1948). There is also a good analysis to be found in E. Halperin, The Triumphant Heretic: Tito's Struggle Against Stalin (New York: British Book Service, 1958), and Adam Ulam, Titoism and the Cominform (Cambridge, Mass: Harvard University Press, 1952).

operating principles, as that of the Hungarian Communist Party under Matyas Rakosi. Rakosi's crusade not only resulted in the physical extermination and terrorization of the most progressive elements of Hungarian society. It also succeeded in alienating from the Party the vast majority of Hungary's workers, peasants and other strata to such an extent that they had to resort to a suicidal rebellion in 1956 to regain some authenticity. The NEM was very much part of the overall post-Stalin effort, begun first under the New Course of 1953, to eliminate the economic foundations of political discontent and to provide thereby a safer and more stable environment for the ruling Communist Parties.

CHAPTER III

FROM THE FIRST FIVE-YEAR PLAN TO THE FIRST SOCIALIST REVOLUTION:

THE POLITICAL IMPACT OF THE 'STEEP ASCENT'

The times of that superstition which attributed revolutions to the ill will of a few agitators have long passed away. Everyone knows nowadays that wherever there is a revolutionary convulsion, there must be some social want in the background, which is prevented by outworn institutions from satisfying itself ... Every attempt at forcible repression will only bring it forth stronger and stronger until it bursts its fetters.

Karl Marx

During the month of May, 1953, the Hungarian Communist Party was feverishly preparing for the upcoming May 17th Parliamentary elections.

This was a month of incessant reflection upon the great economic achievements of the past and a time for optimistic proclamations about the country's future economic development. Perhaps one of the most rousing and triumphant of the endless stream of political speeches was that given by Mátyás Rákosi, one week before the elections.¹ Rákosi's speech highlighted the tremendous economic victories of the past years. It boasted of the herculean performance in industrial growth, of the flowering of Hungarian agriculture, of the skyrocketing of living standards and of the adoration of Hungary's workers and peasants for their wise leaders and vanguard, the Communist Party.

The election results seemed to confirm the last part of his statement. On May 17th, 98.2% of the voters cast their ballots in favour of the deputies nominated by the Communist Party.

Scarcely a month after receiving such an overwhelming mandate, and after all the praises heaped on Hungary's superb economic performance in recent years, Rákosi handed in his resignation to the Central Committee of

1. Szabad Nép, May 11, 1953.

the Hungarian Socialist Workers Party,¹ and informed the stunned Central Committee members meeting behind closed doors that the country was on the verge of an economic and political catastrophe requiring immediate and major remedial action. What caused this sudden and dramatic change?

The immediate source of this 'new reality' in Hungary was the fact that Stalin had died. In early June, the Hungarian leaders had been summoned to Moscow to meet with the new Soviet collective leadership, and had been instructed to institute a radical house-cleaning, to introduce a 'New Course' (i.e. a new transfer culture), and to engage in vigorous self-criticism for the mistakes committed during the past years. Like the old one, the new transfer culture was compulsory for Hungary.²

The necessity of a new transfer culture for the Socialist 'Peace Camp' stemmed from the new Soviet leadership's belief that they themselves could not maintain the momentum of the Stalinist mobilisation drive in the Soviet Union - but especially not abroad. The workers' uprising in Berlin that had been put down by Soviet tanks³ and demonstrations in Plsen and parts of Hungary, were clear warnings that the Stalinist mobilisation drive was causing serious political problems everywhere.

1. See Francois Fejtö, A History of the People's Democracies (Hammondsworth, Middlesex: Penguin Books, 1974), pp. 39, 513.

2. On this visit of Rákosi, Farkas, Gerő, Dobi, and Nagy to the Kremlin, and on the issues discussed, see Imre Nagy, On Communism (London: Thames and Hudson, 1957); Tibor Méray, Thirteen Days that Shook the Kremlin (New York: Praeger, 1959); Tamás Aczél and Tibor Méray, Revolt of the Mind (New York: Praeger, 1959); and Ferenc Váli, Rift and Revolt in Hungary (Cambridge: Harvard University Press, 1961).

3. The workers' rebellion on June 17th in Berlin, and the demonstrations in Leipzig, Dresden, Jena and other cities, were quickly suppressed by the Soviet occupation troops. Forty-three people were subsequently executed, and there were 25,000 arrests made. It may be worthwhile to recall the slogan of the Berlin workers in June 1953 - "We want to be free men and not slaves" - as well as the fact that, in Leipzig where the workers occupied a Party building, they burned all the official portraits of Communist leaders hanging in the building except those of Karl Marx. See Francois Fejtö, A History of the People's Democracies, op. cit., pp. 36-37.

We have mentioned in our first chapter that the economy serves as the principal target for social mobilisation during the transition to Socialism. It was the politically destabilising effects of this mobilisation that prompted the Soviet leadership to institute a change first in the actual targets of mobilisation and second, in the intensity of the drive. This view is fully endorsed by Imre Nagy, who was appointed by the Kremlin in June 1953 as premier of Hungary:

The key to the full realisation of the historic significance of the Central Committee's June resolution may be found in the recognition of the extremely dangerous situation that had arisen in June... To quote Khrushchev, "we would have been booted out summarily". The chief purpose of the Central Committee's June resolution was to stave off the catastrophe and to counter-balance the effect of the disturbances in East Germany and Czechoslovakia, to ease the growing tension manifested in frequent mass demonstrations in the Great Plains, and in general to bring about a turn in the tide.¹

As we shall show in subsequent sections, the New Course in Hungary did not meet its intended objectives. Instead of bringing about "a turn in the tide", it allowed "the waters to rise" to such a high level, that suddenly, in October 1956, in one massive surge, they completely overwhelmed and washed away the ruling Communist leadership from the central stage of Hungarian politics.

Never before, nor since, has such a fate fallen on a ruling Communist Party anywhere in the world. And since 1956, perhaps no other Communist Party is more concerned about the dangers of losing political primacy than the Hungarian one.

Once the Party was returned to power by Soviet tanks in November 1956 and had regained its leading role by means of massive Soviet military support, it could not help but turn its thought to the causes of its earlier collapse.

Publicly, its official line is that which Marx had so contemptuously dismissed almost a century before as mere superstition. Blaming those

1. Imre Nagy, On Communism, op. cit., p. 66.

events on the work of a handful of CIA agitators and former aristocrats will not fool anyone - and even the Party knows better than that. Unfortunately, the Party does not like to admit that it knows. Its reasons for doing this are of course quite understandable. Like Macbeth, they too must recoil and blot from their mind that bloody dagger which in their hands carved such a shameful mark into history. And so, while the following official Party rationalisation of the causes of October was never repeated after January 1957, it has also never been rescinded, and does represent in fact the Party leadership's own evaluation of "the lessons" of October. Whether we like it or not, whether we concur or disagree with its diagnosis is quite immaterial. The fact is undeniable that the Party has identified its pre-1956 economic strategy as the fundamental cause for its loss of political power in 1956. Thus:

The Rakosi-Gerő clique...had forced an economic policy on the people which neglected our country's economic endowments and which retarded the rise of the workers' living standards... With the mechanical copying of Soviet examples, the incorrect interpretation of Soviet-Hungarian friendship, the neglect of national interests, the disregarding and debasing of our progressive traditions and national values, they have gravely offended our people's patriotic feelings... They undermined and weakened the respect of our Party...¹

In a more cautious way, Rezső Nyers, undoubtedly the political 'father' of the NEM, also alludes to the same thing.

In 1953 we discovered the harmfulness of this policy. The Central Committee of the Hungarian Workers Party, in its June 1953 resolution, correctly defined the main tasks and the actions that should follow. But no effective changes were implemented because the political and economic leadership was much more concerned with saving its own prestige than with eliminating the shortcomings.²

As far as Hungary's leading political-economists were concerned, they

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1. "Az MSZMP Ideiglenes Központi Bizottságának 1956. Decemberi Határozata" (The December 1956 Resolution of the Provisional Central Committee of the HSWP), December 5, 1956, A Magyar Szocialista Munkáspárt határozatai és dokumentumai (Budapest: Kossuth Könyvkiadó, 1973), pp. 13-22.
 2. Rezső Nyers, "Műszaki fejlesztés szerepe gazdaságpolitikánkban" (The Role of Technical Development in our Economic Policy), Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., p. 39. (Italics added.)

were virtually unanimous in their diagnosis that behind the political ruthlessness of the Rákosi regime, behind the political mistakes committed during the first post-war decade of Socialist construction, the principal cause was none other than the traditional Stalinist type economic strategy (see especially pp. 184 below for the comments of J. Bognár).

This diagnosis, to be later severely criticised by the Party, can be found in the first post October issue of Közgazdasági Szemle.¹ To place the diagnosis under the proper light - it was penned by the editorial board of the journal and was widely discussed and supported by members of the Economics Institute of the Hungarian Academy of Sciences. Among its authors can be found most of the so-called "fathers" of the 1968 NEM and as such, the document is a very important insight into the attitude of these people towards the rationale for economic reform.

The editorial begins by pointing out that it is the duty of all Marxist social scientists to recognize the interdependence between economics and politics, and to focus their attention first of all on developments and patterns of behaviour taking place in society's economic base, for in the final analysis and after interacting with other variables, "... the moving springs of social development are economic forces."²

The editorial states that Marxist economists in Hungary cannot shy away from drawing certain conclusions about the October events, or from pointing out the lessons that need to be learned from those events. "It is senseless to proceed like the simple coal miner, who condemns the air, the coal mine, or the accident after an explosion, rather than look for the sources of the catastrophe in order to prevent the recurrence of such a misfortune in the future."³ The editorial board then says the following:

If we analyse the mistakes of the previous leadership in a systematic fashion (and we can do this for they formed a tightly interdependent and

1. "A népgazdaság és a közgazdaságtudomány fejlődésének szocialista, demokratikus és magyar útjaért" (For a Socialist, Democratic and Hungarian Road for our Economy and Economic Science), Közgazdasági Szemle, Vol. III, Nos. 11-12, 1956, pp. 1285-1292. (Italics added.)

2. Ibid, p. 1285.

3. Ibid, p. 1285. (Italics added.)

closed system) and look at the primary elements of this system, then among the complex network of mutual effects, cause and effect relations between politics and economics, the most commonly and sharply recurring contradictions will be those that took place between the forces of production and the relations of production (the relations of men to one another, in the process of production)... While we analyse the economic roots of the October-November events, we could be accused of over-emphasising the role of economic factors as opposed to political ones, and miss the fact that it was the political mistakes of the past which had caused such a deep suffering in virtually all strata of society, from the peasantry to the members of the old underground, and that it was these political mistakes that were the main immediate sources of the widespread bitterness. But for the careful observer it cannot remain hidden that the massive political and administrative pressure forced on the working classes, which caused injury to their basic human rights, was in a close cause and effect relationship with the forced and in many ways disadvantageously oriented development policy and with the economic problems stemming from that and other factors...¹

While this view became too blatant for the Party to swallow, especially during the increasingly conservative months of 1957, the Party itself still recognised or believed, again rightly or wrongly, that its political power and leading role was to be derived from economic circumstances. Or as the 1957 Party Congress pointed out: "the correct solving of the economic questions is a fundamental requisite for the strengthening of political power."²

Let us now document the basis of these conclusions and show, as we have indicated in our political theory of economic reform, that in the first instance, it is the political bankruptcy of the traditional command strategy, and the Party's perception of a political threat posed by that economic strategy to its leading role, that stand at the gateway of economic reform.

1. Ibid, p. 1285-1291.

2. "Az MSZMP Országos Értekezletének Határozata" (The Resolution on the National Congress of the HSWP), June 27-29, 1957, ibid., p. 85. (Italics added.)

I. THE ECONOMIC STRATEGY OF THE FIRST FIVE YEAR PLAN: 1950-53

One Saturday afternoon, in the spring of 1919, a world shaking event took place on the Moscow-Kazan railway line in Soviet Russia. On this memorable day a handful of workers and railwaymen starving on the meager diet allotted to them decided not to go home after work and on empty stomachs and without any pay for their labours, began to transport by hand the axels, wheels, and engine-heads to the maintenance depot for repair. For six hours these men worked, and according to eye witnesses, during those six hours they completed the work that normally would take a week. It was on this day that man first uttered the words: labour competition.

Ötéves tervünk: Beketerv

In 1948, work was begun in the National Planning Office on drafting the First Five Year Plan of economic development. The first plan version, ready in the middle of 1948, stipulated a global sum of 27 billion forints for investments between 1950 and 1954. This plan version was vetoed by the Communist Party leadership. Consequently the Planning Office worked out a new version that received the Politburo's approval and was presented to and approved by the Party Congress in April 1949. In this version, global investments were raised to 35 billion forints. Twelve alternate plan variants were drawn up by the Planning Office to channel this amount of money.¹ All these were cast aside by the Politburo in December 1949. In that month, Ernő Gerő, in charge of the Central Committee's economic policy committee, presented a new Five Year Plan to Parliament in which global investments were once again raised - this time to 50.9 billion forints. According to Gerő, every segment of Hungarian society was going to reap massive and immediate benefits from the Plan. Even pre-teenagers were thought about by the wise father of Hungary's economic policy: "To the great joy of our children, we shall increase the production of chocolate, bon-bons, candy and pastry to such an extent that each child up to the age of ten will be able to eat three slices of cake per day, assuming, of course, that their greedy parents will not eat up a portion of this

1. On these plan variants, see Iván T. Berend, Gazdaságpolitika az első ötéves terv megindításakor, op. cit., pp. 73-81.

allotment."¹ Without a single question being asked, Parliament unanimously approved the Plan and it went into effect on January 1st, 1950. Within weeks of its introduction, Gerő's Economic Policy Committee (at this time István Friss was Gerő's secretary) ordered that planned investments for 1950 must be increased by 15%. In December, 1950, Gerő's office gave instructions to the Planning Office to increase the level of investments for 1951 by 35% and to re-work the Five Year Plan, raising the global level of investments as high as possible. Subsequently, in the spring of 1951, a new, augmented Five Year Plan version was announced (retroactive to January 1st, 1950) in which global investments were fixed at 85 billion forints.² The reason given by the Party leadership for the radical upward adjustment of investments was that great new "hidden reserves" had been discovered in the economy and that the Socialist labour competition, the so-called voluntary Plan Loans,³ and the stakhanovite movement were much more successful than had been hoped. Or, as Gerő explained in his presentation of the new Five Year Plan to Parliament, investments had been increased because "... our people are capable of carrying out far greater tasks than laid down for the years 1950-54 by Act XXV 1949 on the Five Year economic plan."⁴ He went on to add that "... the amended Five Year Plan is a peace plan. It is the road to the country of iron and steel, the country of machines, to a strong, wealthy, educated, Socialist Hungary... The augmented Five Year Plan is in the personal interest of every faithful son of the fatherland, and is at the same time in the cause of the nation. ... The broad masses of the working people should labour with an increased spirit of self-sacrifice, consciously and with discipline, for the implementation of the augmented objectives of the Plan."⁵

Six years after the publication of the augmented Five Year Plan, and

1. Ernő Gerő's speech to Parliament, December 9, 1950, in Harcban a Szocialista népgazdasáért, op. cit., p. 583.
2. See Ötéves tervünk: Béketerv, op. cit., pp. 213-214.
3. See Rákosi's references to this in A békéért és a szocializmusért, op. cit., pp. 209, 360, and 303.
4. Law on the Amendment of Act XXV 1949 Concerning the Five Year Plan. As presented to the National Assembly by Ernő Gerő on May 15, 1951 (London: Caledonian Press Ltd. Hungarian News and Information Service, 1951), p. 3 (italics added).
5. Ibid., pp. 3-9 (italics added).

after the smoke had cleared following the 1956 uprising, Hungary's Central Statistical Office published a comprehensive study on the previous years of economic development. This official document asserts that at the momentous June 27th, 1953 Central Committee meeting (the only C.C. meeting whose minutes have never been published by the Party during the past thirty years), it was agreed that Hungary's economy was in a state of acute crisis "...mainly due to the mistakes committed during the planning and implementation of investments."¹

Let us therefore look closer at the Party's investment policy, first of all at some of the key investments, since even the official Plan document would have us proceed in this fashion: "As the tallest peaks in a great mountain range, so do our greatest peace works tower above the other new planned constructions... Let us cast our eyes on them, examining the tallest among them, before looking at the other features of the Plan."²

1. The Pattern of Investments

V. I. Stalin, the genius and mastermind of all the Soviet Five Year Plans, has discovered and laid down the rules of Socialist industrialization. He said: 'By the term industrialization we mean first and foremost the development of heavy industry, because this is the central nerve of industry. Without it we cannot even speak of securing our country's independence'.

Every word of this conclusion applies to our country as well. Here too the foundation of our present and future existence is industrialization and the development of heavy industry. The most important branches of heavy industry, like cables on a giant crane, lift up high and move forward our entire economy. If the cables are strong, the people's economy will be raised to heights never before seen.³

The single-most important investment project of the Five Year Plan was the Iron and Steel Works of Sztalinváros. As the Plan pointed out:

On the Stalin Iron and Steel Works, strong bastion of our peace, we shall invest 4 billion forints in five years. Four billion forints is

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1. Alatok és adatok a népgazdaság fejlődésének tanulmányozásához: 1949-1955 (Facts and Figures on the Development of the People's Economy: 1949-1955), (Budapest: Central Statistical Office, 1957), p. 43.
 2. Ötéves tervünk: Béketerv, op. cit., p. 10.
 3. Ibid., pp. 32-34.

a huge amount, no other project will receive as large an amount as this... The Stalin works is a self-supporting giant. It requires only coal, iron ore and limestone to keep it working; everything else, up to the time of loading on to trains of its products - rolled and sheet steel - is done by the Stalin works... the coke used by the blast furnaces will be developed from Komló and Pécs coal... the iron ore will be provided for us by the Soviet Union.¹

According to the official Plan document, "one thousand engineers" had been working on the planning of this new giant industrial complex. In the initial plan document, the complex was to be located at Mohács, near the Hungarian-Yugoslav border, and was to be a joint Yugoslav-Hungarian project. It seemed to be a feasible project as well, due to the proximity of Yugoslav iron ore, the intended source of the ore.

After the eruption of the Stalin-Tito quarrel, Hungary was forced to cancel her agreement with Yugoslavia. The site on which initial excavations had already begun was moved away from the border, 80 kilometres to the north on the site of a small village called Dunapentele, renamed Stalinvaros. Construction was begun on the new site with such haste and disregard for the revised blueprints that numerous newly erected buildings had to be torn down and re-erected because they had initially been placed in the wrong spot. According to Béla Balassa, who was closely involved with the project through the Ministry of Construction:

Lack of sufficient coordination, coupled with the drive for speedy completion of investments, resulted in the derangement of the normal sequence of construction work... Roads, waterworks and lodgings for the workers were built parallel to the construction of the plant itself; nor was electrical supply assured. As a consequence, transportation, water and electricity problems prevailed during the construction period, and daily transportation of workers from great distances was necessary. Moreover, some of the underground workings had to be rebuilt two or more times as construction proceeded.²

As we have pointed out in Chapter II, the cancellation of the co-operation agreement with Yugoslavia compelled Hungary to purchase her iron ore from the USSR. The distance between the source of the ore, Krivoi Rog,

1. *Ibid.*, pp. 12-14 (italics added).

2. Béla Balassa, The Hungarian Experience in Economic Planning, *op. cit.*, p. 197.

and Stalinvaros was over two thousand miles, and this pushed the price of the ore above that which had been contracted with Yugoslavia. In 1951, it also transpired that the Pecs and Komlo coal was not suitable for coking, and thus fuel had to be imported from the West (Sweden) and from the Soviet Union. These changes, the product of external political developments, once more increased the cost of iron and steel production in the Stalin works.

We were told that the new iron and steel complex was to utilize the most up-to-date technology. In fact, the reverse held true. Hungary was compelled to purchase obsolete blueprints and equipment from the USSR. According to Vali, the Soviet blueprints were thirty years old, being based on a 1920 American prototype.¹ Studies conducted by Hungarian economists during the mid-fifties also showed that, rather than being the most modern and efficient of Hungary's iron and steel plants, the Stalin works were the least efficient of all existing plants.²

According to Imre Nagy, Hungary's Premier between 1953 and 1955, "... the power plant at Stalinvaros operates at a boiler pressure of forty atmospheres. Such boiler pressure is now obsolete."³ Another study, published in Hungary, calculated that the cost of producing pig iron by the Stalin works was 17% greater than the cost of production in the old Diosgyor plant,⁴ and J. Fay worked out that it cost Hungary 88% more to produce pig iron domestically than it would if she were simply to import it from abroad.⁵

Another example of the wisdom of Hungary's Communist Party leadership and its ability to recognise the objective laws of necessity, is that Stalin's "best Hungarian disciple", Rakosi, ordered the firing up of the Stalin works blast furnaces before they had been completed. His reason?

1. Ferenc Vali, Rift and Revolt in Hungary (Cambridge, Mass: Harvard University Press, 1961), p. 85; see also Jan Wszelaki, "Industry", Hungary, ed. E.C. Helmreich (New York: Atlantic Books, 1957), pp. 302-303.

2. F. Deak, D. Sóky and Gy. Szende, in Statisztikai Szemle, Nos. 1-2, 1957, pp. 59-60.

3. Imre Nagy, On Communism (London: Thames and Hudson, 1957), p. 187.

4. G. Rejtő, in Statisztikai Szemle, No. 10, 1956, p. 871.

5. J. Fay, in Statisztikai Szemle, Nos. 7-8, 1957, p. 558; see also Béla Balassa, op. cit., pp. 181-201.

To commemorate the Great Bolshevik Revolution of 1917. According to Balassa, "...afterwards repairwork on the furnaces which were not yet in a state satisfactory for smelting lasted about a year. Under similar circumstances three years of repairwork were needed in Kazincbarcika Chemical Works to pay for the premature commencement of production."¹

The Budapest Metro was to be the second largest investment under the Five Year Plan. "Just like the first, it is undertaken with the unbreakable faith in a lasting peace. Who else but a people struggling for peace would build, at the cost of 2 billion forints an underground speed train?... The whole system is to be constructed according to the blueprints of the world famous Moscow Metro, with the direct help of Soviet engineers and under the leadership of Soviet trained Hungarian engineers."²

After having used up more than half of the allotted amount, the project was halted in 1953.³ It turned out that the Soviet plans were completely unsuitable for the soil conditions under Budapest. The Moscow engineers went home. Many of their Hungarian colleagues were executed or imprisoned for sabotage. Much later, it became known that Hungarian engineers had worked out a plan of their own for the new Budapest subway early in 1949, costing a fifth of the amount of the version that went into the published Five Year Plan. The cheaper Hungarian planned version was not implemented because it was vetoed by the Hungarian Ministry of Defence as being unsuitable.⁴ Dug much deeper than necessary for civilian transport, and wider (to accommodate heavy freight trains), connected to extensive underground storage depots, and linking the two major East-West railway stations on the two sides of the Danube, the Budapest Metro was undertaken entirely with military strategic considerations in mind. It is not a coincidence that work was halted on the project at about the time of the Korean armistice, at a time when the new collective leadership of the Kremlin had embarked on a world peace initiative.

1. Béla Balassa, *ibid.*, p. 197.

2. Ötéves tervünk: Böketerv, *op. cit.*, pp. 18-19.

3. Statisztikai Évkönyv. 1949-1955 (Statistical Yearbook. 1949-1955), (Budapest: Central Statistical Office, 1957), p. 48.

4. Iván T. Berend, Gazdaságpolitika az első ötéves terv megindításakor, *op. cit.*, pp. 94-95.

Another of the "giant peaks" in the Five Year Plan was the Komló and Pecs Coal Mines Development Project. As the plan points out:

Great tasks await Komló. It will have to supply our industrial giant, the Stalin works, with fuel.¹

On the request of the Soviet manager of the Pecs and Komló coal fields and without any preliminary technical assessment, the Party's economic policy committee came to the conclusion that the Pecs and Komló coal was suitable for coking and should therefore be extensively developed. As the coal fields were affiliated with the joint Soviet-Hungarian company Mészart, investments should have been shared fifty-fifty between the two countries. There is no evidence available that this did take place, and it seems that the entire investment bill was footed by Hungary. I have no direct supporting evidence for this, but would assume that Hungary's enthusiastic undertaking of such a major expenditure on its own, and without any proper consideration for the technical concomitants of the project, was no more than an attempt to please the Soviet economic overlords and to provide just one more concession to the Soviet-Hungarian joint companies.

As has been noted, the great tasks of fuelling the 'self-sustaining' giant at Stalinváros fell on the shoulders of the nation's import schedule, further exacerbating Hungary's already serious foreign trade problems.

We can cite similar cases of gross negligence and plundering of the people's wealth in the case of the other great 'peace' projects, such as the Inota Cooperative Works which, according to the authorities, was "... really one of the technological miracles of the Five Year Plan... It will also be one of our biggest energy supplying centres."² In reality, however, the "Inota power plant was less modern and less economical than the Ajka power plant which is twenty years older."³

Having now cast our eyes on the giant investment 'peaks', let us look

1. Öt éves tervünk: Beketerv, op. cit., p. 27.

2. Ibid., p. 25.

3. Imre Nagy, On Communism, op. cit., p. 187.

at the overall 'mountain range': the structuring of production and its political concomitants.

As Tables III.1, 2, and 3 show, Hungary is, both in the level of global investments and in heavy industrial investments, in the forefront of the Socialist countries, following Stalin's dictum quoted on p. above.

Table III.1

Investments as a percentage of National Income (planned)

| | |
|----------------------------------|------|
| Hungarian Five Year Plan | 25.2 |
| Czechoslovak Five Year Plan | 22.3 |
| Polish Six Year Plan | 21.6 |
| Soviet Plan Fulfilment 1946-1950 | 21.0 |
| Bulgarian Five Year Plan | 19.6 |

Source: Adatok és adalékok..., op. cit., p. 43. This statistical study, on p. 113, places the level of actual investments at 35-40% of the Hungarian national income during the Five Year Plan.

Table III.2

Investments in Heavy Industry and Construction as a percentage of Total Industrial Investments (planned)

| | |
|------------------------------|------|
| Hungarian Five Year Plan | 92.1 |
| Soviet First Five Year Plan | 85.7 |
| Bulgarian Five Year Plan | 83.5 |
| Soviet Second Five Year Plan | 83.1 |
| Romanian Five Year Plan | 82.6 |
| Czechoslovak Five Year Plan | 78.1 |
| Polish Six Year Plan | 76.0 |
| East German Five Year Plan | 75.5 |

Source: Adatok és adalékok..., op. cit., p. 44

Table III.3

Heavy Industrial and Construction Investments as a percentage of
Total Industrial Investments in Hungary (actual)

| | |
|------|------|
| 1950 | 91.0 |
| 1951 | 92.9 |
| 1952 | 94.1 |
| 1953 | 93.2 |

Source: Alatok és adalékok..., op. cit., p. 44.

We must briefly clarify the oft mentioned fetishism of Communist developmental plans with heavy industry. Berend and others have argued quite convincingly that the priority of heavy industry during industrialisation is not purely the monopoly of Stalinist Communists but applies to all capitalist, and other industrialised economies.¹ What makes the Stalinist heavy industrial fetishism unique and problematical is the internal structuring of that sector, as indicated, for example, in the Hungarian Five Year Plan document. "Our augmented Five Year Plan is going to be held aloft by our iron and steel industries... The greatest portion of our steel production will be consumed in the form of rolled products (e.g. rails, concrete, round-iron, sheets, etc.)."²

And so it is quite meaningless to talk of heavy industry in general terms. In the Stalinist context, heavy industry meant simply heavy engineering and metal working industry and the one-sided concentration on the production of sheet or rolled steel, pig iron and other primary products. As Berend rightly observed, this one-sided composition of the product mix of heavy industry, "...had neglected the inner laws of industrial development, its differing structuring and technical level in various historical phases."³

1. Iván T. Berend, Gazdaságpolitika..., op. cit., pp. 56-58.

2. Öt éves tervünk: Béketerv, op. cit., pp. 38-41.

3. Iván T. Berend, Gazdaságpolitika az első öt éves terv megindításakor, op. cit., p. 55.

The official argument that the rapid development of these specific components of the heavy industrial sector was necessary in order to "pull" the other sectors along the steep road to industrialisation, is fictitious. Hungary's heavy industries did not 'feed' the other sectors of the economy with their products; rather, they were consuming a growing share of their own production. As A. Bródy pointed out, "the results of the development of our heavy industry are partly used up through deteriorating efficiency in heavy industry; heavy industry does not feed light industry, construction, and agriculture as much as it feeds itself."¹ Another Hungarian economist, Tibor Kiss, showed that in the 1950's 57% of Hungary's imports were channelled into heavy industrial goods.² Hungary in effect became a net 'loser' with each increase in the level of heavy industrial production. This was the phenomenon that Ferenc Jánosy later would call "the negative spiral"³ by which an increasing proportion of the country's productive capacity was tied down by production for exports, so as to be able to buy the imports needed for the production of those exports.

In comparison with levels of heavy industrial investments, investments in light and food industries were extremely small, and were less than 2% of total investments in each case.⁴

The private handicraft and small-scale industry, whose 'ant-like diligence' Gerő had been so careful to praise prior to the introduction of the Three Year Plan, and which, contrary to these claims, the Party severely curtailed during the Three Year Plan, was even more drastically curtailed during the Five Year Plan period.⁵ The vital economic functions performed

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1. András Bródy, in A Magyar Tudományos Akadémia Közgazdaságtudományi Intézetének Évkönyve (Yearbook of the Economic Institute of the Hungarian Academy of Science), Budapest, No. 1, 1957. Here quoted in English by Bela Balassa, The Hungarian Experience in Economic Planning, op. cit., p. 90.
 2. Tibor Kiss, "A nemzeti jövedelem és a külkereskedelem főbb összefüggései hazánkban" (The Interrelation of National Income and Foreign Trade in our Country), Közgazdasági Szemle, Vol. IV, No. 6, 1957, pp. 637-659.
 3. Ferenc Jánosy, "Gazdaságunk mai ellentmondásainak eredete és felszámolásuk" (The Origins of Contradictions in our Economy and their Elimination), Közgazdasági Szemle, Vol. XVI, Nos. 7-8, 1969.
 4. Adatok és Adalékok..., op. cit., p. 40.
 5. A Magyar Ipar. Statisztikai Adatgyűjtemény (Hungarian Industry: A Collection of Statistical Data), (Budapest: Central Statistical Office, 1961), p. 34.

by cobblers, carpenters, plumbers, electricians, tailors, etc. in hundreds of Hungarian villages were not taken over by the large nationalised enterprises. During the Five Year Plan period these essential functions were simply unfulfilled.

Economic policy geared towards the renewal and modernisation of fixed assets was particularly shortsighted and, in the long run, damaging. During the Three Year Plan the planners did not set aside any funds for renewals in state investments; they argued that to do so would encourage enterprises to neglect the fulfillment of other urgent production targets.¹ As a consequence the condition of fixed assets throughout the national economy was, by 1949-50, becoming rapidly rundown and outmoded. Under the Five Year Plan the planners first of all set a very low level for the enterprise amortisation fund, and compounded the negative effects by forbidding the enterprises to spend more than half of that amount on renewals. The other half of the amortisation fund was re-channelled by the planners into new investments.² The economic consequences of this consciously chosen policy were extremely harmful. In all sectors of the economy, fixed assets became run down and obsolete, and greatly hampered the country's continuous economic progress.³

Compared to the level of industrial investments, the amount of agricultural investments was significantly smaller. The official rationale for this was that Hungary must be transformed from an agricultural-industrial country into an industrial-agricultural country by the end of the Five Year Plan.

While the level of planned investments was gradually reduced from the 20% stipulated in the 1948 version of the Five Year Plan to 12.9% in the 1951 augmented version, even this last figure was not realised in practice. As the Central Statistical Office pointed out in 1957:

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1. György Ránki, Magyarország gazdasága az első három éves terv időszakában, op. cit., pp. 171-172.
 2. See Adatok és Adalékok..., op. cit., p. 102.
 3. Ibid., pp. 102-105.
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The planning authorities spent less time on the preparation, planning and implementation of agricultural investments than on industrial investments... Until the end of 1953, compared to the development of industry, especially heavy industry, the development of the level of agricultural investments did not keep up to the prescribed pace... and stayed below the 15% level of the original Plan version as well as below the diminished level of 12.9%.¹

The conscious policy of underfunding agriculture was especially hard felt in investments in agricultural machinery. According to the Plan, the level of funds allotted for agricultural machine manufacture was to gradually increase each year during the Plan period. But the Central Statistical Office's figures show that the reverse path was implemented.²

There were additional factors which exacerbated the agricultural machinery supply situation. During the Five Year Plan period, the construction of storage and maintenance facilities was grossly neglected, as was the manufacture of spare parts for agricultural machinery.³ As a consequence, the number of inoperative machines increased steeply during the Plan period.⁴

While the volume of planned tractor production was consistently unfulfilled, the planners compounded the negative effects by ordering that the number of tractors exported by Hungary should exceed the number imported.⁵ (The planners also showed a strangely one-sided fascination with the production of dumpers.) As an additional negative factor we should also point out that, parallel to this underfulfillment of tractor production, there was also an overall decrease in the number of horses in the country. Compared to 712 thousand in 1950, the end of the Plan period saw 683 thousand horses in the country.⁶

The situation was even more severe in the production of light agricultural machines, equipment, and materials.⁷ As the Central Statistical

1. Adatok és Adalékok..., op. cit., pp. 65 and 159-160.

2. Ibid., p. 260.

3. Ibid., p. 269.

4. Ibid., p. 262.

5. Ibid., pp. 261-263.

6. Statisztikai Évkönyv: 1949-1955, op. cit., p. 189.

7. See Adatok és Adalékok..., op. cit., p. 266.

Office points out, "After 1949 we did not manufacture any ploughs, harrows, seeding machines, for the use of the private agricultural sector... and only to a very small extent or not at all did we produce certain vital agricultural tools and materials, such as spades, horseshoes, wire, nails, etc. The agricultural machine producing companies, in spite of the orders placed with them, were not producing the articles that were asked for."¹

This systematic neglect of mechanisation of agriculture at a time when a great number of workers were leaving the agricultural sector to find work in industrial centres had a ruinous effect on small and middle scale farming - over half of the cultivated land fell under this heading - and it also greatly hindered the development of the newly formed collectives.

The neglect of mechanisation was not the only handicap forced upon the agricultural sector. The production of fertilizers and the allocation of fertilizers between state, collective, and private farms, were also very damaging and retarded agricultural development in the country. Compared with some of the other Socialist states, Hungary's policy on fertilizer production was the most conservative.²

(Perhaps one of the main reasons for the low level of fertilizer production and use was that over half of the funds allotted by the Plan to fertilizer production was in fact channelled into military production.³) The private sector, which in 1952 still comprised 72% of the cultivated land, was allotted only 19% of the fertilizer production, and this accentuated the negative effects stemming from the low overall fertilizer production.⁴

As a consequence of this investment policy, coupled with the discriminatory pricing, tax policies, the practice of compulsory agricultural deliveries, and the harshness of the collectivisation campaign, the country's peasant population was forced into a very difficult position, and by 1953

1. Adatok és Adalékok..., op. cit., pp. 265-266.

2. Ibid., p. 169.

3. Iván T. Berend, Gazdaságpolitika az első öt éves terv megindításakor, op. cit., p. 87.

4. See Adatok és Adalékok..., op. cit., p. 170.

the level of agricultural production was lower than it had been twenty years earlier (see Table III.4).

| Table III.4 | | | | | | |
|--|----------------------|---------------------|-------------------|----------------------|-----------|---------|
| The Growth of Agricultural and Industrial Production during the First Five Year Plan | | | | | | |
| Year | Volume of Production | | | | | |
| | Total industry | Total manufacturing | Total agriculture | Of total agriculture | | |
| | | | | plant | animal | other |
| | | | | cult-ivation | husbandry | sectors |
| index: 1938=100 | | | | | | |
| 1938 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1949 | 128 | 137 | 85 | 77 | 95 | 57 |
| 1950 | 160 | 188 | 89 | 82 | 101 | 50 |
| 1951 | 203 | 246 | 104 | 111 | 94 | 83 |
| 1952 | 254 | 308 | 79 | 67 | 95 | 72 |
| 1953 | 277 | 338 | 93 | 103 | 80 | 77 |
| Source: <u>Adatok és Adalékok...</u> , <u>op. cit.</u> , p. 158. | | | | | | |

2. The Pattern of Consumption

The pattern of consumption, living standards, social welfare, housing, and personal incomes cannot be seen independently of the above described investment pattern. The former simply constituted the residuals of the overall investment basket, the 'leftovers' from the global investment fund not used up in the development of the Party's pet projects in heavy industry.

Earlier we have spoken of the dismal socio-political backwardness of the country prior to 1945, and of the great need to eliminate this backwardness and widespread social discrimination. What were the accomplishments

in these areas after 1945?

Without a doubt, the great pre-war inequalities were terminated. There was no unemployment by 1950. Peasants and workers were learning to read and write in much greater numbers than before. For peasants and workers, upward mobility on the social ladder was no longer a task as arduous as climbing Mount Everest; indeed, workers and peasants were promoted to leading positions in all sectors. The word 'proletarian' was no longer a dirty word. Virtually everyone could vote in the elections, and the doors of the opera, theatres, museums and universities were thrown open to the masses. These and other reforms were all tremendously important and laudable achievements and were long overdue. However, there must have been something seriously wrong with the socio-economic and cultural policy of the Party, for in October 1956 the very classes and strata that were to benefit most from those policies fought hardest and longest against the perpetrators of those policies. (The last strongholds of military resistance in November 1956 were Stalinvaros and Csepel, the country's two major industrial centres.) It is insufficient to merely point to the harsh mobilisation of labour begun during the Three Year Plan as the main source of mass disenchantment with the Party's leadership. The series of broken policy promises, the economic expectations raised and then unfulfilled, were of great significance in setting off the October outburst.

a. Housing

At the end of the Three Year Plan period there was a great demand for new dwellings. The Three Year Plan certainly did not complete the rebuilding of the hundreds of thousands of dwellings that had been destroyed during the war.¹ The primary demands on the country's scarce resources during this Plan were retribution, rebuilding destroyed and damaged factories, and meeting those goals of the economic policy makers that we have described in the previous chapter.

1. Although grandiose promises about expanded housing construction and new comfortable dwellings were certainly made on many occasions, e.g. by, Mátyás Rákosi in a speech to the coal miners of Pécs, in A Fordulat Eve, op. cit., p. 53.

The great demand by 1950 for new dwellings and housing construction was not simply due to the neglect of this question by the pre-war regime, the housing damages sustained during the war, the immediately post-war economic priorities, or simply the yearly increase in population: the regime's industrialisation policy directly brought with it a great demand for new urban housing construction.

The industrial drive drew off vast numbers of people from the countryside into the towns and cities where the new factories were located. Between 1950 and 1953, about 300,000 peasants moved into the industrial sector of the economy, into the cities and towns where housing shortages were acute to begin with.

The Five Year Plan announced the proposed construction of 220,000 new dwellings. What was actually accomplished of this target, and did the authorities pursue their housing policy with any kind of determination or consistency?

In 1950 in Budapest alone - the industrial nerve centre of the country - there was a demand for 30,000 dwellings.¹ The authorities reacted to this by drawing up their one year construction plan for 1950, in which they contemplated the construction of only 1,004 new dwellings in the city. Even this extremely low target was not accomplished in 1950, and in actual fact only 378 new dwellings were built during that year. The rest of the planned 1,004 dwellings was made up simply by repairing old dwellings that had been condemned for demolition.²

During the first year of the Five Year Plan, only 7,328 new dwellings were constructed in Hungary out of state finances.³ The rate of construction increased somewhat during the next years, but in contrast to the 220,000 promised in the Plan, the first three and a half years of the Plan period saw the construction of only 30,821 new dwellings financed by state funds.⁴

1. Iván T. Berend, Gazdaságpolitika az első öt éves terv megindításakor, op. cit., p. 123.

2. Ibid., p. 125.

3. Adatok és Adalékok..., op. cit., p. 69.

4. Ibid., p. 425.

According to the Plan, 86.5% of the 220,000 new dwellings were to be built through direct state financing, and only 13.5% were to be erected through private means. But the actual ratio implemented was quite the reverse.¹ Moreover, the quality of dwellings constructed from private funds was extremely low and resembled 18th and 19th century standards (e.g. only 16% had running water, and 18% had proper bathroom facilities²).

The provision of adequate housing facilities for the country's rapidly expanding industrial population was also restricted by means other than the mere denial of promised financing. As the Central Statistical Office points out: "Building material for the construction of civilian housing was frequently confiscated at construction sites for the purpose of augmenting the demand for factory construction, and in many cases skilled workers were prevented from working on private housing projects."³

b. Public Health and Social Security

Contrary to the grandiose promises of the Plan, the development of public health and medical services was also grossly neglected. The official bulletin of the Statistical Office tells us the following facts in 1957:

Between 1949 and 1956...the methods of medical examinations, medical treatment, and their effectiveness, had deteriorated. As a consequence of the restriction of medical and public health investments, and the neglect of renewals, a significant portion of our public health institutions are anachronistic... They are also vastly overcrowded... Compared to 1938 the length of hospital recuperation permitted per case has been significantly shortened...and this is primarily due to the overcrowding of wards... In many cases, patients were sent home before they had fully recuperated, which hindered their recovery.⁴

The same official bulletin tells us that even in 1956, 64% of

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1. Ibid., p. 425. See also F. Kacsényák, "A lakásépítés finanszírozásának néhány kérdése" (A Few Questions on the Financing of Dwelling Construction), Közgazdasági Szemle, Vol. VII, No. 12, 1960, p. 1389.
 2. Statisztikai Évkönyv: 1949-1955, op. cit., p. 348.
 3. Adatok és Adalékok..., op. cit., p. 425.
 4. Ibid., pp. 433-436.

Hungary's villages were without a pharmacy or medical supplies dispensary.¹ From the figures on Tables III. 5 and 6 we can clearly see the neglect of public health and medical services at a time when industrial investments were being implemented with great haste.

| Table III.5 | | | |
|---|-------------------|-------|-------|
| The Comparative Growth of Industrial Investments and Investments in Hospitals, Clinics and Dispensaries | | | |
| Year | 1950 | 1951 | 1952 |
| | index: 1950 = 100 | | |
| Industrial investments | 100.0 | 160.7 | 199.5 |
| Medical investments | 100.00 | 104.6 | 109.0 |
| Source: <u>Adatok és Adalékok...</u> , op.cit, p. 73. | | | |

| Table III.6 | | | |
|--|-------------------|-------|-------|
| | 1950 | 1951 | 1952 |
| | index: 1950 = 100 | | |
| State investments per social insurance policy holder | 100.0 | 97.3 | 94.7 |
| In Forints | 37.63 | 36.63 | 35.63 |
| Source: <u>Adatok és Adalékok...</u> , op. cit., p. 73 | | | |

c. Personal Consumption and Per Capital Incomes

The plan spoke of a 50% increase in the living standards of the 'toiling masses' during the Plan period,² and, each year during the course of the Plan,

1. Ibid., p. 69.

2. Öt éves tervünk: Beketerv, op. cit., p. 174.

Rakosi and other leaders frequently made reference to the "skyrocketing living standards" of workers and peasants.¹

All types of essential household items were promised to working families in order to ease housekeeping tasks, especially where all members were active wage earners. As the Plan document promises: "From the potato peeler to inexpensive washing machines -- which, by the way, will also utilise only a very low quantity of electrical energy -- all kinds of household appliances will find their way into the homes of our working people during the period of the Plan, and will liberate our working women from the drudgery of the most difficult and time-consuming household tasks".²

The official figures presented by the Central Statistical Office belie these claims. During the Five Year Plan period the consumers, and working families in particular, saw no sign of all the promised household aids. As the absence of these goods was quite obvious from the empty store shelves, the leadership had to provide a counterargument. The lack of washing machines and potato peelers, etc., was blamed on the machinations of "evil enemies of the people...who had secretly (!) organised mass buying sprees". As a consequence of these 'secret' sprees, people were told, vast sections of the population could not receive the necessary household goods that were in fact being manufactured by Hungarian enterprises. As Erno Gero explained in 1952: "It is well known that during 1950 the enemy made many attempts to upset our public supply by organising mass buying sprees, artificial queues, and tried by all kinds of devious means to create difficulties for our public supply. In all of these buying sprees, which exceed actual current demand, we must always look for and find the enemy's hand. In spite of the fact that we have landed a series of crippling blow on him, the enemy has cast itself now on to our public supply. Therefore the question of public supply must now become one of the most important battlefronts of the class struggle".³

1. M. Rákosi, *A békeért és a szocializmusért*, op. cit., p. 348.

2. *Ötéves tervünk: Béketerv*, Op. cit., p. 76 (italics added). We might add that in the age of "Women's Liberation" Hungary's planners are still assuming that household tasks are the woman's responsibility even when they are performed with the aid of technological innovations.

3. E. Gero, *A vas, acél és gépek országáért* (For the Land of Iron, Steel and Machines), (Budapest: Szikra, 1952), p. 95.

The extent of the persecution of the 'enemy' becomes clear in a close reading of various figures published by the Ministry of Justice, the Ministry of the Interior, and the Statistical Office. In Table III. 7 we present the official figures for the number of individuals actually tried and sentenced between 1949 and 1954 for the various economic crimes that Gero spoke of. It must be kept in mind that these figures do not include the tens of thousands that were kept in internment camps and who never made it to the prestigious pages of the Central Statistical Office publications because these individuals were never tried and sentenced formally.

| Table III. 7 | | | | | | | |
|---|------------------|--------|--------|--------|--------|--------|--------|
| Number of Sentences Passed for Economic Crimes between 1949 and 1954 | | | | | | | |
| Crime | Total 1949-54 | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 |
| 1. Crimes against the planned economy | 14,010 | - | 1,217 | 1,108 | 7,607 | 3,769 | 309 |
| 2. Crimes against public supply | 160,304 | 22,502 | 26,972 | 47,296 | 39,560 | 20,000 | 3,974 |
| 3. Stealing | 118,495 | 12,623 | 14,507 | 18,561 | 27,251 | 26,791 | 18,462 |
| Note the decline in groups 1 and 2 after the New Course was introduced. Source: <u>Statisztikai Évkönyv</u> 1949-1955, op.cit., pp. 355-358. | | | | | | | |

Turning finally to per capita incomes and wages, and again using the official calculations of the Central Statistical Office, we find that rather than increasing, real incomes and real wages are both lower at the end of the fourth year of the plan (the year when the New Course was introduced) than at the beginning of the Plan period (See Table III. 8, on the following page).

Table III. 8

Real Wages, Real per capital income of Workers and Other Employees: 1949-53

| Year | Per capita nominal income | Nominal wages | Consumer price index | Index of real per capita income | Index of real wages |
|------|---------------------------|---------------|---|---------------------------------|---------------------|
| | | | With correction for quality deterioration | | |
| 1949 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1950 | 111.6 | 107.0 | 106.5 | 104.9 | 100.5 |
| 1951 | 125.6 | 114.5 | 130.2 | 96.5 | 87.9 |
| 1952 | 169.2 | 147.4 | 188.2 | 90.0 | 78.3 |
| 1953 | 176.7 | 155.0 | 194.6 | 90.9 | 79.7 |

Sources: Adatok és Adalékok..., op. cit., p. 362. Statisztikai Évkönyv. op. cit., p. 196; and Aralukulás Magyarországon 1938-ban és 1949-1955-ben (Price formation in 1938 and 1949-1955), Central Statistical Office, Budapest, 1957, p. 70.

According to Balassa, who also bases himself on official figures presented by the Central Statistical Office and who carries his figures up to the end of 1955, "the corrected index of real wages for workers and other employees shows a 12.1% reduction in real wages between 1949 and 1955... whereas real wages in 1949 amounted to 98% of the 1938 level, the index of real wages on the 1938 basis stood at 87 in 1955" (see Table III. 9, on the following page).

1. Béla Balassa, The Hungarian Experience in Economic Planning, op. cit., pp. 223-226.

Table III. 9

Changes in Real Wages between 1938 and 1955

| Year | Monthly Earnings | | Cost of Living Index | Correction for quality deterioration and disguised price increases | Index of real wages (without correction under '4') '2': '3' | Index of real wages (with correction under '4') '5': '4' |
|------|-----------------------------|------------------|----------------------|--|---|--|
| | in forints (1938 in Pengos) | Index (1938=100) | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 1938 | 104 | 100 | 100 | 100 | 100 | 100 |
| 1949 | 606 | 583 | 563 | 95 | 103 | 98 |
| 1955 | 1,082 | 1,040 | 1,022 | 85 | 102 | 87 |

Source: Béla Balassa, The Hungarian Experience in Economic Planning, op. cit. p. 226.

Let us now conclude this section with a quotation from the Five Year Plan document, which best sums up the 'real' nature and origins of the Party's economic strategy during the First Five Year Plan, as opposed to its propaganda claims:

From the data that we have presented, our intentions can be as easily discerned as from an open book. The country which restricts the construction of civilian dwellings, increases taxes and the prices of consumer goods and the price of prime necessities, must be spending all of its money on the production of war materials and is preparing for war. The capitalist countries are like this... We, on the other hand, as seen from our goals, are a country which is planning its peaceful development.¹

1. Ötvenes tervünk: Béketerv, op. cit., p. 173.

II. THE NEW COURSE: THE FAILURE OF ECONOMIC DECOMPRESSION

Second and third finishers in a marathon race in Des Moines, Iowa, were disqualified yesterday when the organizers decided they covered part of the course in a Volkswagen.

The Guardian, London, May 2, 1972.

As we have indicated in our preceding section, and as it is well known, the 'New Course', announced in mid 1953 in all of Eastern Europe at the behest of the Kremlin, was introduced first and foremost as a safety valve and a political tension management mechanism. Its aim was to reduce the rapidly increasing political pressure on the East European and Soviet collective leaderships stemming from the previous period of societal mobilisation.

In Hungary, the New Course was announced simultaneously with the appointment of a new Premier, Imre Nagy. The story behind Nagy's appointment to head the State apparatus is well known.¹ His non-Jewishness, his lack of association with Rakosi's economic policies, his background as a reliable internationalist not disposed to political intrigues, his record during the Russian civil war, and his popularity with some of the Soviet Politburo members, these were all decisive in his being selected by the Kremlin as Hungary's new premier. As Tibor Méray observed, "From the Kremlin's viewpoint he was ideal. In their search for a man who would serve as the instrument of their new policies, the Soviet leadership would have found it difficult to hit upon one more deserving of their confidence at the moment than was Imre Nagy".²

Before going any further we must spend a moment correcting the conventional view according to which the Kremlin appointed Imre Nagy to the premiership in June so as to enable him to introduce and lead the country's administration in the implementation of the New Course. Only the first part of this view is accurate. Nagy was, true enough, appointed to the post of Prime Minister directly by the Soviet leaders, and told to apply the New

1. See for example M. Molnar and L. Nagy, Imre Nagy: Reformateur ou Révolutionnaire, Geneva, 1959; F. Vali, Rift and Revolt..., op. cit.; T. Méray, Thirteen Days that Shook the Kremlin, op. cit.; and I. Nagy, On Communism, op. cit.

2. T. Méray, op. cit., p. 17.

Course in Hungary. But that the New Course program was unveiled first by Nagy in Parliament in July and not, as is customary, in the Central Committee plenum(which met a week before), and that Rakosi and the top Party leadership took a secondary role to Nagy in the pursuit of the New Course, these are purely the result of Rakosi's default on the same orders given to him as were given to Nagy by the Soviet leadership.

This was perhaps the first sign that Stalinism, in its most excessive form, was beginning to subside. Rakosi had correctly sensed the momentary decompression of authority at the centre of the Socialist "peace camp" and, for the first time, began to believe that every Soviet-designed segment of the road to Socialism need not be reapplied zealously in Hungary. As we will show, the economic reforms proposed by the New Course were anathema to Rakosi and, rather than being the vanguard of the movement along a new transfer path, the Party leadership defaulted on its traditional Leninist function. As a consequence, this vanguard role temporarily fell on to the shoulders of the State administration -- a role which the mechanisms of the State administration could, of course, not fulfill effectively since they had simply not been designed initially with those functions in mind.

Nagy pointed out in his memoirs that Rakosi didn't oppose the appointment of a new premier, but simply "...wanted a premier who would have no voice in the making of decisions".¹ As it turned out, the Kremlin leaders, who had little reason to think in advance that the ever-obedient Rakosi would become disobedient, provided him with a 'partner' who had a mind of his own and never hesitated to express his opinions. As Gordon Skilling says, while the period of dual leadership was more or less a formality in the other Socialist states in Eastern Europe, the situation in Hungary was quite the reverse: "In Hungary, the period of 'dual rule' between the heads of Party and State, were years of deadly conflict".²

1. Imre Nagy, *On Communism*, *op. cit.*, p. 250.

2. Gordon Skilling, *The Governments of Communist East Europe* (New York: Praeger, 1966), p. 79.

1. The June Resolution of the Central Committee of the HWP

The full text of this important and momentous resolution, in which the criticism of the past and the orientation for the future were set down, has never been published. This is paradoxical, considering that the present leaders of the HSWP frequently refer to it in their speeches and articles, and claim to be following its economic guidelines. In 1964, when Iván T. Berend was commissioned by the Party to examine its archives with a view to writing a critical appraisal of Rakosi's economic policies, he was unable to find any trace of the full text of the resolution,¹ i.e. he was denied access to it. Since, as we will show, there is a very close continuity between the June resolution and the Kádár regime's post-1960 economic reforms, we must first of all briefly examine the reasons why the full resolution is hidden from public view even today.

i. Initially, the resolution was kept from being published on Rakosi's orders. The reason for this was, first, that the resolution approved Rakosi's resignation (shortly before the meeting's adjournment, a telephone call from Khrushchev reversed this, and Rakosi remained Party Secretary),² and second, that Rakosi engaged in detailed and severe self-criticism, which also went into the text of the resolution. To have published the text while he continued as Party Secretary would have seriously undermined his authority within the Party. One of the few public glimpses, or leaks, of the June resolution permitted by the present leadership clearly exposes the damning anti-Rakosi thrust of that document:

Rakosi himself had admitted his political responsibility (for the illegalities) at the June 1953 Central Committee meeting as follows: "I directed the work of the State Security Authority. In this capacity I interfered

1. As Berend writes, "It was the June Plenum of the Central Committee of the Hungarian Workers Party that first criticised the grave mistakes committed in political economy during the early 1950's. The resolution of the plenum has not been brought to light. Its provisions and orientation reached the public only a few weeks later, on July 4th, in the form of the government program tabled in Parliament. For the time being, we cannot verify how closely or with what alterations did the government program reflect the June resolution." (italics added), Gasdaságpolitika az első öt éves terv megindításakor, op. cit., p. 35.

2. See François Fejtő, op. cit., note 20, p. 513.

in the conduct of cases and intervened in who should be arrested".¹

ii. The Soviet ambassador to Hungary, who was present at the Central Committee meeting and saw the text of the resolution, was also vehemently against its publication. Soviet opposition to the publication of the full resolution is still valid today, because the resolution reveals some of the details of the one-sidedness of post-war Soviet-Hungarian economic relations, and the extent of Soviet economic control over many strategic areas of Hungarian economic life. As in 1953, so also today, details of this Soviet exploitation would be very embarrassing to the Soviet Union, and would also require that many historical analyses of the sources of Hungary's economic problems in the early 1950's be re-written. The fact that Soviet-Hungarian joint companies and the other Soviet interests were handed back to Hungary within a year of the resolution is not a mere coincidence, but the result of the resolution's overt call for such measures.

iii. The resolution is explicit about pointing out that collectivisation of agriculture is not an immediate or essential feature of the transition to Socialism. This part of the resolution would have been very problematical for the Kádár leadership in the late 1950's. While stating that they fully endorsed all of the principles of the resolution, the Party leadership nevertheless introduced a massive collectivisation drive of their own in 1958-59.

iv. The name of Imre Nagy, whom the Kádár regime sent to the gallows in 1958, is very closely linked to the June resolution. Váli quotes György Heltai, deputy foreign minister in Nagy's October 1956 government as saying:

The tenets of this program (the June resolution) were put together by Imre Nagy himself. The top Party and government functionaries were reluctant to assist in an analysis of the mistakes of the past. Imre Nagy drew up his critical comments on the past, partly on the basis of data given to him by the Russians, partly with the help of one or two Hungarian

1. "Az MSZMP Központi Bizottságának Határozata a személyi kultusz éveiben a munkásszolgalmi emberek ellen indított törvénytörési perek lezárásáról" (The Resolution of the Central Committee of the HSWP on the Violation of Legality Committed in the Persecution of Members of the Labour Movement During the Years of the Personality Cult), June 14-16, 1962, in A Magyar Szocialista Munkáspárt határozatai és dokumentumai: 1956-1962 (The Resolutions and Documents of the HSWP: 1956-62).

economists, but mostly on the basis of his notes.¹

The New Course was, as has been noted, first announced publicly in Parliament on July 4th by Imre Nagy.² The program announced in Parliament on that date is in fact quite similar to the June resolution, but the present Hungarian leaders have frequently denied this. They say that they are in support of the June resolution and not of the July 4th government program because the latter is but a revisionist distortion of the earlier, correct Party decision. Or, as they have asserted officially: "The right wing policies announced by Imre Nagy in 1953 were revisionist distortions of the Central Committee's correct June resolution".³

The publication of the full June 1953 resolution would, in short, simply prove that the Kádár leadership, as well as the earlier Rákosi leadership, have been lying to the people of Hungary over the past 25 years.

There is, however, a further and related reason for the Kádár regime's reluctance to bring the text of that document to light even today. The resolution is virtually identical to the program set down by Nagy in his "dissertation" published in the West under the title of On Communism. The paradox is that the prosecution at Nagy's trial in 1958 used Nagy's dissertation as evidence to prove that the former premier was a traitor. In other words, the texts smuggled to the West were used in Nagy's trial in support of the prosecution's call for Nagy's execution. To quote from the official trial records:

President of the Court: Did Imre Nagy give you political essays written by him, the essays written by Imre Nagy in 1955 or 1956?

Miklos Vársárhelyi (witness): Yes, I received them. I received one entitled 'Five Principles' and others as well. I received one on 'Morals and Ethics', another on economic questions, and then 'Some Topical Questions'. In other words, I received several essays.⁴

1. Ferenc Váli quotes the passage in his Rift and Revolt..., op. cit., p. 93. Heltai's comments are taken from the hitherto unpublished text of the "Columbia University Research Project on Hungary".

2. For the full English translation of the text published in Szabad Nép on July 5, 1953, see W. Juhász, Hungarian Social Science Reader, op. cit., pp. 156-63.

3. "Az MSZMP Országos Ertekezletének Határozata" (The Resolution of the National Congress of the HSWP), June 27-29, 1957, in A Magyar Szocialista Munkáspárt határozatai és dokumentumai 1956-1962, op. cit., p. 83.

4. The Counterrevolutionary Conspiracy of Imre Nagy and his Associates. Published by the Information Bureau of the Council of Ministers of the Hungarian People's Republic, Budapest, 1958, p. 23.

The official trial records sum up Nagy's manuscript in the following way:

In his writings...Imre Nagy elaborated the political platform aimed at overthrowing the Hungarian People's Republic. This platform bore the earmarks of the guiding principles put forward by outstanding propagandists of Western imperialist circles (Walter Lippman, Sulzberger, etc.) concerning the tactics of overthrowing the people's democratic order. Imre Nagy and his confederates set up their organisation on the basis of this political platform.¹

The identity between On Communism, a document dismissed by the Party as a counter-revolutionary diatribe, and the June 1953 Central Committee resolution, which the Party supports as expressing a correct Leninist stance, would, if it ever came to light, be extremely embarrassing for the Party.

But let us now turn to the analysis of the economic reforms, the new economic policies, and the new economic mechanisms suggested during the New Course, and examine the politics of the first ever attempts to introduce a radical new economic reform that was designed to eliminate the basis of the mounting socio-political problems facing the Party.

2. Changes in Economic Policy.

Along the well-known Bukharin-Preobrazhensky continuum, Nagy was definitely closer to the Bukharin end of the yardstick, although this has been seriously overstated by most commentators. This overstatement, indeed, has also helped to blur the similarity between the Kadar regime's economic reforms and those actually proposed by Nagy.

According to his Communist critics in Hungary, Nagy trampled on everything that was sacred to Socialism, ignored the problem of productivity, the laws of proportionate development, the priority of heavy industry, and the means of production in the share of industrial investments. He is accused of being a "narrow consumerist" who, among other things, was also determined to reintroduce private agriculture and was obsessed with bourgeois

1. Ibid., pp. 3, 23. See also the section "How Imre Nagy's Essays Reached the West", pp. 126-127.

sentimentality and national chauvinism.¹ Nagy's retort to all of the above charges was concise and unambiguous: "I consider these blatant lies and their perpetrators common character assassins".²

What economic policies did he actually stand for? With respect to his views on the laws of proportionate development, he sums up his views in the following manner:

...abundance of goods can be achieved only through the primacy given to the manufacture of the means of production... Development of industry, therefore, is an integral part of the June policy... I have never held or propounded views denying the necessity of the constant development of heavy industry... (On the question of) the relationship and proportion between Categories I and II, primacy of production of production means, and the development of heavy industry, I have taken the correct Marxist-Leninist stand... When Subdivision A/1 of Category I diverges sharply from Subdivision A/2 of Category I and also from the development of Category II, as it happened in Hungary, there is but one solution: slow down as a temporary measure the development rate of Subdivision A/1 of Category I and channel the accumulation from there to Subdivision A/2 of Category I and to Category II.

This is the gist of the economic policy we had tried to carry out in the New Course, which was very far from denying the primacy of producing means of production as the 'leftist' zealots have asserted. This policy meant simply that our industry would temporarily produce more means of production for manufacturing consumer goods than was the pre-1953 practice, when our industry produced mainly such means of production as served the manufacture of other capital goods... The incorrect opinion which we encounter in so many articles, studies and even Party resolutions, and which labels the slowing down of heavy industry as a right wing deviation, is due to a great extent to the fact that the Party membership, the masses and the scientific institutions are even now (sic) unfamiliar with the full text of the June 1953 Central Committee resolution which exposes the mistakes and outlines the new tasks.³

I have not been able to find any evidence in any of his articles, speeches,

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1. Eg. István Friss' diatribe against Nagy's "anti-Marxist, anti-Leninist stance" in "Parasztágunk útja a népi demokraciában" (The Road of our Peasantry in the People's Democracy), *Közgazdasági Szemle*, Vol. II, No. 3, 1955, pp. 412-420; István Földes, "A szocializmus gazdasági alaptörvénye" (The Fundamental Laws of Socialism), *Közgazdasági Szemle*, Vol. II, No. 5, 1955, pp. 592-605; and the editorial in *Közgazdasági Szemle*, Vol. II, No. 3, 1955, pp. 260-268. See also the English text of the "Resolution of the Central Committee Concerning Imre Nagy", in W. Juhász, ed., *op cit.*, pp. 178-179.
 2. Imre Nagy, *On Communism*, *op. cit.*, p. 95.
 3. *Ibid.*, pp. 103-108; 130-131.

and books, or in the writings of his most intimate friends, supporting the assertions that Nagy wanted 'to ride into Socialism on the back of the peasant nag', that he wanted Hungary's agriculture to be run as in Denmark, or that he was opposed to collectivised agriculture. His public statements as well as his "dissertation" are explicit in pointing out first of all that rapid industrialisation is at the core of the movement towards Socialism, and secondly that collective farming is the most effective means of increasing the level of agricultural production and bringing Socialism into the countryside.

I never held the view that small and medium sized peasant holdings automatically develop in the direction of Socialism within the limits of small-scale production... There can be no People's Democracy without a cooperative movement just as the cooperative movement can only develop and realize its great goals completely in a People's Democracy... The cooperative is the lever with which agricultural production can be lifted from today's backwardness and be made not only to supplement the advantages of large holdings but even greatly surpass them... Both the government and Party are unalterably of the opinion that cooperative farming is the sole viable and effective road to increasing agricultural production and improving the lot of the peasantry.¹

Nagy was, to be sure, severely critical of the collectivisation drive implemented in Hungary after 1948, but this criticism was not directed at collectivisation as such but rather at the way in which it was being implemented. He argued that the Party leaders neglected to provide financial or material incentives for the new collectives, that they neglected to provide essential technical supports -- machinery, fertilizers, the education of peasants in large-scale and modern farming techniques, etc. He condemned the practice which exploited not only the kulaks in the countryside, but also the small and middle peasants as well. All in all, he opposed the regime's collectivisation drive since 1948 on the grounds that it was being conducted in an unsocialist and brutal fashion and, as evidenced by the decline in agricultural output between 1949 and 1953, that it ignored the requisites of farming efficiency. Coupled with peasant demonstrations and riots in the Great Plains and a critical balance of payments problem, these considerations convinced Nagy that, just as the Soviet Union took one step backward with the NEP in 1921,

1. Ibid., pp. 146, 148, 152.

so too Hungary should make a short-term tactical retreat on the question of collectivisation in order to defuse the growing peasant discontent and boost agricultural production. Replying to the charges of Rákosi's protégé, András Hegedüs, who replaced Nagy as premier in 1955, Nagy writes:

András Hegedüs simply acts as if he didn't know what he knows just as well as I do. For the June resolution plainly states that the farm cooperatives must be allowed to disband if they wish to do so, and explains why... It should be noted that the above directive with reference to the cooperatives did not get into the Central Committee resolution by accident but was proposed by the Soviet comrades... Comrade Molotov (and not Beria) reassured us as follows: "The farm cooperatives must not be disbanded by fiat, but should they choose to disband voluntarily, they shouldn't be hindered. No harm will come of it".¹

The actual policy changes implemented in Hungary during the New Course are by and large overstated in the literature. Not that radical changes were not contemplated, but that the implementation of these policies were circumvented by committed Party opponents of the New Course economic strategy. This divergence between policy aims and policy implementation during the New Course is well documented by the Central Statistical Office. For example "On the basis of the government program, the structure of investments for 1953 was modified. The ratios put forth in the modified plan had not been fulfilled; the regrouping of investments was not realised according to the prescribed degree".²

It should be pointed out in connection with the reduction in the share of industrial investments in 1954, that this was due not simply to Imre Nagy's influence or to the New Course. A lower rate of industrial investments for 1954 was already 'on the books' as a conscious policy in 1950, when it was decided that because of military considerations, heavy industrial investments should be stressed much more at the outset of the Plan, and that agricultural investments should begin to be realized later, towards the end of the Plan

1. Ibid., p. 153.

2. Adatok és adalékok..., op. cit., p. 51. Similar conclusions are reached by Robert Hoch, "Árualap és vásárlóerő" (Commodity Base and Purchasing Power), Közgazdasági Szemle, Vol. I, No. 2, 1954, p. 215; József Bognár, in Közgazdasági Szemle, Vol. I, No. 2, 1954, p. 124. According to Méray and Aczel, the main saboteur of the restructuring of industry was the Director of the Planning Office, Béla Szalai (see The Revolt of the Mind, op. cit.) p. 283.

period.¹

On the implementation of the new policy of channelling more investments into the renewal of fixed assets, the modernisation of equipment, machinery, the raising of the level of technology in production — so as to increase productivity — the Central Statistical Office is once more revealing:

During the Five Year Plan period, but especially in its last years, a significantly greater proportion of our investments were spent on construction and to cover the costs of other investments (eg. the purchase of non-machinery equipment, planning costs, etc.) and a comparatively smaller portion was used for the installation of machines and technological equipment... The distribution of investment between construction and machines did not enable us to increase significantly the level of productivity".²

With respect to Nagy's foreign trade policy, again there are numerous confusing and contradictory interpretations in circulation. To begin with, the one area over which Nagy had the least influence during his premiership was foreign trade. To equate the visible changes in the direction and volume of Hungary's foreign trade between 1953 and 1955, and the deterioration of Hungary's trade balance, with the effects of Nagy's interference, is erroneous. As Nagy points out:

...every new foreign credit action had to be carried out on the basis of Party resolutions... All important foreign trade resolutions — such as those concerning trade and payment agreements, credits, export-import plans, foreign exchange management, and long-term contracts — were made on the basis of the decision of and in entire agreement with the Political Committee (the Politburo)... First Party Secretary Mátyás Rákosi, who presided over the meetings of the Political Committee... considered foreign trade his special field; he kept it under his immediate direction...

(W)ithin the Council of Ministers, foreign trade was not under my direction but under the supervision and direction of Ernő Gerő, First Deputy Premier...³

To be sure, at least since 1947 we know that Nagy was in favour of a multilateral and comprehensive integration of East European economic policies and industrialisation strategies, and that rather than supporting the idea of autarky, he supported the law of comparative advantage.

1. Iván T. Berend, Gazdaságpolitika az első ötéves terv megindításakor, op. cit., p. 99.

2. Adatok és adalékok..., op. cit., p. 55.

3. I. Nagy, On Communism, op. cit., p. 240. He is quoting from an article by him that appeared in the journal Közgazdaság on March 30, 1947.

Harmonised cooperation and economic collaboration will increase the capacity, importance and influence of the small economic units. The close cooperation of the Danube Valley countries...must replace the competing or at best divergent economic efforts that they have been waging with only the support of their own resources... We can advance in these areas only through close cooperation with our neighbours and through the coordination of our economic plans.¹

In all of his statements on foreign trade, Nagy identified the source of Hungary's foreign trade problems in the distorted and one-sided structuring of industrial production during the preceeding years and in the severe restrictions and handicaps placed on the efficiency of agricultural production.² He believed that the only way to overcome the country's foreign trade problems was to first of all correct the distortions in Hungary's industrial structure, to rapidly modernise the techniques and technology of production, to increase the level of productivity, and to increase the production of agricultural goods for export (again by way of added financial incentives, modernisation of technology, and increase in productivity).

Whatever meager control Nagy had over foreign trade was also greatly undermined by a powerful external economic variable. Late in 1954 the USSR unilaterally cancelled 50% of her projected 1955 raw materials deliveries to Hungary.

Nagy does not say that this drastic reduction which completely upset the Hungarian One-Year Plan for 1955, was politically motivated: he sees the autarkic policies of the past as responsible for the sudden difficulties.³

Parallel manufacturing and the exaggerated trend toward autarky within the Socialist camp not only reduced our opportunities to export within the camp, but also deprived us of chances of importing basic and raw materials. Consequently our foreign trade was shifted more and more toward the capitalist world and increased our indebtedness in this direction. The foreign trade situation was further aggravated during the second half of 1954, when trade conferences with the Soviet Union and the other friendly countries revealed that in 1955 we would get from them only 50% of what we received in 1954 in the way of essential products and raw materials. The remainder would have to be obtained from the capitalist countries... Thus the situation that developed between November 1954 and January 1955 posed unusually great difficulties for our entire economy... Not only internal

1. Ibid., p.240. He is quoting...

2. Ibid., pp. 105-106, and the chapter on "The Question of National Indebtedness to Foreign Countries", pp. 184-193.

3. I. Nagy, On Communism, op. cit. pp. 192-193.

but much more powerful external forces and factors exerted a harmful influence, especially in the field of foreign trade agreements; this made it all but impossible to overcome the difficulties.¹

On the new agricultural policy, which was an important element of the New Course, the post-June 1953 developments are once again confusing. The most visible feature at this time was the mass exodus of peasants from the collective, and a spontaneous reversion to private agriculture. The government's laissez-faire attitude to this went a long way towards defusing peasant discontent. With respect to channelling more funds into agricultural modernisation, however, and increasing the level of farming efficiency through various government-sponsored projects and mechanisms, very little was accomplished. The main reason for this was that there simply weren't any resources freed during the first year and a half of the New Course for this purpose. The sabotage of industrial restructuring, increasing foreign trade subsidies, and the necessity of instituting a temporary stop-gap real wage increase together constricted the supply of capital that could have been used to provide agriculture with the needed financial injection. And so, in this area also, the lofty designs of the New Course were only partially fulfilled.

The restructuring of industrial production and the correction of the imbalance created by the previous seven years of economic strategy required a careful and comprehensive long-term policy. Hasty re-channelling of investments, the haphazard cessation of heavy industrial projects already in progress, would have simply compounded the waste of resources. Nagy was particularly concerned about this problem of how to correct the mistakes of the past without creating problems of a different nature which would bring along with them destabilising factors like those that had resulted from the earlier policy. He decided to ask the economists of the Economic Institute to work out a long-term economic plan on the basis of which Hungary's production would be restructured more in harmony with the country's natural endowments. However he was politically barred from actualising his plans:

Guiding principles of a long-range plan for the Party and the government in the field of socialist industrialisation should have been developed in

1. Ibid., pp. 189-191.

a program of work. The idea was accepted by the October 1954 meeting of the Central Committee, and the Political Committee put me in charge of working out the details of this program at the head of a committee appointed to direct this work. Preparatory work would have enabled us to start with the actual work as early as December of 1954. I had prepared the outlines of my introductory speech. The Political Committee prevented me from delivering the speech because of the stand taken by Rákosi and Gerő... The blocking of the realisation of this plan was an important manifestation of resistance.¹

The new living standards policy was also very haphazardly implemented, resulting in effects quite different from those initially intended. Without a doubt the reduction of real wages during the first three years of the Five Year Plan was politically very destabilising and one that the New Course economic policy was determined to rectify. One of Nagy's first actions was to introduce a nominal increase in wages of 15%. While this action was very popular with Hungary's wage earners, Rákosi and Gerő were busy designing counterbalancing measures that would wipe the 15% gain out and thus check the tide of Nagy's popularity. While Nagy was away on holiday in the Soviet Union, Rákosi and Gerő pushed through the Politburo a set of social benefits reductions and taxes that virtually cancelled out the nominal wage increase. As Nagy points out:

The 'left-wing' extremists did not give up their efforts... Some of them attempted simply to thwart the regulations aimed at raising the workers' standard of living, while others took positive action to reduce the standard of living. Acting without the knowledge of the government, the Economic Policy Committee enacted a number of resolutions and took action on the basis of these resolutions...(that) caused a great deterioration in the economic, social, and cultural status of persons living on wages and salaries, especially industrial workers. The Economic Policy Committee did not attempt to remedy the economic situation by increasing production; it sought to do so purely by economising. However, it attempted to effect all economies at the expense of the worker. The ideological basis for this harmful, anti-worker action was derived from Matyas Rakosi's assertion that supposedly our workers live 'extravagantly'... But they didn't forget the peasants either. Upon instruction from the Committee, the Ministry of Finance prepared a proposal increasing the taxes of the peasants by 600 million forints and raising local taxes by 200 million forints.²

1. Ibid., pp. 136-137.

2. Ibid., p. 177.

3. Changes in the Mechanism of Economic Control

The Western Literature on the political economy of the Hungarian New Course suggests that little attention was focussed on reforming the economic mechanism of command planning from the time of the introduction of the New Course up to the October Revolution in 1956. William F. Robinson, for example, argues that only after 1956 was official attention in Hungary focussed on the problems caused by the economic mechanism as opposed to economic policy. On the economic aspects of the New Course, he writes:

These are all, however, matters of aim, or economic policy. At the beginning of the New Course no one was yet questioning the economic mechanism, particularly the planning system... the rigid, overbureaucratic, overcentralised system of detailed plan instructions was initially ignored; yet this had also contributed its fair share to Hungary's economic troubles.¹

In our opinion this is not an accurate assessment at all of the political economy of the Hungarian New Course, of the direction of Hungarian economic reforms prior to 1956, or of Imre Nagy's overall concept of economic reform.

We have, through discussions and readings, found that as far back as 1948, at a time when Western commentators tell us Hungary's economy was still three years away from becoming a command economy, a proposal was put forth for a new economic mechanism.² Its aim was to decentralise the already excessively centralised decisional authority of the ministries, and to substitute indirect regulators and the comprehensive use of economic levers and incentives for the rapidly mushrooming plethora of direct, quantitative, physical hierarchical commands. These 1948 proposals were vetoed by the Central Committee's economic department headed by Ernő Gerő. The proponents of the new mechanism were given a severe reprimand and were told that, in politics as in economics, there is no such thing as a third road (see Gerő's remarks at the opening of Karl Marx University of Economics on p.106 above). As a consequence, none of Hungary's economists dared to engage in a similar reform exercise in public until a number of years later.

1. William F. Robinson, The Pattern of Reform..., op.cit., pp. 4-5.

2. Gy. Ránki, Magyarország gazdasága az első Három Éves Terv Időszakában, op. cit., p. 160.

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We have also learned that incipient criticism of the command mechanism as a system was gaining momentum at Karl Marx University of Economics from about 1950 on. This movement, to be sure, was strictly behind closed doors at informal discussions among trustworthy colleagues. (Some of the people involved, to varying degrees, were Tamás Nagy, György Péter, József Bognár, Béla Csikos-Nagy, Robert Hoch, and Péter Erdős.)

What specific suggestions were made by Nagy on the reform of the mechanism of economic control? Certainly, neither the June resolution nor the program presented to Parliament in July 1953 offers a systematic criticism of the command mechanism or a blueprint for a new one. There was, however, a general recognition of the need to institute a reform of the economic administration based on the decentralisation of economic decision making.

One of Nagy's first actions as premier was to order the establishment of an inter-ministerial committee to examine and provide tangible solutions for the excessive bureaucratisation and centralisation of economic management, and to work out a framework of economic administration that would sustain the new administrative model based on a large-scale reduction of approved plan index numbers. As we will show, the work of this "rationalisation committee" was actively sabotaged by the Party leadership and its focus was misdirected on Rákosi's orders, so that little if any concrete change was made to the command mechanism during the New Course.

There are many other examples we can point to that show a growing concern with the reform of the economic mechanism during the New Course. At the Third Party Congress of the HSWP in May 1954, even Rákosi himself declared (although he never in fact acted accordingly) that "the bureaucracy and excessive centralisation is becoming the major hurdle in our development".¹ Rákosi also pointed out in his keynote address to the Party Congress that:

Excessive centralisation lessens the responsibility of executives on the middle and lower rungs of the ladder and impedes their development... the roots of mistakes committed in the field of economic policy go back

1. Az MDP III Kongresszusának rövidített jegyzőkönyve (Budapest: Szikra, 1954) p. 96. Quoted here in "Gazdasági igazgatásunk egyszerűsítéséről" (On Simplifying our Economic Management), Közgazdasági Szemle, Vol. II, No. 12, 1955, p. 1,493.

to the shortcomings of planning work. Our planning does not rest on a sufficiently scientific basis; it is not sufficiently realistic; it is unable to gauge and coordinate all the prospective factors which should be taken into consideration. Without the basic improvement of our planning work, we have no guarantee that our economic leadership will improve... The work of the Planning Bureau ought to be directed primarily towards the essential interrelations, the setting of proper proportions, the exact gauging of our possibilities and requirements and to the better disclosure and mobilisation of our reserves, production capacities and local production potentialities. We must pay considerable attention to economical management especially in investments.¹

Following Rákosi to the lectern, Nagy then spoke to the III Party Congress, and almost his entire speech dealt with the need to decentralise economic decision making and to reform the apparatus of economic control:

The struggle against bureaucracy, for simplification and reduction in costs of the state apparatus, the struggle to bring the state apparatus closer to the masses, is a particularly important task of the Party and the government.

The reason for the growth of bureaucratism should be sought not in the local councils, but rather in the work of the higher organs of state administration.

The deluge of papers with which the higher administrative organs flood the council apparatus simply paralyses the work of the councils. One of the most important tasks of the Party and state bodies in the struggle against bureaucracy is to improve the check-ups, simplify the office work, coordinate the administrative system with the system of our national economy and with the demand which economic development makes on the state apparatus.²

1. "The Third Congress of the Hungarian Working People's Party", Report of Mátyás Rákosi, New Hungary, Supplement, Vol. 4, No. 6, 1954, Budapest, pp. 52-53. (Italics added).

2. Imre Nagy, "Tasks of State Apparatus and Councils in Hungary", ibid., p. 112. It is, perhaps, also worth noting K.E. Voroshilov's speech to the Congress and his heavy emphasis on the need to develop Hungarian agriculture: "The great Lenin taught us to find at every given moment in the historical chain of events that particular link of the chain 'which we have to grasp with all our force in order to hold the whole chain and firmly prepare the transition to the next link of the chain'. Such a decisive link in the chain of Hungary's economic development is at present the advance and all-round development of agriculture... The solution of this great and complicated task is in the vital interest of all strata of the Hungarian working people". Ibid., p. 119.

Nagy himself never offered a grand design for a new economic mechanism. His achievement, rather, was that he called on the country's economists to assist in the designing of the new economic mechanism and he provided a general framework or orientation which the economists should use in drafting the new model. (This call by the leadership for the economic specialists to assist in the mapping out of reform was similar to the behaviour of the Party and government in the mid-1960's, when once more the urgency of changing the mechanism of economic control was recognised, and research teams were formed and entrusted by the Party with the task of drafting reforms.)

The new economic policies could, in Nagy's opinion, be achieved only on the basis of a rapid development of productivity and through the increase of the technological inputs in all sectors and levels of the economy, from the planning office down to the productive units themselves. Indeed, one is struck by the virtually word-for-word identity between the statements made by Nagy in 1953 and by Rezső Nyers in 1964 on the technological backwardness of production as constituting one of the chief sources of Hungary's economic problems:

"The first Five Year Plan made no basic changes in the technical backwardness of our industry: while great investments were being made in increasing production capacity, almost nothing was being done to perfect production and improve technology... Despite the fact that our industrial basis was greatly expanded during the Five Year Plan, the difference between the technological standards maintained in our country and in industrially progressive countries increased. To put it plainly, progressive techniques left us further and further behind."¹

and, ten years later:

"The results of the grandiose efforts of 1950-53 were spoilt by the fact that almost everything that we did was done purely to increase the quantity of production. While in this sphere we made giant strides, technological and technical development progressed at a snail's pace. In 1953 we discovered the harmfulness of this policy. The Central Committee of the Hungarian Workers Party, in its June 1953 resolution, correctly defined the main tasks and the actions that should follow."²

1. Imre Nagy, On Communism, op. cit., p. 187.

2. Rezső Nyers, Gazdaságpolitikánk..., op. cit., p. 39.

It was under Nagy's premiership and at his direct instigation that the Economic Institute of the Academy of Sciences was established in 1954 and became the main centre of research and study in Hungary, on reforming the command mechanism.¹ Although there wasn't much opposition put up in 1954 by the Party leadership against the establishment of the Institute, Rákosi and Gerő insisted that István Friss should be named as its Director. (At the time Friss was head of the economic department of the Central Committee's Secretariat; he had previously been Gerő's Secretary at the Economic Policy Committee, and he was considered to be not only a close personal associate of the two top leaders of the Party but also strongly committed to their earlier Stalinist economic policies.) Nagy was, however, able to have Ferenc Donáth appointed Assistant Director.

The first year of the Institute produced no comprehensive critique of the old mechanism; nor did it offer a new mechanism of economic control. This was not because of inattention to the problems stemming from the excessive centralisation of economic decision making, but rather because of the interaction of the following variables: at the beginning, months were lost in attempts to devise the most effective internal organisational forms for the Institute, staffing of various departments, formalising and institutionalising departmental divisions of labour, and through the organising of mundane matters such as ensuring a steady supply of pencils and paper clips there was also a certain degree of political uncertainty among the Institute members as to just how sincere was the official call inviting them to apply the principles of science rigorously to the revision of economic policy and economic mechanism.

Many people, both in the field of science and in practical work, were of the opinion that the laws of development of our people's economy are specifically laid down by our Party's Central Committee and by the government. And if these are the bodies that are responsible for determining our economic laws, why then should we bother analysing economic life and its regularities? If the laws of economic life are formulated by men

1. See the references to Imre Nagy's opening speech at the General Assembly of the Academy of Sciences in 1954, in "A Közgazdaságtudomány fellendítésének szolgálatán" (In the Service of the Revival of Economic Science), Közgazdasági Szemle, Vol. 1, no. 1, 1954.

based on their own imagination or knowledge, then there is not much room left for scientific research.¹

After these initial delays in the commencement of the Institute's work, when we turn to the publicly announced research programme of the Institute for its second year we find that it established its main goal as the creation of a comprehensive new economic mechanism:

At its most recent session, the Scientific Council of the Institute marked out the main research tasks for this year. On the basis of this, the Institute worked out its research plan for 1956. During the assignment and distribution of the specific research tasks to departments, the aim was to ensure that the research should provide as immediate and as great an assistance as possible towards solving the most important economic problems facing our people's economy. This aim can best be achieved if the researchers direct all of their energy to solving the most central and interdependent problems of the economy. On the basis of the past years' experience with economic policy and economic planning, two such central -- and interrelated -- problem areas have emerged that require the concentrated research focus of the Institute:

- a. the most effective harmonisation of central planning and local, independent initiative, i.e. the increase of local (enterprise) independence; and
- b. increasing the application of personal material incentives in the solving of the current problems facing our economy, the harmonisation of individual and social interests.

These two problem areas are closely interlinked with most of the timely and urgent problems of the management and guidance of the national economy; the increase of productivity, the reduction of production costs, the battle against wastefulness, the improvement of quality, technological development, the widening of product assortment. The successful solving of all these problems is largely dependent on our ability to interest, or stimulate, the producers themselves, the enterprises as well as the supervisor directing bodies in the solving of these problems. It is dependent on our ability to ensure, via material incentives also, the harmonisation of individual and social interests... The solving of these central problems is the main task of the Institute.²

We must also draw attention to an important article by József Bognár, who in 1954 was Minister of Domestic Trade and Chairman of the Department of Domestic Trade at Karl Marx University of Economics. Bognár's arguments

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1. "A Közgazdaságtudományi Intézet munkájának megindulásához" (Towards the Commencement of Work of the Economic Institute), Közgazdasági Szemle, Vol. II, No. 1, 1955, p. 87. (Italics added).
 2. "A Közgazdaságtudományi Intézet egy éve" (The First Year of the Economic Institute), Közgazdasági Szemle, Vol. III, No. 4, 1956, p. 466.

are significant on a number of levels. For one, he too is one of the leading 'fathers' of the 1968 NEM, and this next statement of his explicitly underlines the continuity of reform thinking between the New Course period and the mid '60's. Beyond this, the statement is significant because it points out loud and clear the reformers' belief that the traditional command economy is a political liability, and that it endangers the leading rôle of the Communist Party. It also clearly points out official recognition of the relationship between the forms and contents of economic planning, and the need to harmonise the reform of economic policy with the reform of the economic mechanism.

The policy pursued by us prior to the announcement of the new Course undermined the close relationship between the Party, the government, and the masses, weakened the foundations of our state, the alliance of the working class and working peasants, and endangered the cooperation of the working classes with other strata of society. The weakening of the mass basis of our People's Democracy is rooted first of all in the mistakes committed in economic policy... But the modes of our economic guidance and management also precipitated against reaching the excessive goals we set for ourselves, and will not permit us to reach our targets... The experiences of the past years and our present situation demonstrate simultaneously how closely interdependent political leadership is with economic leadership, for only with the correct economic policy can we attain the support of the masses, the national unity of our people, and conversely, the support of the masses and popular national unity is an immeasurably rich source of power in helping us to attain our economic goals... We must change our economic policy...but we are in a contradictory situation. Our economic plan for 1955 contains largely those guidelines and establishes those tasks as are necessitated by the demands of the New Course. But our economic and financial mechanism, the attitudes developed during the old course, the rules and commands, the momentum of impotence of our managers, all are forcing the attention of our industrial managers in the opposite direction. We must therefore change our methods of planning, the control of materials, economic reorganisation and management, and place them in the service of the economic policy of the New Course.¹

Nagy himself was clearly opposed to that model of the full resource utilisation that existed in Hungary prior to the announcement of the New Course, and he was fully aware also of the multidimensional nature of the mechanism of Socialist goal attainment. In his mind, economic growth,

1. József Bognár, "Nemzeti összefogással az új szakasz gazdaságpolitikájának megvalósításáért" (With National Unity towards the Realisation of the Economic Policy of the New Course), Közgazdasági Szemle, Vol. II, No. 2, 1954, pp. 130-1, 140.

technological modernisation, the development of productivity, efficiency, quality, profitability, and the utilisation of material incentives together with moral incentives, were closely linked with one another and with the development of Socialist democracy and Socialist legality. The charges against him, that he neglected the importance of productivity and was a narrow consumerist, are clearly false. He was openly searching for, and convinced of the necessity of, an interrelated, multidimensional, i.e. a social theory of economic development, and this was conveyed by him to the economists in many of his speeches and articles, and at lectures of the Karl Marx University of Economics and at the newly formed Institute of Economics.¹ The following selection of quotations illustrate particularly well Nagy's concern with the mechanism of economic goal attainment and socio-political and cultural concomitants of Socialist economic policy and economic mechanism. (Since all of these quotations are from On Communism, we will give their source just by noting the relevant page number after each passage; italics are mine.)

1. The increase of labour productivity is an indispensable factor in the building of a Socialist society. This is the only way toward economic development and a higher living standard for the population... It is based on incessant technical development, better technological training of workers, improvement of production administration, etc... The mere approval and official sanctioning of resolutions do not solve the problems. (115-116)
2. The Marxist science of economics has the great and important task of analysing the matter of productivity of social labour and its everyday practical application in the building of Socialism. Vulgarisation and generalisation must be countered with scientific analysis of the question. Without this the cut of production costs and our efforts toward profitable production, the central issue of our economic policy, can achieve only a half success. (114)
3. Under their (Rákosi and Gerő's) leadership, the building of Socialism was reduced to the socialisation of the instruments of production... they completely forgot about living society, about man, with his manifold complicated individual and social relations. (44)

The working people are unable to reconcile the rapid progress of Socialism with the deterioration or at least stagnation of their standards of living. The people cannot understand how it is that the greater the results they achieve in the economic, political, social or cultural field, the greater burdens become. (46)

1. See for example Imre Nagy, Egy Évtized..., Vol. II, pp. 583, 406. (Italics added).

The organs of force become the masters of social, economic, political and cultural life... Anyone who goes through the country with open eyes and ears can see and hear how political hooliganism is driving the people to despair and how the workers are falling prey to dissension. (50)

4. It is undoubtedly this accursed blind policy that is strengthening the forces of counterrevolution, and increasing the dangers of capitalism. (54)
5. And how prophetic were the next comments when we recall the massive and at times excessive popular demands that overwhelmed Nagy's administration and bombarded him personally during the October Revolution:

Today the application of the June principles to the economic, political and social life of the nation could still check the growing crisis and avert a catastrophe. But it is doubtful whether a return to the June principles would suffice as a solution tomorrow. Today the effects of the June policy are still strong; there is still great confidence in it and the people and the Party members would joyfully welcome it, with its members and a Communist Party revived through the June principles. However, if this does not happen soon, there is a danger that the masses, having lost their faith, will reject both the June way and the Communist Party, and it will become necessary to make a much greater retreat in order to keep the situation under control. (49)

The idea that the traditional mechanism of economic control is at the root of the country's increasing political problems, that the reform of the mechanism of economic control is of a great social and political urgency, is also unmistakably clear in the statement of Ferenc Donath, Assistant Director of the Economic Institute until 1956 and one of Nagy's closest political confidants;

First of all one must decide what should be the object of economic research, keeping in mind that the most essential problems must be selected, those that are also the most timely from the practical point of view. At the time of its establishment one year ago, this was the decision facing the researchers of the Institute of Economics... The Institute's directorate and its associates came to the conclusion, which united almost the whole of the Institute's research activities, that the problem of economic guidance and control is the most essential, and from the practical point of view the most timely, question on which the Institute should concentrate its efforts... The problems stem from the overcentralisation of planned economic control, from its rigidity and bureaucratism... The economic significance of this problem cannot be emphasised enough. But this is only one side of the coin. On the other side is that injury that was inflicted by the deficiencies of our economic system on the spirit

of our people who are building Socialism, the workers, peasants and intellectual workers.¹

As in the case of the new economic policy very little came of these lofty intentions to reform the mechanism of economic control during the New Course.

The reform of the planning and management of the economy and the work of the "rationalisation committees" to simplify planning and to reduce the excessive centralisation and bureaucratisation of the administration were also politically sabotaged. While the rationalisation committees were initially to focus strictly on the planning and administrative bureaucracy and to provide recommendations for the reform of the mechanism of economic control, under Rakosi's order their attention was diverted from these tasks. They were instructed to "rationalise" manpower at all production levels and to create an artificial unemployment. According to Rakosi and Gerö, this artificial unemployment was going to serve as a handy device for increasing productivity, because it would create position insecurity and pressure the workers into increasing their efforts so as not to lose their jobs.² And so, under the new directives given to the rationalisation committees, the excessive centralisation of decision making and the size of the planning bureaucracy did not decrease. The bureaucrats were merely shuffled around, and no significant changes were introduced in the procedures of planning and administration.

As János Kornai points out, the claim that the rationalisation committees successfully completed their tasks, is false:

Such an attitude of satisfaction was, it seems to me quite unwarranted. For the basic objectives of rationalisation were not achieved in spite of the fact that it tied up vast energies. (It also created a good deal of disturbance in the state machine and in the machinery of economic administration.)...One of the objectives of rationalisation was to secure a reduction of the use of approved plan index numbers... the use of approved

1. Ferenc Donáth, "Az anyagi érdekelttség és a hazai közgazdaságtudományi kutatás" (Material Incentives and our Economic Research), Remarks on a lecture of Béla Fogarasi's at the general assembly of the Hungarian Academy of Sciences on May 31, 1956. Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, pp. 787, 790.

2. Imre Nagy, On Communism, op. cit., p. 120.

indices had risen again... more calculations and tabulations are required... During the interval between the rationalisation period of the summer and autumn of 1954, and the beginning of 1956, no important measures were taken to simplify planning and economic administration and to get rid of excessive centralisation.¹

We also find evidence of the non-fulfillment of the rationalisation objectives in Szabad Nép, the Party daily: "Although tens of thousands of people have been affected...the bureaucracy has not decreased".²

4. The Balance Sheet of Economic Reform

Nagy is usually remembered as a somewhat naive, old-fashioned and ineffective reformer who might have had good general intentions, but who was unable to translate these into action and, as a result, created more confusion and chaos in economic functioning during 1953-56 than his predecessors had done. This charge is misleading and it ignores some key intervening variables as well as the specifics of the Communist practice of political primacy over economics.

As we have noted in Chapter I, it is the Communist Party and its apparatus that are the primary driving forces in the battle for the transformation of the economic base of a country on its way towards Socialism. When we say that politics has primacy over economics, what we mean, first of all, is that the Party has primacy over economics.

As premier, Imre Nagy had far less control over the operation of the economic bureaucracy, the strategically important extra-economic propellants of economic goal attainment (the local Party committees), or the forms and contents of the new economic policy, than is assumed, especially in the West. Indeed, it is a gross oversimplification to say that the New Course period was a time when Gerö's Party-based management of the Hungarian national economy was somewhat temporarily superseded by the management of the state apparatus headed by Nagy. No such change took place in Hungary then or since. We must bear clearly in mind that in the hierarchy of economic administration in

1. János Kornai, Overcentralisation in Economic Administration (London: Oxford University Press, 1959), pp. 219-223.
2. Szabad Nép, October 14, 1954.

Socialist countries the apex is not the Council of Ministers or any state body, but rather the Communist Party's economic department, the Politburo, and the Central Committee's Economic Policy Committee. Externally, the economic decisions of the Soviet Politburo are equally of greater strategic primacy than the designs of the Hungarian government apparatus.

During Nagy's premiership the most important executive post for the management of the economy, the Chairmanship of the Central Committee's Economic Policy Committee, was still held by Ernő Gerő. Foreign trade, which then constituted approximately 40% of the national income and which was, as such, an important determinant of or constraint on the manoeuvrability of Hungarian economic reformers, was, as has been noted, firmly under Gerő's and Rákosi's control. The National Planning Office is again a very important strategic body in the alteration of the economic base. Until November 1954 it was headed by Béla Szalai, a close associate and protégé of Rákosi's (he was Rákosi's Secretary until the New Course); Nagy was finally able to have Szalai removed only by asking for direct Soviet intervention.

In short the most important and commanding positions in the management of the national economy remained under the immediate control of the people who had shaped the country's economic policy for years prior to the announcement of the New Course and who were committed opponents of the New Course in economics.

Rákosi and Gerő, the brilliant political and economic tacticians in Hungary since the war, understood clearly the socio-economic and political logic of the principle of full resource utilisation. They went along with only those aspects of the New Course which, in isolation, they knew would lead to contradictory effects. They of course realized that the New Course was introduced at the Kremlin's insistence, but they were also aware that the Kremlin itself was less than united on the issue. Consequently they did their utmost to demonstrate that the new reforms would lead to negative effects and that, after all, their earlier transfer culture was better suited for the construction of Socialism. Ultimately their aim was to discredit the man most openly associated with the newly announced economic reforms

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and to bring about a political and economic situation that would end with Nagy's defeat. As Ferenc Vali observes: "They wished to demonstrate the accuracy of their prior economic policy (or rather to demonstrate the absence of any basic mistake or miscalculation) and they endeavoured to destroy the dangerous popularity Imre Nagy enjoyed with the masses of the population".¹

Throughout his premiership, Nagy was fighting an up-hill and a losing battle, trying to gain some control so that he could begin to implement and enforce his policies in a comprehensive fashion.

Nagy's role, then, was restricted mainly to the outlining of intentions, to the proclamation of great new changes and reforms — all of which caused a tremendous amount of excitement and optimism in the country among workers, peasants and intellectual workers alike — while the control over the implementation of the newly announced policies rested with men who were committed opponents of these changes.

To sum up, while the Party leadership came out publicly on a number of occasions in favour of the New Course economic reforms, in practice it never mobilised its personnel and its whole apparatus in pursuit of the New Course objectives. Whatever was implemented of the New Course policies and mechanism was marginal, and even those measures that were effected were the result more of spontaneous forces -- eg. the abandonment of collectives -- than of explicit Party controlled actions. This 'spontaneity' was especially strong among the country's economic specialists, who leapt to the call issued by the government to work out the contours of the "new course" the country was to follow.² Even these spontaneous actions, however, were soon curtailed by the Party leadership. The covert Party resistance of the past year and a half became overt in the beginning of 1955.

1. Ferenc Vali, *Rift and Revolt...*, op.cit., p. 132.

2. See for example the pioneering essay by Tibor Liska and Antal Máriás, "A gazdaságosság és a nemzetközi munkamegosztás" (Profitability and the International Division of Labour), *Közgazdasági Szemle*, Vol. I, No. 1, 1954, pp. 75-94; György Péter, "A gazdaságosság jelentőségéről és szerepéről a népgazdaság tervszerű irányításában" (The Significance and Role of Profitability in the Planned Guidance of the Economy), *Közgazdasági Szemle*, Vol. I, No. 3, 1954, pp. 300-324; and *Gazdasági életünk egyes kérdései a közgazdaságtudomány tükrében* (Certain Questions of our Economic Life in the Mirror of Economic Science) (Budapest: Tervgazdasági Kiadó, 1954). This last contained the minutes of a debate at Karl Marx University of Economics on the economy and the economic policy of the New Course.

III. FROM COUNTERREFORM TO REVOLUTION: POLITICAL DECOMPRESSION VERSUS THE ECONOMICS OF FULL COMMAND

In their own countries, in the so-called 'free world', how often have they used tanks against the working people and the unemployed, tear-gas weapons, bludgeons, hundreds of thousands of policemen, gendarmes and soldiers against those who only ask for more bread? You can't open a single capitalist picture magazine without being confronted with sensational photos of such incidents. What wouldn't the Voice of America give to be able to cite just one example of tanks being used against the masses in a Socialist country, one example where it had been necessary to use tanks and arms the way it occurs every day in countries of the so-called 'free world'.

Mátyás Rákosi

The official announcement of the rejection of Nagy's economic proposal came, once again, in direct response to Soviet pressure.

Nagy was given a brief warning by Mihály Farkas¹ (a former member of the Rakosiite foursome who misread the winds of change during 1954 and allied himself with Nagy's cause, thinking that the latter's policies would be supported by Moscow for a long time to come): "There is no New Course... it is rightist to pursue it... the old road must be pursued with only some mistakes to be corrected."² Within two weeks of this personal warning, Nagy and some of the top members of the Hungarian Politburo were summoned to Moscow to meet their Soviet counterparts. Whereas in June 1953 it was Rákosi who had to listen to abuse being heaped on his head by the Soviet imperialist overlords, suffering in silence and bewilderment as he was criticised for actions which had earlier received the Soviet leadership's fullest and most active support,³ now it was Nagy's turn to be severely reprimanded.⁴ As in 1953, when Rákosi was instructed to engage in self-criticism and to 'put

1. Farkas was Minister of Defence and Minister of the Interior during various phases of Rákosi's reign. His son Vladimir was a colonel in the State Security Forces (AVH) and was personally responsible for the tortures of many of the Social Democrats.

2. Ferenc Váli, *Rift and Revolt...*, op. cit., p. 155.

3. See for example Voroshilov's speech at the Third Congress of the Hungarian Working People's Party, *New Hungary*, Supplement, Vol. 4, No. 6, 1954, pp. 116-126.

4. Tibor Méray, *Thirteen Days that Shook the Kremlin*, op. cit., pp. 22-28.

things right', so now again the Kremlin leaders did not dismiss their 'man in Budapest' outright: Nagy was instructed to engage in public self-criticism and to introduce the new policies that were seen as necessary by the Kremlin.

It was at this meeting that Nagy committed his first serious faux pas in terms of Soviet-Hungarian Party relations, or in terms of what is officially known as proletarian internationalism. He refused to engage in self-criticism as demanded by the Soviet leaders, and proceeded, indeed, to refute the charges of his interlocutors. Apparently this was not particularly successful, for, faced with this brazen act of independence, the Soviet leaders reacted by shouting Nagy down every time he opened his mouth.¹

Nagy's fall from grace was directly linked with Malenkov's fall from power. At the Moscow meeting, Nagy was violently condemned for neglecting the primacy of heavy industry, collectivisation, productivity, etc. Two weeks later, on February 3rd, 1955, Malenkov resigned, his views condemned as "pseudothoretical views...which neglect the development of heavy industry...this is nothing but slander on our Party...a belching of the rightist deviation, a regurgitation of views hostile to Leninism."² In a circular to Communist Party leaders, the Kremlin listed Malenkov's crimes and specifically singled out Imre Nagy as having committed crimes identical to Malenkov's.³

At about the same time as Malenkov's resignation, Imre Nagy suffered what was diagnosed by the Politburo's medical officer as a heart attack. He was confined to bed and, on the orders of the Politburo, he was not to communicate with any of his political colleagues during the month of February.⁴ During this period Rakosi went about meticulously preparing and administering the coup de grâce both to Nagy's political power and to his policies. On March 2-4, 1955, with Nagy in absence, the Hungarian Central Committee was called into session, and it delivered the official verdict of guilt against Nagy in the following words:

1. Ibid., pp. 27-28.

2. Z.K. Brzezinski, The Soviet Bloc (Cambridge, Mass: Harvard University Press, 1960), p. 156, quoting from Pravda, February 3, 1955.

3. Ibid., p. 214, and S. Bialer, "The Three Schools of Kremlin Policy", The New Leader, July 29, 1957.

4. Imre Nagy, On Communism, op. cit., p. 290.

The main task for the Party consists in the ideological crushing of rightist deviation... These rightist views tried to revise the Marxist-Leninist doctrine of the dictatorship of the proletariat... (and) undermined the leading role of the Party. Imre Nagy, supporting such anti-Marxist views in his writings and speeches, was also the leading proponent of these views.¹

After the Hungarian Central Committee's censure of Nagy, Pravda was quick to offer its congratulations to the Hungarian leaders for their wise declaration about Nagy's deviationism and about the necessity of reversing the rightist tendency.²

Curiously, however, there was no sign of public self-criticism from Nagy, nor any offer to resign. Accordingly, the Central Committee was convened again on April 14th to dismiss Nagy from the Politburo, from the Central Committee, and from all of his other Party positions.³ When he still refused to tender his resignation from the post of premier, the National Assembly was called together, and it voted unanimously to remove his title as premier. In short order he was also divested of his seat in the Academy of Sciences and of his teaching post at the Agricultural University. Finally, in the fall of 1955, his Party card was recalled and he was dismissed from the Party. Vivid evidence that this was not merely a personality change but a policy change as well came in April 1955, when the level of heavy industrial investments for 1955 were radically revised upwards. The number of detailed plan indexes was also increased, and collectivisation was renewed with full vigour. Nagy's meager attempts to increase the real wages of workers was condemned as a luxurious extravagance, as overly generous in light of the meager increase of productivity between 1953 and 1955. As

1. Szabad Nép, March 8, 1955.

2. Pravda, March 21, 1955.

3. The text of the resolution reads as follows: "Comrade Imre Nagy...has represented political views which are in sharp contrast with the general policy of our Party, with the interests of the working class, the working peasantry, and the people's democracy. Comrade Imre Nagy tried to slow down the motor of Socialist building, the progress of Socialist industrialisation, especially the progress of heavy industry, and in the country he tried to curb the farmers' cooperative movement... Imre Nagy's anti-Marxist, anti-Leninist views form a coherent system which extends to the various fields of political, economic and cultural life". Translated from Magyar Nemzet, April 19, 1955, in William Juhasz, ed. Hungarian Social Science Reader, op. cit., p. 178.

Szabad Nép explained: "Since our economic forces have not developed satisfactorily during the recent period, the higher living standards of the working people do not rest on a solid foundation".¹

In an unsigned leading article in Közgazdasági Szemle, which was the journal of the Economic Institute, the journal was condemned for providing a forum for "anti-Marxist views" and for allowing the publication of incorrect and dangerous views that "overemphasised the role of the law of value...views that were destined to restrict the influence of economic planning".²

Compared to the lethargic attitude shown by the Party leadership in mobilising its apparatus in pursuit of the New Course policies, the defeat of Nagy and the overt resurgence of Stalinist type economic strategy stimulated a great deal of activism, propaganda work and Party mobilisation for the dynamic pursuit of the new direction.

For example, András Hegedűs (who was expelled from the Hungarian Communist Party in 1973 for "continuous deviation from the Party line"), appointed to succeed Nagy in 1955, wrote the following:

We must launch an ideological attack against every policy which deviates from the Party's... We must unconditionally insure the isolation and total liquidation of rightist views... We have to secure the leading role of the Party in radio, press, literature, etc... Keeping in mind the character and function of the various newspapers and periodicals, we must make certain that they are edited in the spirit of our Party line.³

In another vigorous assault on the New Course and calling upon all Party organs to begin reasserting with full vigour the pre-1953 command mobilisation techniques that were left in neutral during Nagy's rule, Gyula Somogyi wrote:

The task of the next months is to fight incessantly, from week to week, month to month, for the fulfillment of every target in the Plan. The

1. Szabad Nép, March 9, 1955.

2. "Feladataink a Központi Vezetőség márciusi határozatának megvalósításában" (Our Tasks in Pursuit of the Central Committee's March Resolution), Közgazdasági Szemle, Vol. II, No. 2, 1955, pp. 262-265.

3. András Hegedűs, Magyar Nemzet, March 9, 1955.

Party, state, and economic organs must mobilise all their strength for the achievement and overfulfillment of the 1955 national plan. We must mobilise the almost 2 million members of the Trade Unions, the enthusiastic youths of DISZ, the Patriotic People's Front, the MDSZ, and all organisations to achieve these goals... One of the main guarantees of our Plan fulfillment is the command or compulsory nature of the Plan.¹

In short, by the middle of 1955, covert and disguised Party opposition to the New Course had been replaced by over rejection of Imre Nagy's economic proposals as much in the field of economic policy as in regard to the mechanism of economic control.

Zbigniew Brzezinski has written that in the Soviet Union the New Course policies "...may be characterised as a general continuation of Stalinism politically, possibly from sheer momentum... It was an attempt, in brief, to pursue a new course in economics without basically altering the framework of essentially Stalinist politics".²

The New Course in Hungary, and events in that country during 1955-56, exhibited exactly the opposite dynamics: a continuation of Stalinist economic policies with minor modifications, and a de facto alteration of Stalinist politics. Contrary to what a Stalinist political system should be all about, the years 1953-56 in Hungary were years of bitter political competition for power between two polarised factions of the ruling elite. The issue of conflict, moreover, were not simply personal issues immediately relevant only to the two contesting factions of the apex of the political elite: they involved questions of policy in which the masses of economically and politically disenfranchised Hungarians had an acute personal interest. While the drama of the Kremlin power struggle unfolded more or less behind closed doors and did not attract the eager attention of very many Soviet citizens, the struggle for power in Hungary was keenly watched and felt by the populace.

In this bitter competition for power and influence, Rakosi was able to fully circumvent Nagy's economic designs by footdragging and by not

1. Gyula Somogyi, "Az 1955 évi népgazdasági terv fő arányai" (The Main Proportions of the 1955 Economic Plan), Közgazdasági Szemle, Vol. II, No. 3, 1954, p. 291.

2. Z.K. Brzezinski, The Soviet Bloc, op. cit., pp. 156-157.

leading the Party apparatus in dynamic support of the new economic proposals. While these tactics were to lead in the long run to the political defeat of Nagy, they were not sufficient to ensure short-term political control. In other words, while Rákosi's and Gerő's strategic economic control had scarcely diminished during the New Course, their political power and manoeuvrability had been severely curtailed. An added political handicap was the fact that they also had to make do with techniques of political control that were foreign to them: the Kremlin disallowed the type of political ruthlessness and police terror that had been Rákosi's forte prior to 1953.

This reduction in Rákosi's domestic political power and authority was compounded by a number of external factors in addition to direct Soviet constraints. The easing of the Cold War tensions between the USA and the USSR, the Korean armistice, the "spirit of Geneva" and growing East-West détente, the Staatsvertrag signed between Austria and the USSR, and Moscow's support of the Bandung Conference's "Five Principles of Peaceful Coexistence", these too had indirectly limited Rákosi's ability to use excessive force against his opponents. The improvement of East-West relations undermined the thesis of 'two world centres' and the frequently heard Rákosiite slogan, "whoever isn't with us is against us", and it diminished the oft-repeated danger of capitalist encirclement and removed the rationale from many of the earlier political slogans and practice about "vigilance" and "finding the enemy's hand". It also raised questions in the minds of many people about the need for the tremendous sacrifices required of them -- ostensibly to help win the battle against capitalism -- now that capitalist nations had begun to pose much less of a direct physical threat.

But the two really decisive indirect external factors behind Rákosi's restricted political power and the ensuing political-economic disequilibrium-- standing on one Stalinist economic leg and on another political one that was becoming increasingly pluralistic -- were the Soviet-Yugoslav rapprochement and Khrushchev's famously unsecret secret speech at the Soviet Communist Party's 20th Congress.¹

1. A full text of the 'secret' speech can be found in the Appendix to Khrushchev Remembers (London: André Deutsch, 1971), pp. 559-618.

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The Soviet-Yugoslav rapprochement, and especially Khrushchev's visit to Belgrade on May 26th, 1955, seemed to Rakosi's opponents to show that the Kremlin openly approved of Yugoslavia's own transfer path to Communism and that the Kremlin did not consider Rakosi's opponents' rejection of the Stalinist type command economic system heretical. Khrushchev's admission at Belgrade airport that "grave injustices had been committed against the Yugoslav leadership", and that the charges about Tito being a traitor to Socialism, a monarcho-fascist kidnapper, etc., were false, these rudely kicked out the chair from under Rakosi, who had himself led the path in lambasting Tito and the Yugoslav revisionists during the past years.¹

The change in Tito's image from tyrant to comrade, from enemy to friend, and the admission that Yugoslavia was also building Socialism, were too sudden in Hungary, too drastic in the light of the frenzy of the recent anti-Tito campaigns and, most importantly, extremely destabilising, since Rakosi, the country's leading anti-Titoist, was still carrying on as Party Secretary.

The impact on Hungary of the Soviet-Yugoslav rapprochement was not, however, simply psychological. As a consequence of Tito's reacceptance into the 'fold', Tito began to exert active pressure on Khrushchev and the other Soviet leaders to oust his most hated East European opponent, Rakosi from the leadership of the Hungarian Party. As Brzezinski writes, "There is no doubt that Tito, as a price for his rapprochement with the Communist bloc, namely a more heterogeneous camp, demanded his pound of flesh. Part of this pound of flesh was Rakosi's head, because Rakosi was the leader of the anti-Titoist purges in Eastern Europe between the years 1949 and 1953".²

1. Khrushchev stated in front of the microphones at Belgrade airport the following electrifying lines: "We studied assiduously the materials on which the serious accusations and offenses directed at the time against the leaders of Yugoslavia had been based. The facts show that these materials were fabricated by enemies of the people, detestable agents of imperialism who by deceptive methods pushed their way into the ranks of our Party". For the full text of his speech, see R. Pethybridge, ed. The Development of the Communist Bloc (Boston, Mass: D.C. Heath and Co. 1965), pp. 133-134.

2. Z.K. Brzezinski, "Why Poland had a Successful Revolution while the other Satellites did not", The Polish Review, Vol. 4, No. 3, 1959, p. 15.

The really decisive external accelerator¹ of political decompression in Hungary (what Machiavelli would call 'fortuna') was, however, Khrushchev's revelation of Stalin's "mistakes" at the Twentieth Party Congress of the Communist Party of the Soviet Union in February 1956. The revelations about Stalin's inhumanity, incompetence, and personal power mania affected Hungary's political-economic milieu like a tidal wave. Everything was in a shambles after it receded. The "great" Stalin was dead, his crimes could now be enunciated, but his "best disciple" — Rakosi — was still the head of the Hungarian Party.

Rakosi's leadership was, by this time, far more nominal than real, it was severely paralysed by the above-outlined external political circumstances, and, in the trail of this paralysis a "revolution of rising expectations"² began to blossom that finally swept Rakosi and his followers off the pedestal of power in October 1956.³

The ins and outs of this rising political movement and mass rejection of Rakosi's leadership have been ably described by others. Our concern is and has been with the economic sources or underpinnings of the process of revolution and, in turn, with the effects of this process of the country's economic base, on economic policy, on economic planning and management, and, in general, on the Party's attitude towards future economic reform.

The impact of the 20th Congress on Hungarian economic reform is clear even from a cursory reading of the economic literature published be-

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1. Chalmers Johnson defines accelerators as "occurences that make revolution possible by exposing the inability of the elite to maintain its monopoly of force". Revolutionary Change (Boston: Little, Brown & Co., 1966), p. 99.
 2. The term is de Toqueville's: "...it oftener happens that when a people which has put up with an oppressive rule over a long period without protest suddenly finds the government relaxing its pressure, it takes up arms against it". Alexis de Toqueville, The Old Regime and the French Revolution (New York: Doubleday Anchor Books, 1955), p. 176.
 3. Hannah Arendt's arguments, somewhat similar to de Toqueville's, are also opposite. She points to the existence of a leadership prior to a revolution having to carry on the pursuit of political control with unfamiliar techniques as an important catalyst of revolutionary change: "Few revolutions ever started so long as the authority of the body politic was truly intact". On Revolution (New York: Viking Press, 1963), p. 153.

tween February and October 1956.¹ Time and time again, for example, we find Hungarian doctoral dissertations in economics that were written prior to the 20th Party Congress of the CPSU having to be re-written to reflect the "new reality".² István Friss himself (the arch Stalinist among Hungarian economists, who was always ready to lend his fullest verbal support to each and every shift in the Party's economic policy during the past thirty years, be it the New Course, the elimination of the New Course, the post XXth CPSU Congress line, or whatever) explained to the expanded Party Committee meeting of the Academy of Sciences that:

I believe that the XXth Party Congress will have a very great effect on the sciences, but first of all on the social sciences. But nowhere will this influence be as encompassing and as deep as in the political economy of Socialism and modern capitalism... In Stalin's economic conclusions one had to have faith... They could not be criticised or evaluated... After the XXth Congress the situation has fundamentally changed, and we hope that the past will not be resurrected... Not only are we permitted to critically analyse Stalin's writings, but we must do so. The liberating influence of the XXth Congress already is having its effect in our science. The spirit of debate has re-emerged. Our economists are freely questioning many assertions that only yesterday were considered sacred. They are courageously criticising and analysing even the fundamental questions of our system of planning and economic management.³

1. See the leading article in Közgazdasági Szemle, Vol. III, No. 3, 1956, "A Szovjetunió Kommunista Pártjának XX Kongresszusa" (The XXth Congress of the CPSU); Tamás Nagy, "A politikai gazdaságtan néhány elméleti kérdéséről" (On a few Theoretical Questions of Political Economy), Közgazdasági Szemle, Vol. III, No. 6, 1956; and Pál Pillis "A politikai gazdaságtan tanszék tudományos kutatómunkájának helyzete és feladatai" (The Scientific Research and its Task in the Department of Political Economy), Közgazdasági Szemle, Vol. II, No. 5, 1956.
2. See for example the comments of the examining board at Iván Kádár's defence in Közgazdasági Szemle, Vol. III, No. 5, 1956, p. 611, or the discussion of Péter Bod's dissertation in Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, pp. 966-967. Bod began his defence by stating that "Since the time of submitting this thesis, ten months have elapsed...on the track of the 20th Party Congress of the CPSU... My opinions on certain important theoretical questions have changed, and I have attempted to re-write the first part of my thesis...the errors in the last three-quarters I shall attempt to refute verbally." (p.963)
3. István Friss, "A XX. Kongresszus és a közgazdaságtudomány" (The XXth Congress and Economics), in "A Magyar Tudományos Akadémia 1956. Évi Naggyűlésén Elhangzott Közgazdasági Tárgyú Felszólalásokból" (Remarks Related to Economics at the General Assembly of the Academy of Sciences in 1956), Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, pp. 781-783.

Tamás Nagy, who was to play a leading role in the Petofi Club debates and in the Revolutionary Council of Intellectuals during the October uprising stated that prior to the June 1953 Party resolution, economists "...including myself...did little more than manufacture statistical covers for Stalinist dogmas...

With respect to the revival of economics after June 1953, it is well known that it did not last long. Political developments in our country from the end of 1954 on were no longer beneficial to the study of economics. It was extremely harmful that the authorities reacted to the intensified debates, the emerging new ideas, and the brave attempts to some of our younger economists to try their wings, by castigating them with the label of "right wing deviationists". Thus the scarcely cracked wall of dogmatism once again began to solidify and the rebirth of economics quickly began to die away.

The real turning point for us economists is the XXth Party Congress of the CPSU.¹

In the introduction of György Péter's book² Tamás Nagy also gave a clear indication of the wider socio-political concern of the Hungarian economic reformers:

The correct implementation of the principle of material incentive -- which is only possible on the basis of the law of value, commodity production, and an economic mechanism corresponding to them... -- is advantageous not only economically, but also from the viewpoint of creating a Socialist man, because it is precisely through individual interest that we can enhance the common good.³

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1. Tamás Nagy, "A hazai közgazdaságtudomány fejlődésének néhány kérdéséről" (On Some Questions of the Development of Our Economic Sciences), remarks to the Socio-Historical Department of the Academy of Sciences, reprinted in Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, p. 793. Examples of the "new economics" and the rapid emergence of creative and critical economic analyses of the mistakes of the past and of the remedial measures needed, are Péter Erdős' work on the law of value, "A tervgazdálkodás néhány elméleti kérdéséről" (On Some Theoretical Questions of Economic Planning), Közgazdasági Szemle, Vol. III, No. 6, 1956, pp. 676-694; and György Péter, "A gazdaságosság és jövedelmezőség jelentősége a tervgazdálkodásban" (The Importance of Efficiency and Profitability in the Planned Economy), Part I, Közgazdasági Szemle, Vol. III, No. 6, 1956 and Part II, Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, and his book A gazdaságosság és a jövedelmezőség a tervgazdálkodásban (Efficiency and Profitability in the Planned Economy), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1956).
 2. György Péter, A gazdaságosság..., op. cit.
 3. Translated in William F. Robinson, The Pattern of Reform..., op. cit. p. 7.

The groundswell of political pressure and criticism of Rákosi's leadership and of his economic strategy and tactics could not be checked after the 20th Congress. Now, even more than before, brute force and police terror were not to be permitted by the Kremlin. Propaganda and the mobilisation of the mass media were also useless as effective deterrents. The Party leadership simply had little if any credibility with the populace. Who among the workers did not recall those hypocritical lines of Rákosi's, lines that were pinned on the bulletin boards of offices and factories, which were used as justification for the great burdens carried by the workers and peasants during the 1950's?

Instead of the planned 8% increase of living standards for 1956, living standards skyrocketed by 17% already in the first month of the plan... It is clear that if this continues, then, as I already said once before, we shall eat up our future and, may I add, especially the future of our youth. If we don't keep within bounds, then we shall eat up as fried chicken the hen that should lay our golden egg next year... The building of Socialism requires discipline, attention and sacrifice from the working people! The more we work, sweat and sacrifice in the building of our future, the more lasting that future will be, the more cherishable it will be for all of us.¹

The collapse of credibility affected even some of the journalists on the staff of the Party daily, Szabad Nép, and in that paper, but especially in the artists' and writers' journals, the number of articles criticising the Party's policies began to increase.

The only way out of this predicament, following the 20th Congress, would have been to seize the handle of reform and to actually take the lead in rectifying the mistakes of the past in a concrete, visible, and determined way, rather than simply to utter platitudes. The Party leadership was unwilling or unable to take this course.

In open demonstration of the vacuum in political leadership and of the authority crisis, a number of political debating clubs sprang up in the country during 1956 -- the most famous one being the Petöfi Club in Budapest. By 1956 the Petöfi Club was a virtual second Parliament and Central Committee of the country, where competing policy alternatives were openly

1. Matyas Rákosi, in A békeért és a szocializmusért, op. cit., pp. 349-350.

debated and articulated and where, among other things, the economic policies of the previous years were undergoing a searching scrutiny and rejection by some of the country's leading economists.

In final desperation, in July 1956, Rákosi decided to ignore Moscow's instructions, and he began to set in motion the mechanism of system maintenance he excelled at. He proposed to the Central Committee the arrest of Imre Nagy and four hundred of his most vociferous followers.¹ Upon learning of this plan through the Soviet ambassador to Hungary, the Kremlin seems to have finally decided that it was Rákosi, rather than Nagy and his followers, who would have to go. Within a few days the top trouble shooter of the Soviet Politburo, Anastas Mikoyan, flew into Budapest. The Hungarian Central Committee was convened into closed session, and twenty-four hours after Mikoyan's arrival, Rákosi was no longer the head of the Hungarian Workers Party. The arrest orders were rescinded, and Nagy and the anti-Rákosi elements were given one more chance.

The victory of the anti-Rákosiites was, however, a hollow one. The man Moscow promoted to replace Rákosi was none other than Ernő Gero, the "economic genius" of Hungary's Stalinist economic past, and Rákosi's closest associate.

A new chapter was to begin in Hungarian history. The errors of the past were to be forgotten, and a new and lengthy Central Committee Resolution was passed full of promises for a new tomorrow. But how could anyone forget the past, when the new Party Secretary was a constant reminder of it? And how could anyone believe the promises for a new tomorrow when Gero's acceptance speech made it clear that Gero saw the major problem stemming not from the mistakes of the past, but rather from the Party's inability to physically control the press and the opponents of the old program:

1. Brzezinski argues convincingly that Rákosi's new 'toughness' was prompted by his interpretation of the June 20th Soviet-Yugoslav declaration. "He construed it as releasing him from the horns of the dilemma on which he had been impaled since his return to power. The declaration proclaimed clearly and explicitly Soviet approval for many ways to Socialism. Rákosi could now remain the most loyal Soviet lieutenant and a Stalinist without any longer being obliged to imitate Soviet concessions at home. His brand of Stalinism seemed compatible with the newly established principle of diversity". The Soviet Bloc, op. cit., p. 223.

Before and after the 20th Congress, the policy of our Party was essentially correct... The Party erred when it permitted guidance of the Petofi Circle to slip from its hands. It was a serious mistake to permit the direction of Szabad Nép and of the press in general to slip out of our hands, and we did not guide our broadcasting properly, which naturally caused no small confusion among our cadres.¹

The political respite won by the anti-Rakosi opposition in July must also be coupled with the perplexing lack of real political leadership at the top of the Party. Gerő["] left the country shortly after his appointment for a one month long holiday, and when he returned, he and various Party members were off again on visits to China, to Yugoslavia, to the Soviet Union, to Bulgaria. Faced with the inaction on the part of the leadership in rectifying the grave injustices and mistakes of the past, resistance and opposition quickly escalated into a massive popular onslaught against the whole political system.

Our analysis of the ideas and writings of the Hungarian advocates of Market socialism suggests that those reformers are in profound disagreement with both the Western and the official Eastern interpretations of the October uprising. Moreover, our analysis also suggests that an important segment of the top Hungarian Party leadership has also tacitly, or covertly accepted the views of those reformers.

In the West the uprising is depicted as a violent resurgence of Hungarian nationalism against foreign domination, and the rejection of the Soviet Union's local minions and Communist totalitarianism by a thoroughly embittered and exploited nation. We consider these conclusions though certainly partly true, as one-sided and superficial, or rather, incomplete.

It is certainly true that the 1956 uprising was a nationalist uprising. But what were the roots of this intense nationalist resurgence? Are we to say simply that Hungarians are more nationalistic than the other

1. Translated from Szabad Nép, July 19, 1956, in Paul E. Zinner, National Communism and Popular Revolt in Eastern Europe, A Selection of Documents on Events in Poland and Hungary: February-November 1956 (New York: Columbia University Press, 1956), pp. 344-345.

peoples of East-Central Europe? And what were the roots of the excessive political ruthlessness in Hungary? Was it simply ruthlessness for its own sake, or for the personal power aggrandisement of Rakosi and his supporters? This personal power mania is not to be entirely ignored, and indeed it was an important element in the overall equation of the revolution. We tend to agree however with the analysis of the editorial board of Közgazdasági Szemle (see p. 42 above) that in the final analysis, it was the overzealous application of the Stalinist economic developmental path that brought such a massive dose of political ruthlessness to the forefront of Hungarian politics.

Not only was Hungary one of the least fertile of soils for the application of Stalinist industrial autarky — indeed autarky is a misnomer, for the 1948-1956 period saw a rapid expansion of foreign trade — and not only was a significant sector of Hungary's national product and income directly syphoned off by the USSR (which severely increased the burden on Hungary's workers and peasants), but Hungary was also the site for the most ambitious application in Eastern Europe of the Stalinist economic transfer culture. These economic circumstances provided an almost irresistible impulse towards the most ruthless of political repression, for it is difficult to see how else, but by severe political pressure, could the Party overcome the massive economic obstacles it had set for itself.

We reject therefore the following interpretation of the causes of the uprising, by and large typical of most Western theories, because it fails to grasp the close cause and effect type relationship between the economies and politics of Socialism.

At first glance it may appear that the revolt had taken place largely because of the wave of popular discontent created by economic conditions that prevailed in the country on the eve of the uprising. Such a view of the October event is highly distorted in its simplicity. Ironically enough, an explanation of social behavior, as that of the Hungarian people in 1956, purely in terms of economic 'infrastructure' and the relationship among factors of production, would be perfectly logical from the standpoint of dialectical materialist method. The economic interpretation of the revolt, nevertheless, is not to be rejected on the basis of doctrinaire but rather of factual reasons. It is here accepted without formal proof, from extensive historical evidence (?) that the dissatisfaction of the Hungarian people in 1956 was caused primarily by political and moral conditions of unbearable terror created by the

Stalinist regime... Almost intuitively (?) the casual observer wonders whether those who led the resistance against Soviet tanks could have been moved by their material predicament alone. The idealism that characterised the Hungarian freedom fighters raises doubts concerning the direct economic causes of the revolt.¹

Perhaps what is ironic is that the revolution did not occur during the years when the population was subjected to "unbearable terror" up to 1953, but rather at a time when unbearable terror had been extensively diminished, and at a precise moment in time when it hardly existed at all. What the population was subjected to between 1953 and 1956 in an ever increasing dosage, was not terror but a growing imbalance in the overall mechanism of Soviet type economic goal achievement, an increasing disintegration of the essential socio-political components of the mechanism of Stalinist system maintenance. (Gerő was right in his acceptance speech when he pointed out that the Party had lost its grip on events.)

But of course, in the final analysis, as far as the direction of economic reform is concerned in Hungary, it does not really matter whether Mr. Kopits or Mr. Göllner is right. It is the attitudes, the lessons drawn by influential politicians and economists inside the Hungarian political system that count.

As far as the NEM is concerned, and in terms of the political, social and economic policies which unfolded in Hungary during the 1960's, October 1956 is the prism that is of central importance. Through it passed the pre-1956 political-economic experience of the country, the social, political and economic in-puts demanding change, to be retracted like light rays into the economic reforms of the 1960's. The Party leaders with vigor drive home their points about "counterrevolution" and "a handful of agitators" after October. But as Marxist-Leninists, they cannot but devise a new economic strategy for ultimately they are convinced that it is in the economic trenches where the political wars are won and lost.

1. George Kopits, "The Economic Causes of the Hungarian Revolt", The Hungarian Revolution in Perspective, ed. Francis S. Wagner (Washington D.C.: F.F. Memorial Foundation, 1967), pp. 191-206.

As we have shown in this chapter, and as we shall show in the following chapter, it was the Party's own realisation of the precariousness of its political rule that prompted it to take a hard look at its traditional economic strategy. The final outcome of this "hard look", the guided market model, was of course by no means automatic. The final outcome was nothing more nor less than the product of a virtually unpredictable political conflict between competing groups and factions within the Hungarian political arena (not discounting external influences). After 1956, virtually everyone in Hungary was convinced of the necessity of economic reform. The question was -- what kind of economic reform would be most useful in underpinning the leading rôle of the Communist Party?

CHAPTER IV

WHAT IS TO BE DONE?

Given that cramp exists, that is, that institutions are out of adjustment to life to a given society, individual purposes feel maladjusted. The consciousness of maladjustment creates an individual tension which leads the maladjusted individual to ponder his situation. Given his imaginative and intellectual powers, this may result in anything from getting drunk to writing a book.

George S. Pettee, The Process of Revolution

I. THE PARTY CALLS FOR A HUNGARIAN ECONOMIC ROAD TO SOCIALISM

For the Kremlin, and for the new Hungarian Party leadership placed in power by the Kremlin, there were three basic problems needing urgent resolution at the end of 1956.

1. The problem of political disorder, collapse of authority, and working class resistance following the Soviet invasion;
2. The problem of arrested economic production, strikes, and economic chaos, and of how to get the country's productive capacity functioning again;
3. The problem of cutting out the source of the October discontent, rectifying or neutralising it, so as to prevent the recurrence of such outbursts in the future.

These three problems were of course interdependent.

In attempting to deal with these problems separately or (preferably) in unison, the new regime's greatest handicap was its complete lack of legitimacy.

For the stamping out of the revolution, the overthrow of the revolutionary government, the disarming and defeating of military pockets of resistance, legitimacy was naturally not necessary. The freedom fighters' call on the Soviet troops to withdraw from Hungary within 24 hours bearing the white flag of the defeated, and the ensuing military battle was, of course, the mismatch of the century. In winning the battle in the streets of Budapest,

however, the Soviet Union had by no means won the war. Winning the war, or at least arranging a permanent 'truce', became Kádár's job.

Given the relatively short period of time in which the Kremlin had to make the selection of a new local governor, the choice of Kádár has undoubtedly turned out to be a brilliant one. In spite of his initial great handicap, Kádár has perhaps been the most successful of all Communist Party leaders in East-Central Europe in applying the three key principles of Socialist internationalism:¹

1. Active and open support of Soviet policy in international affairs, and the promotion of the Soviet Union as the leading Socialist country;
2. Constantly maintaining and revitalising, according to Leninist principles, the leading role of the Hungarian Communist Party in Hungarian society;
3. Devising effective domestic socio-economic policies, in harmony with those of the Soviet Union, that will elicit a growing basis of diffuse support or legitimacy for the ruling Communist Party in Hungary.

In the pursuit of these three principles, the last, i.e. generating diffuse support via socio-economic policies, was correctly grasped by the Party leadership as a prerequisite for the other two. Open support of the USSR based on economic hardship and incompetence (which necessitate political dictatorship in order to maintain stability) would simply re-direct the fury of the people against the Party and against the Party's 'best friend', the Soviet Union, at some future date.

How then to eliminate the basis of this potential revolutionary 'resurrection'? How then, if not winning an outright victory, at least to arrange a permanent truce? (i.e. 'he who is not against us is with us').

The storehouse of 'legitimizing devices' in East-Central Europe may be divided into three general areas. The East European leader that can best

1. On the concepts of 'Socialist' and 'proletarian' internationalism, and the distinction between the two, see Jan F. Triska, "The Socialist World System in Search of a Theory", The New Communism, ed. Dan N. Jacobs (New York: Harper and Row, 1969), pp. 18-46.

combine and shape new policies from the three sectors will certainly be recompensed with a generally stable society that is revolution-free if not necessarily conflict-free. What are these three areas or devices that Communist leaders in East-Central Europe drew on increasingly in the years following the tense months of 1956?

1. Nationalism

We needn't elaborate on the fact that the people of Eastern Europe and the Soviet Union have been traditionally imbued with a very powerful and at times even destructive spirit of nationalism. Harnessing this spirit, cultivating it, uniting it with the 'cause of the Party', building upon the incipient nationalistic and patriotic feelings of the people, identifying the Party with old traditions, symbols, and rallying the nation around these traditions and symbols, are a very fruitful and potentially powerful way of staving off pressures for mass participation in decision making, and of maintaining the monopolistic leading role of the Party. In this century perhaps the best example of a leadership utilising this device to maintain its popular basis of support is that of Adolf Hitler in Germany. In Eastern Europe it is a device that is currently relied upon most heavily by the Communist Party of Romania. The CPSU has been aware of the usefulness of this device at least since the beginning of World War II.

In Hungary prior to October 1956, the leadership not only did not utilise this tool, but indeed went so far as to use foreign -- i.e. Soviet -- tools of nationalism as one of its legitimating devices, and to use these tools not in the interest of the country but rather in that of the Soviet Union. Márton Horváth's comments on Hungarian literature, for example, are apposite: "As we move forward along the road of Socialism, Soviet literature will become 'Hungarian literature' also".¹ (Horváth was head of the Party's Agit-Prop section and was also editor of Szabad Nép.)

2. Participation

The demands for participatory rights in the shaping of one's environment and future are one of the strongest and most vivid social demands the

1. Márton Horváth in Szabad Nép, February 12, 1950.

world over. Widening the channels of access to decision making and to the value-allocating mechanism, and providing sub-groups or subsystems with a stake in and a responsibility for the determination of their functioning and goals, are also a powerful device for building up legitimacy for a leading political group. Its potential value had been recognised even under Stalinism, but then it was exercised in a purely symbolic, i.e. negative, sense. The factory, the farm, the 'cool flowing waters', everything belonged to the workers -- but just let them try to practice their ownership and participatory rights. The true state of affairs was that "every hour of every working day" was, or was at least supposed to be, just a fragment of the central plan. The worker knew what he had to do, but he had nothing to do with the formulation of his task. His participatory right was not creative, but simply supportive.

As proof of the existence of this genuine and underlying popular demand for greater participation in decision making, we need but point to the frequently re-emerging and spontaneous organisation of workers' councils and workers' self-management, local Soviets and local councils, during the history of virtually all of the Socialist states -- in the Soviet Union after the 1917 Revolution, in Hungary at the end of 1944 and in early 1945, in Poland and Hungary in the mid 1950's, in Czechoslovakia during the Prague Spring of 1968, in Yugoslavia, etc.

In short, the satisfying of the popular demand for greater participatory rights and the creation of sub-systems with creative participatory rights in the formulation of policy -- economic or political policy -- could also provide an increase in diffuse-support for the ruling Communist Party. (Of course this is not an absolute concept. Beyond a certain point the widening of access to decision making could also, though not necessarily, lead to the popular rejection of the Party's leadership of society.)

As a legitimating mechanism, this device is most visible today in the political and economic practice of Yugoslavia.

3. Economic Benefits

This third mechanism, the provision for increasing material benefits, consumer satisfaction, and higher living standards to increase diffuse-

support, hardly needs elaboration. As a device it was very useful in Czechoslovakia during the 1950's. Svitak paints us a very vivid picture of the operation and the collapse of this mechanism in Czechoslovakia:

This totalitarian dictatorship...has in the past twenty years avoided any internal political shock, having succeeded, during the critical years, 1956-1957, in reducing the price of salami sausage (tsabajka) and in blackening all critics as 'intellectuals'. It has repeated this method in every crisis that has arisen. Capitalists, kulaks, Jews, and intellectuals became the scapegoats and these scapegoats, together with cut-rate sausage, made up the essence of our statemen's political philosophy. Hence a politician's inability to cut the price of sausage might have fatal consequences for him! This sausage-realism in politics was effective so long as there was something else of which the price could be reduced; and we must admit that both our nations (the Czechs and the Slovaks) were quite satisfied with this state of affairs... But then all the resources which had been guaranteeing its grand policy, that of bribing the nation with a higher standard of living, suddenly failed. It was in fact the economics of a high standard of living itself that failed. The sudden collapse of the economic structure, by no means incurable, was enough to shake the precarious stability of this dictatorship and to evoke a remarkable change in political orientation.¹

We have shown that "sausage-realism" was very conspicuously absent from Hungarian political practice during the years prior to October 1956.

Summing up, we can quite safely say that Communist Parties that can create and combine effective policies in the three above-mentioned categories (which, needless to say, are not necessarily exclusive, but rather interdependent) will be able to rally their people much more easily towards their politically determined economic goals than they have done in the past.

Of these three general options, which received the greatest emphasis from the post-October Party leadership in Hungary?

Options 1 and 2 were quite obviously not very safe or promising tools to bring out during the 'hangover' that followed the November invasion. October was a massive demonstration of nationalistic fervour, that had manifested itself by totally denying the Moscow-defined principles of Socialist internationalism. The nationalism of October called for an independent (fuggetlen) and non-aligned Hungary to be placed outside of the Soviet-

1. Ivan Svitak, op. cit., pp. 30-31

American power blocs. The post-invasion Hungarian leadership had to curtail the forces of nationalism, not allow them freer rein. The new leadership, put into office on the back of Soviet tanks, was identified in the minds of most people at the time as utterly blind to Hungarian national interests. To publicly proclaim the pursuit of Hungarian national traditions, values, interests, etc. at such a time would have earned Kádár even more scorn as a hypocrite (and to the extent that this mechanism was used, this was the result) rather than increased domestic support.

Option 2 was perhaps even more out of the question immediately after the crushing of the rebellion. The uprising clearly demonstrated, as did the general strike after the invasion, that wide sectors of Hungarian society were demanding policies and reforms which the HSWP could simply not go along with. A devolution of authority, the opening of the channels of decision making at this time would have resulted not in a greater mass commitment to Soviet-inspired Party goals but rather in the severe undermining of the Party's monopoly of power.

For these reasons and, of course, because the Party was governed by Leninist principles, it was not at all surprising that the new Hungarian Party leadership turned its attention to the economic base to find the source of its future political authority and legitimacy. If we turn to the very first formal resolution of the newly reconstituted Central Committee of the HSWP, which was called into session to decide which way to proceed from the fiasco of the past, this is what we find:

The Hungarian Socialist Workers Party will not copy mechanically the practice of other Socialist countries, but rather, taking into consideration our historical experience and achievements, based on our national endowments, wants to proceed along a specifically Hungarian road of building Socialism... The provisional Central Committee believes that the government, working together with the responsible organs, and with the active work of our best economic experts, should work out as soon as possible the economic policy suited for this new situation. This new economic policy must in all respects be based on our own economic endowments and peculiarities. The new policy must support in a far-reaching way the emergence of individual initiative and Socialist knowledge in all spheres of activity. In conjunction with the interests of the national economy, material incentives must be utilised in all areas such as the furthering of technological development, the improvement of quality, the reduction of production costs, the increase in productivity. The importance of planning does not diminish, but its responsibilities must change

and first of all it must focus its attention on the determining of the most important economic ratios and the direction of development.¹

The point of view expressed in this official Central Committee declaration, which has never been rescinded, is not that the country had reached a higher, more mature economic developmental phase by 1957 which required a new economic policy and a new form of planning and economic control. Rather, what it says is that the old economic system was dysfunctional to the legitimacy ("respect") of the Party and consequently led to a "new situation" in which the leading role of the Party had been deeply undermined. At least as far as the Party leadership was concerned it was this new political situation that then brought on the necessity to reform the traditional transfer culture used in waging war on the country's economic base.

In a subsequent Central Committee resolution, this conclusion is reaffirmed, supporting our argument that tactic number 3 (the turning towards the economic base for legitimacy) had highest priority in the minds of the Party leadership:

The correct solving of the economic questions is a fundamental requisite for the strengthening of political power. The Party must therefore give the utmost attention to the solving of these tasks and also recognise that the solving of these tasks demands the societal mobilisation of workers and the active cooperation of social organisations at the level of production.²

Writing ten years after the revolution, one of the Party's historians, Henryk Vass, has also admitted that a radical and comprehensive reform of the country's economic system, from policy through to mechanism, was one of the top priorities on the mind of the new Party leadership.³

To lend weight to this public call for a comprehensive economic reform and ensure credibility for its declared intention of instituting a thorough reform of the economy, the Party appointed a task force at the beginning of

1. "Az MSZMP Ideiglenes Központi Bizottságának 1956. Decemberi Határozata" (The December 1956 Resolution of the Provisional Central Committee of the HSWP), December 5, 1956, A Magyar Szocialista Munkáspárt határozatai és dokumentumai, op. cit., pp. 13-22.

2. "Az MSZMP Országos Ertekezletének Határozata" (The Resolution on the National Congress of the HSWP), June 27-29, 1957, ibid., p. 85.

3. Henryk Vass, in Parttörténeti Közlemények, Vol. XII, No. 4, 1966.

1957, and entrusted it with the job of drawing up the new reform during that year.

This task force was subdivided into 11 committees, and each committee was entrusted with the analysis and diagnosis of a specific area of Hungary's economic functioning. (The 11 committees were: industry, industrial organisation, agriculture, domestic trade, foreign trade, transportation, manpower and labour relations, price policy, control of materials, finance, and economics.) Some of these committees were also broken up into subcommittees (e.g. the committee on industrial organisation, or the financial committee) to analyse specific questions in greater depth than could be achieved by the committee generally.

The economics committee, also known as the economic specialists committee, was headed by István Varga (the former economic advisor to the Smallholders, and Chairman of the Prices and Materials Office until 1948), and one of its tasks was to coordinate the work and findings of the other ten committees. The committee headed by Varga consisted of 30 specialists, including the chairmen of the other ten committees. The total number of economists involved in the work of all of the 11 committees on economic reform fluctuated between 200 and 250.

The findings and recommendations of the various committees were quite voluminous. Today they are kept, among other places, in the library of the Ministry of Finance. Foreigners are, however, unfortunately not permitted access to these documents even today, and our knowledge of the various committee recommendations is accordingly incomplete. Nevertheless, from what we have been able to surmise through some of the published committee resolutions, including that of the Varga committee, we can draw up a fairly accurate picture of the economic reform suggested to the Party by these economists.

II. THE ECONOMISTS SUGGEST MARKET SOCIALISM

Although this has been established in my introduction, I still feel that I should repeat it once more to avoid a possible confusion: my purpose in this dissertation is not to argue for or put forth an economic law of model feasibility but to report and reflect as accurately as possible on the political process of reforming a command economy. My aim is to present the contending reform positions within the Hungarian political arena, and not as such, within the field of economic theory ranging from Smith to Marx, and through the literally hundreds of Western and Eastern economic arguments for this or that type of micro and macro solution. To enter into a technical-economic critique of the various arguments presented below, to perform our own autopsy on the economic wisdom of the suggested remedies would take us far off course from our original purpose.

This of course does not mean that the reformers will be left unchallenged. A critique of their views will be presented, their solutions will be critically evaluated, but this criticism will be solely that which emerged in the conflict of the policy -- conflict within the Hungarian political arena. In other words, while there may be good economic grounds for dismissing certain of the proposals put forth by the Hungarian reformers these will not be reported upon and discussed if they did not play a role in the ensuing political debates.

In short, it should be kept in mind that the purpose of the dissertation is to present the origins and dynamics of the movement towards the guided market model in Hungary and that our silence in the face of possible economic fallacies below is due not to our uncritical support of those fallacies, but to our intention to stay true to our research aim.

The most clearcut statement on the orientation of economic reform wanted by Hungary's leading reformers is found in the first post-October editorial in Közgazdasági Szemle that we have referred to earlier on page 142 above.

While it is a dangerous exercise to impute that one editorial in a specialised journal represents the conventional view of all Hungarian reformers

in 1956, it must also be remembered that Közgazdasági Szemle is the official publication of the Economic Institute of the Academy of Sciences and, as such, it was directly associated with a centre that was then the high seat of research on economic reform in Hungary and especially on reform of the economic mechanism, as the comments on page 183 above show. In short, the views expressed by the editorial board, views which, we have been told, were discussed before publication with many members and department heads of the Economic Institute, and which received wide support, should not be treated lightly.

The title of the editorial, appropriately enough, and echoing the Party's earlier call, was "For a Socialist, Democratic and Hungarian Road for our Economy and Economic Science".¹

Identifying, as we have earlier indicated, the economic strategy of the Rakosi regime as the fundamental cause of the country's political malaise, the editorial board puts in a vigorous call for a "comprehensive economic reform" as the solution. It also indicates a marked preference for economic decentralisation and for the reform ideas that were then being circulated in Poland. (See below).

We are mercilessly opposed to the paralysing bureaucracy which emanated from the excessive centralisation of our economy, but we proclaim that one of the greatest advantages of the socialist economic system is economic planning, and we would greatly hinder our efforts if we did not exploit properly the advantages inherent in a planned economy... For our country, for the renewal of Socialism based on a Hungarian and democratic basis, and for the democratisation of our economic life, we are in need of such new economic structures that will pull out once and for all the basis from all arbitrary and highhanded bureaucratism... It is clear that we are in urgent need of a fundamental, comprehensive and radical economic reform... In the demarcation of the Hungarian road to Socialism, a prominent role awaits the economic sciences and those of its practitioners who are capable of original thought, creativity and are receptive to new ideas... We cannot proceed along this road by merely copying Soviet or Yugoslav methods, or by carefully blending elements from various Socialist countries. Nevertheless we must acquaint ourselves with the experience of other states (primarily Socialist) and rely upon them as well... The

1. "A népgazdaság és a közgazdaságtudomány fejlődésének szocialista, demokratikus és magyar útjaért" (For a Socialist, Democratic and Hungarian Road for our Economy and Economic Science), Közgazdasági Szemle, Vol. III, Nos. 11-12, 1956, pp. 1285-1292.

studying of the new theoretical works in other Socialist states is important, for during the course of fighting against the shackles of dogmatism in economic analysis we in Hungary had fallen behind a number of Socialist states. Most recently, we have especially lagged far behind Poland, and by familiarising ourselves with the Polish achievements we could boost the level of our economic sciences as well.¹

Before turning to the blueprints for a new economic mechanism that were generated by Hungary's reformers as a consequence of these declarations, let us look first at the "Polish achievements" that were so attractive to the Hungarian economists, and gauge their influence on the direction of reform in Hungary.

1. The Influence of Polish Reformist Ideas

Whereas prior to 1956, international relations between the Socialist states of Eastern Europe had been (paradoxically) severely curtailed by the Soviet Union so that developments in various sectors of one country's society scarcely had any possibility of contact with those in neighbouring countries, this began to rapidly change after Stalin's death,² when a pattern of community interaction emerged that Adam Bronke has aptly labelled "hydraulic interdependence".³ This means that there is a vertical interdependence between societal changes in one Socialist country that are in turn coupled or linked to horizontal changes taking place in the Socialist international community at large, and these horizontal and vertical changes mutually influence one another in the process of Socialist goal attainment in Eastern Europe.

The survey of Hungarian economic literature, and interviews with Hungarian economists, suggest convincingly that, with respect to economic reform and the search for a new economic road to Socialism, the strongest horizontal effect on Hungary in the mid 1950's after Yugoslavia was indeed that of the Polish economic reformers. (Yugoslavia's decentralized economic management system and her experimentation with workers' self-management

1. *Ibid.*, pp. 1285-1291 (Italics added).

2. Still perhaps the best analysis of this period of Socialist international relations is Zbigniew Brzezinski's *The Soviet Bloc*, *op. cit.*

3. Adam Bronke, "Eastern Europe on the Threshold of the 1970's", a paper based on a lecture given by the author in the Department of External Affairs, November 25, 1969.

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were considered by all reformers in Eastern Europe, in Poland as in Hungary, as the opposite Socialist alternative to Stalinist type centralised physical resource allocation.¹ The Yugoslav reforms exerted, as they exert today, the most powerful influence on the thinking of economic reformers who are looking towards market Socialism as an alternative.)

Közgazdasági Szemle in 1955 carried a very favourable review of Brus' pathbreaking article on "The Influence of the Law of Value and Economic Incentives"² and the same issue also reviewed some of the most recent economic literature published in Poland on prospective economic reform.

In late 1955 an agreement was signed between Hungary's Karl Marx University of Economics and the Warsaw Institute of Planning and Statistics for an exchange program (the first such international agreement signed by KMUE) of academic visits, joint research programs, and cooperation between the two centres. The Hungarian participants in the exchange were tremendously impressed with the level of economic research in Poland and the Warsaw Institute, and they were openly envious of what seemed to them to be a much freer atmosphere in Poland for study and discussion on matters of economic policy and mechanism. Imre László, one of the first participants in the exchange, wrote upon his return to Hungary, that "the problems facing the Polish economic institutes or those that they have already overcome, very closely resemble those against which we are ourselves battling".³ Sándor Ganczer, who was to become one of the leading advocates of reform in Hungary also spent a few weeks from KMUE in Warsaw and, apart from noting that in

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1. See for example the article of Sándor Balázs, "Üzemi munkastanács, vállalati önállóság, iparvezetés" (Factory Workers' Council, Enterprise Autonomy and Industrial Management), Közgazdasági Szemle, Vol. III, Nos. 11-12, 1956, p. 1293; Béla Szilágyi, "Jugoszlávia gazdasági fejlődéséről" (On Yugoslavia's Economic Development), Közgazdasági Szemle, Vol. II, Nos. 7-8, 1955, pp. 953-961; and "Bibliográfia Jugoszlávia gazdaságáról" (Bibliography on the Yugoslav Economy), Közgazdasági Szemle, Vol. III, Nos. 11-12, 1956, pp. 1496-1504; and Béla Fazekas, "A Jugoszláv termelőszövetkezetekről" (On the Yugoslav Producer Cooperatives), Közgazdasági Szemle, Vol. III, No. 10, 1956, pp. 1237-1241.
 2. Katalin Becht, "A lengyel közgazdasági lap legutóbbi számairól" (On the Most Recent Issues of the Polish Economists Journal), Közgazdasági Szemle, Vol. II, No. 10, 1955.
 3. Imre László, "A lengyel közgazdászok képzéséről szerzett tapasztalatok" (On the Training of Economists in Poland), Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956, p. 954.

Poland -- unlike in Hungary -- the trains ran on time, he also described the state of Polish economic research as more advanced than that in Hungary.¹ Ganczer noted rather bitterly that this is not necessarily due to the superior qualifications or training of Polish researchers, but more to the fact that in Poland -- unlike Hungary -- those who want to engage in scientific research and to experiment with new ideas are given the opportunity to do so to the limits of their ability.² Ganczer classified the state of Hungarian economic research as archaic compared to that of Poland, and he blamed the discriminatory attitude of the Hungarian authorities for this backwardness which, in his words, had led to some "peculiar situations". An example he cites of such a "peculiar situation" is that Western statistical information on Hungarian economic performance is more useful and at times more accurate than that which they were given access to by the Central Statistical Office.³

In the November-December 1956 issue of Közgazdasági Szemle -- the one in which the editors of the journal called for a comprehensive reform of the economy -- there appeared a lengthy and sympathetic coverage of the Second Congress of Polish Economists, especially of the speeches of Oscar Lange, Stefan Kurowski and Włodzimierz Brus.⁴ This review article -- which within a few months was to be condemned by the Hungarian Communist Party as an "uncritical kow-towing to revisionist concepts" -- stressed at the beginning that opinions on reform and the various economic questions discussed at the Congress were by no means unanimous, but praised the healthy atmosphere of fearless and vigorous debate among the participants. While there were a number of contrasting viewpoints aired at the Congress, the article states that there was a general agreement on two broad questions:⁵

1. The accumulated problems and deficiencies of the Polish economy cannot be rectified in a patchwork or piece-meal fashion but require a radical, comprehensive reform program. In the drafting of this program, the Party should rely extensively on the advice and support of the economists.

1. Sándor Ganczer, "Közgazdász szemmel Lengyelországban" (In Poland, Through the Eyes of an Economist), Közgazdasági Szemle, Vol. III, Nos. 7-8, 1956.

2. Ibid., p. 955.

3. Ibid., p. 960.

4. "A II. Közgazdászkongresszus Lengyelországban" (The Second Congress of Economists in Poland), Közgazdasági Szemle, Vol. III, Nos. 11-12, 1956, pp. 1444-6.

5. Ibid., p. 1444.

2. The precondition for the elimination of the deficiencies is the decentralisation of economic planning and management, which, however, will require a very thorough study and analysis before being implemented.

After giving a fairly detailed run-down of the various positions expressed by some of the key discussants, the article listed the recommendations that were adopted by the Congress:

1. During the previous years, serious mistakes were committed in the functioning and policy of the Polish economy which retarded the development of the national economy. This is especially true with respect to the methods of economic planning and guidance. Because of this, it is necessary to go beyond mere peripheral corrections to the system of economic guidance and to introduce far-reaching and fundamental reforms geared towards the democratisation of economic life so as to place it on scientific foundations.¹
2. The delegates call on the Presidium of the Council of Ministers to create a Commission for the purpose of drafting the necessary reforms. The findings of the Commission should be given the widest possible circulation, and should, finally, be coordinated by the Council of Ministers and the Economic Council.²
3. Changes in cadre policy governing the selection of people for posts in the state economic bodies should be introduced. The professional training and expertise of candidates should play a much more important role in the staffing of these posts in the future.³

We needn't concern ourselves here with the subsequent reform "theses" proposed by the Commission, for these have been described elsewhere.⁴ What we need simply to keep in mind is that the whole approach or orientation of an outspoken wing of Polish reformers in 1956-57, their emphasis on the necessity of comprehensive decentralisation rather than piece-meal reform, these ideas received a very keen attention and support from the Hungarian reformers. The review article in Közgazdasági Szemle summarised the essence of Brus' comments at the Congress thus:

The urging of the decentralisation and democratisation of the modes of economic control will remain but empty sloganeering as long as we do not

1. Ibid., p. 1465.

2. Ibid., p. 1465.

3. Ibid., p. 1466.

4. See John Michael Montias, Central Planning in Poland, op. cit., pp. 263-310.

work out the full and proper system of economic regulators... The essence of our task is: to design a proper price system and to align more closely individual incentives with the financial achievements of enterprises.¹

But there was another important side to the argument of some of the Polish reformers to which the Hungarian reformers were especially receptive during the months of increasing domestic political conflict prior to October, and especially so immediately after the uprising, when the political bankruptcy of the old regime was vividly exposed.

This 'other side' was that which Ferenc Donáth referred to earlier (see page 186-7 above) and which the November-December editorial of Közgazdasági Szemle lucidly underlines. It consisted of the social and political side of economic reform, the politics of economic decentralisation and democratisation. This side was well expressed by the Polish economist Kurowski, who wrote:

The creation of an apparatus of administrators was not sufficient in itself to guarantee the functioning of the system which...in order to attain its strategic ends, had to overcome the resistance of society. A separate apparatus, which we shall call an apparatus of 'stabilisation', was founded to overcome this resistance, to maintain the system, to execute administrative orders and control their fulfillment, and to defend the privileges of the bureaucracy. It is more than certain that a system of central administration of the economy in conflict with consumers' preferences would not last a month if it were not for the presence of this apparatus of stabilisation.²

For the Hungarians who lived through the years prior to October and the violence of the uprising, this conclusion was extremely relevant and self-evident. This fuller concern with the problem of economic reform, the concern for a socio-political theory of economic decentralisation, and the going beyond the purely economic-technical aspects of centralised vs. decentralised management, is again perhaps best expressed by Brus:

Hitherto, these arguments in favour of applying a market mechanism to a planned economy have chiefly emphasised the purely economic aspects. It is however quite clear that the functioning of a Socialist economy does not only involve economic problems. The criteria for assessing the accuracy of a model solution must also include the social aspects. First to be considered here is the influence of these solutions of the position

1. "A II. Közgazdászkongresszus Lengyelországban", Közgazdasági Szemle, op. cit., p. 1453.

2. Quoted by J.M. Montias, Central Planning in Poland, op.cit., p. 273.

of man in economic activity on the possibilities of developing the creative initiative of the masses, and on the way in which the interests of individuals and social groups are brought into relationship with those of the whole economy. In this respect, the superiority of the decentralised model seems beyond doubt.¹

In short, then, we can say that the work of the Polish pioneers on the role of the law of value in a Socialist economy, their analysis, and their recommendations for a Socialist guided market model, accurate or not, incorrect or not, were of great interest to, and a significant influence on, Hungary's reformers, who were entrusted to map out Hungary's new economic road to Socialism during 1957.

2. The Analysis and Recommendations of the Committee on Industrial Management.

The first detailed set of recommendations to emerge publicly from one of the 11 committees making up the task force on economic reform was that of the Industrial Management Committee. It was penned by Sándor Kopátsy, a member of the Committee, who states that though he takes sole responsibility for the views expressed in his paper, his position was discussed by the members of the Committee and reflects the consensus of opinion within the Committee.² In short, Kopátsy's article is not a dissenting view but the articulation of the majority viewpoint.

Before reviewing the main features of this report we must note the speed with which it appeared. As we are told, the Committee was not formally established until the beginning of 1957, yet it had published a complex study and a series of recommendations one month later. The reason for this seemingly superhuman speed is that the report was in fact preceeded by much careful work before October 1956, and the recommendations for a new economic mechanism for industry had in fact been worked out before 1957; it was only now, due

1. Włodzimierz Brus, "A Model of a Planned Economy with Built-in Market Mechanism", in his The Market in a Socialist Economy (London: Routledge and Kegan Paul, 1972), p. 155. Brus' book on The Law of Value and Economic Incentives was published in Hungarian by Közgazdasági és Jogi Könyvkiadó in 1957. A review of it is found in Közgazdasági Szemle, Vol. IV, Nos. 8-9, 1957, pp. 981-82.

2. Sándor Kopátsy, "Tervgazdálkodásunk megjavításaért" (For the Improvement of our Economic Planning), Közgazdasági Szemle, Vol. IV, No. 2, 1957, p. 133.

to the changed political situation, that they were able to emerge publicly in print.

The overriding emphasis throughout the entire length of the report is on the importance of recognising the relationship between economic policy and economic mechanism firstly, and secondly of recognising the short-term economic constraints, the economic chaos in the country following the uprising, when making suggestions about the timing of the reform's introduction.

Kopátsy's report begins by giving due credit for the impressive economic achievements of the past twelve years, and by condemning all those critics who ignore or belittle the great leaps in industrial production, the expansion of industrial capacity, the elimination of widespread unemployment, etc. The report asserts, and quite correctly so, that these radical transformations in Hungary's economy simply could not have been achieved so rapidly under capitalist modes of production. What then is the problem?

The problem for Kopátsy is that, great as these economic gains may have been, they were achieved at the cost of a tremendous amount of waste and inefficiency, and required great sacrifices on the part of the population. As he points out:

In absolute terms our accomplishments are great, in relative terms, compared to the potentialities of our situation after 1945, they are small... the cause of our shortcomings is not that we are not producing enough, but rather that what we are producing, we are producing very inefficiently, and are wasteful with our products.¹

Kopátsy hastens to add that upon reading this conclusion about the source of Hungary's economic problems, one might conclude that therefore it is simply the methods of planning and management that require reform, and the various imperfections of the economic mechanism which permitted such inefficiency to be a part of the process of Socialist construction: that, in short, what is needed to help Hungary out of her difficulties economically is simply a new economic mechanism. Kopátsy rejects the view that the old economic policy was not the source of the problems, that that policy was more or less correct, and that it does not, even in 1957, require to be tampered with:

1. Ibid., pp. 133-134.

This is not so. We committed grave mistakes in economic policy as well. We neglected agriculture, important areas of consumer industry, we stressed too much the development of metallurgy and heavy machine engineering, we neglected renewals, we strove to increase capacity in an unhealthy and one-sided fashion by simply constructing new facilities rather than modernising existing ones, etc. All of this is true. But in my opinion a very large role was played in our developmental mistakes by our utilisation of a bad economic mechanism. Had our economic mechanism been a good one, had our methods of economic management been correct, then the policy errors would not have reached such great heights as they finally did.¹

Kopátsy says that in essence we can distinguish between two ideal types of economic control that can be utilised by the Socialist state to ensure the priority of social interests. These he labels "administrative" controls and "economic" controls. Administrative methods imply pure Stalinist type command, the application of direct, detailed physical, binding command targets on economic sub-systems. Economic methods on the other hand utilise a complex or synthetic array of financial, indirect regulators, material incentives, and channel or herd producers in the direction of superior economic goals by means of these indirect levers of control.

According to the report, and as we well know, Hungarian planners had carried to an extreme the utilisation and application of administrative controls during the years of Socialist construction prior to 1957. "Life in Hungary has passed severe judgement on this method...and today it is a general consensus that our planning mechanism requires a thoroughgoing reorganisation".²

Was Kopátsy or the Industrial Management Committee advocating an immediate abolition of direct, physical resource allocation from all sectors of Hungarian economic life? Did they advocate a bi-modal theory of reform and suggest that there can be no synthesis or blending of "administrative" and "economic" controls? Moreover, did they try to argue that a pure, "economically" (as opposed to Kopátsy's "administratively") regulated system was to be the only possible solution for all Socialist states and for all times?

The answer to all these questions is — no. Kopátsy's Committee was well

1. Ibid., p. 134.

2. Ibid., p. 136.

aware of the difficulty and invisibility of instituting large-scale economic decentralisation by simply replacing all administrative controls with economic ones. It argued that the wholesale abandonment of the physical command mechanism would rapidly lead to a severe inflation, bottlenecks, and anarchy, as long as there was no comprehensive and deepgoing working system that could step into the vacuum created by decentralisation and harmonise social and group or individual interests in a dynamic fashion. It was recognised that as long as local interests were at severe disharmony with social interests, direct commands are a necessity. "This", says Kopátsy, "is the least evil, our only security against anarchy".¹ He condemns those thoughtless and reckless reformers who propose that "...let's only tell the enterprise to maximise profits and leave the rest to it".²

Enterprises would proceed to produce items which under the existing price system would prove most profitable for them, and that choice, in most cases, would simply not coincide with the interests of the national economy...and would suffocate our economic activity within the constraints of severe bottlenecks... But when we declare that it would be wrong to insert unilaterally and at this moment in time a radical new mechanism into our economic mainstream, we give notice that the primary reason for our economic ills resides in our system of economic management... we need greater reserves but we shall not have sufficient reserves as long as we refuse to change our methods... a decisive precondition for parting with our economic problems quickly is to free ourselves of the erroneous elements of the economic management system itself.³

The Hungarian reformers were very circumspect lest they would appear to be undermining the "leading role of the first Socialist state".⁴ They were careful not to appear to be advocating the international rejection of the techniques of economic control championed by the wise father of the Soviet people, Joseph Stalin, techniques which were used in the Soviet Union for decades.

1. Ibid., p. 139.

2. Ibid., p. 139.

3. Ibid., p. 139-140.

4. As matters stood then, and stand today, the Soviet Union is proclaimed as possessing the most "experience" in building Socialism. Whoever heard of a situation in the history of international Socialism whereby the Party Congress resolutions, say of Hungary or Bulgaria, were recognised by the Soviet Union as clearing the path for the revival of economic science in that country as well? The reverse, the scramble of East European economists to "think through their earlier ill-informed views in light of the pathbreaking discoveries of the Soviet comrades", has been a constant feature in the Socialist 'peace camp'.

to realise a series of impressive economic achievements. Thus, the old mechanism is not condemned by the Committee as useless for all states and for all times. And so, what the editorial criticises is merely the mechanical application of the technology of Soviet economic control to the Hungarian setting. The Committee condemns the Rakosi leadership for ignoring the fact that the USSR is the world's richest country in raw materials, and that the role of foreign trade in the Soviet national economy is incomparably smaller than it is in Hungary. The mechanical application of economic techniques and goals from one societal setting, where they may be quite useful, into another completely different one has resulted, in Kopátsy's view, in "some infuriating stupidities". As examples he cites

Who does not recall the fact that at one time we concentrated most of our agricultural resources in the development of cotton, or that we gave less attention to apple growing than to lemon growing? These great financial expenses would not have been incurred, or at least they would have been much smaller, if all of us could have seen clearly in advance the 'costs' involved.¹

Let us now enumerate the main features of the new economic mechanism proposed by the Committee on Industrial Management:

- The new mechanism should be introduced first of all in such a way as not to result in a sudden disturbance or jarring of economic processes, for if serious dislocations occur in its wake, these would greatly hamper the operation of the mechanism.
- Rigid and uniform organisational and managerial forms for all sectors of the economy are rejected. In deciding what form of planning and control to use, in different sectors, the Committee advises that we must first evaluate the nature of the relations of production prevalent in that sector, the technological level of the units, the length of production cycle, to what extent the unit is in a monopolistic position, the length of time needed for the realisation of certain important directives such as technological development, etc. The Committee, in short, does not suggest a bi-model approach to economic reform. It recognises the possibility of a number of "half-way houses" between "administrative" and "economic" control and suggests instead a "mix" of organisational and

1. Ibid., p. 135.

managerial forms that should, moreover, be free to shift in accordance with changing demands and constraints.

- While rejecting the idea of either "administrative" or "economic" control, the Committee advises a severe restriction for the scope of "administrative", i.e. the traditional Stalinist type, commands. Direct commands, we are told, should be used by the State in only those key areas where such administrative control is warranted, namely banks, customs and tariffs, mail and postal services, foreign currency regulations, and large strategic investments. In all other areas synthesis of various indirect economic regulators and incentives should be relied upon to stimulate firms and producers in the direction of the national economic interest (new price, credit, interest, tax, etc., regulations).
- This collectivity or synthesis of centrally designed regulators and methods of control should not be changed or tampered with from year to year or in any short intervals. To engage in such short-term periodic adjustments would simply perpetuate the present pattern of enterprise "secretiveness", the camouflaging of their real achievements, the short time horizons, and the continuous demand on the part of units of production for "loose plans".
- Regardless of whether they are decreed by the state, by intermediate bodies, or by market forces, prices should at all times be guaranteed to reflect supply and demand conditions, they should be uniform, and their overall level should be equal to the overall level of social costs.
- The "interest" of the national economy should be expressed to the basic economic units in as clear and uncluttered a form as possible. The whole complex of variables that contribute and come together in a specific enterprise output should if possible be expressed by one success indicator only. This one indicator should be both the source and the effect of the overall operation of the enterprise. The indicator best suited to fulfill this function is the indicator of realised profits after allowances for production costs and state taxes had been fulfilled.
- The basic economic units and producers should be materially interested in the efficient application of the state's economic policy.
- The labour costs of firms should include not only wages paid out to employees, but all other costs incurred during the utilisation of labour.

It is necessary to do this to help bring to an end the squandering of manpower due to its currently artificial low "cost" vis-à-vis material costs.

- Enterprises should be synthetically motivated to pursue social goals not only in material and wage questions. They should also be motivated via economic regulators and incentives to concern themselves with:
 - a. the optimal utilisation of fixed funds and economising with investment funds;
 - b. the economic and judicious handling of circulating funds; and
 - c. the rational utilisation of manpower both as regards its quantity and as regards its skill composition. "The surplus of manpower in one firm creates a shortage in another — and thereby results in a shortage of production."¹
 - The financial and tax commitments levied on firms by the central authorities should be calculated in such a way as to eliminate or equalise all the differences that exist currently between the production costs of firms due to external sources.
3. The Analysis and Recommendations of the Interministerial Task Group for a New System of Economic Guidance in Industry.

The next major public glimpse at the thinking of Hungarian economic reformers came in a lengthy position paper published in the April 1957 issue of Közgazdasági Szemle.² These recommendations were based on the work of a team of researchers (30-40 specialists in all) selected from the industrial branch ministries, the ministry of finance, the National Planning Office, and the Secretariat of the Council of Ministers. The report was published under the joint authorship of O. Gadó, J. Wilcsek, J. Bokor, T. Meitner, P. Kürthy and S. Sárosi. (Most of these people, especially Gadó, Wilcsek and Meitner, were closely involved, ten years later, in the designing of the 1968 NEM.)

1. Ibid., p. 143.

2. Ottó Gadó, Jenő Wilcsek et al, "Javaslat az ipar gazdasági irányításának új rendszerére" (Recommendations for a New System of Economic Regulation of Industry), Közgazdasági Szemle, Vol. IV, No. 4, 1957, pp. 371-392.

The authors state that, while there were a few points on which the team could not reach unanimous agreement and therefore this is not a unanimously endorsed report, nevertheless in its basic design and thrust the report does in fact represent the majority viewpoint of the membership. Because of its importance as a working alternative the report was presented to and discussed at special sessions of the Central Committee's Economic Committee, the Economic Specialists Committee i.e. the Varga Committee, and at a conference organised by the Planners Circle of the National Planning Office.

It is generally the view in the West that the most radical or comprehensive reform proposals for economic decentralisation and a Socialist market mechanism in Eastern Europe come from the pens of academic economists attached to the Economics Institute of the Academy of Sciences, to one of the special Economic Research Institutes, or to one of the Economics Universities. It is generally thought that the planning and administrative bureaucracies, their directorates and research departments, though they have in the past generated some novel schemes for "musical chairs" type administrative reforms, have never actually promoted the drastic reduction of direct, administrative commands. The usually assumed rationale for this absence of the central planning bureaucracy's promotion of the concept and practice of a guided Socialist market mechanism is that to do so would be counter to their personal and institutional vested interests.

The analysis of the interministerial task group's report is unusual and important in the first place since its conclusions and recommendations are quite different from the above mentioned expectation. Just like their colleagues in the academic departments, these ministry specialists were actively and openly urging that the onesided system of physical command resource allocation be abandoned and replaced by a comprehensive new economic mechanism, i.e. by a guided market model utilising indirect forms of financial control and incentives.

Before unveiling their recommendations, the authors feel it necessary to establish some benchmarks for their report. They begin by saying that, although a great deal of criticism had been directed against the mechanism of economic control during the previous years, we must all realise that a new economic mechanism alone will not solve the country's economic problems.

Economic policy itself was an important source of the problems that the planners now have to solve. Nevertheless, they assert that the reform of economic policy by itself will also not result in a fundamental improvement of the economic situation in Hungary. They argue that the policy and mechanism of the past have been in a close and mutual interdependence, the mistakes stemming from the one being reinforced by the other and vice-versa. Thus "...without the reform of the system of planning and management of the economy, the corrected economic policy will not achieve the intended results, and will not result in a fundamental improvement in our situation."¹

The starting point for the whole report is that a Socialist State, or a State that is aspiring to build Socialism, must necessarily pursue economic planning. The economy must be a planned economy — the question being, what type of planned economy. Thus, there is no question here of replacing plan with market, but of discovering a more effective system of planned economic control.

Like the Kopátsy report, this report is also severely critical of the old system of centralised, administrative, command mechanism. The report also rejects the pre-1957 attempts at piece-meal reform (e.g. the reduction of the number of compulsory plan index numbers, or the testing of the new mechanism in a few isolated enterprises).² These isolated and piece-meal reforms have not, according to the report, been truly effective in the past, nor will they bring about a significant improvement in the future.³ They do not, to be sure, argue that piece-meal reforms are impossible. They simply state that those attempts were not fully satisfactory in Hungary, and that a better way may still be found.

1. Ibid., p. 371.

2. On the nature of some of the pre-1956 piece-meal changes and attempts to test reforms on a few selected firms, see Sándor Kovács "Gazdasági igazgatásunk egyszerűsítéséről" (On Simplifying our System of Economic Control), *Közgazdasági Szemle*, Vol. II, No. 12, 1955, pp. 1493-98; Imre Vincze, "Tervezési módszereink tökéletesítésének néhány problémája" (On Some Problems of Perfecting our Methods of Planning), *Közgazdasági Szemle*, Vol. II, No. 10, 1955, pp. 1215-25; Imre Fenyő and Andor Lukács, "A vállalati nyereség szerepe a szocialista kereskedelemben" (The Role of Enterprise Profits in Socialist Commerce), *Közgazdasági Szemle*, Vol. II, No. 2, 1956; and Sándor Balázs, "A vállalati ötéves tervkészítés néhány tapasztalata" (The Experience of Enterprise Planning of the Five Year Plan), *Közgazdasági Szemle*, Vol. III, Nos. 7-8, 1956, pp. 829-838.

3. Otto Gádó et al, op. cit., pp. 375-76.

A planned economy, says the report, is not necessarily one in which the behaviour of producers and economic units is strictly the function of direct central commands. Rather than handing down to producers detailed, differentiated and specific targets in the form of binding commands, planning could also pursue its aims by merely establishing tendencies or trends that ought to be pursued.¹ And rather than giving detailed and direct orders to sub-systems over a large area of specific functions, the plan could merely contain a framework backed up by a synthesis of indirect stimulators and incentives which acting together would herd sub-systems, enterprises, or producers in the direction of the planned tendencies.

Again, it is pointed out that under this type of planning and management the State does not have to give up all of its direct tools of economic control. In a synthetically controlled economy, central commands do still exist -- but now their targets are relocated. Under the new system, the "targets" of central commands will not be the units of production, the enterprises, but only the branch and functional ministries, the banks, that is to say, only those administrative bodies that are entrusted with the new tasks of pulling the various economic regulators, levers and financial incentives that influence the behaviour of firms. In short, the "Center" will continue to command ministries and other functional bodies as to what economic levers these bodies may use in their manipulation of enterprises. But, there will be, generally speaking, no physical out-put target, enforced by commands, on individual enterprises either by the Central planners or by the ministries. The report suggests that while central physical commands may still be applied to individual enterprises, this will only be the exception rather than the rule and will involve only a few, essential cases. Once again, therefore, as in the previous report, there is a definite rejection of an either-or approach to reform. While strongly advocating a movement towards "economic" regulation as opposed to "administrative", the report allows for the existence of both types of control under the new model.

The numerous compulsory indicators of previous plans should be fused into one synthetic indicator: enterprise profitability. The Committee recommends that this then should be designated officially as the enterprise's

1. Ibid., p. 372.

maximand.

Before one could jump on them for advocating the revival of Capitalism the authors of the report hasten to point out that the pursuit of profit by Socialist firms will not be the central goal of those firms nor of the national economy at large, and that the enterprise's maximand will not simply result in the institutionalised fetishisation of money and profits:

It must be realised that under the system of Socialist productive relations, the profitability of an enterprise does not express the same thing as it does under capitalist relations of production. For us, profit is not a central goal as such, but rather a means, a vehicle, for the realisation of the goals of the national economy... Profit formation, it must be seen, is only partly the result of enterprise behaviour; another part of profit is dependent on the activity played by the state via its direct control over the various indirect financial and economic regulators affecting the firm. It is especially this fact, that the profitability of enterprises can be influenced by the state via price, tax, credit, wage, and tariff policies, that makes profitability the synthetic index best suited to replace direct, and detailed, physical commands.¹

It is frequently pointed out in connection with Socialist economic problems and the need for economic reform that as time goes on, detailed central command becomes increasingly difficult to administer, and that with the growing complexity of economies, too many simultaneous equations need to be solved quickly and accurately, the planning bureaucracy begins to "drown in a sea of paper", and consequently the bureaucracy begins to generate various reforms in order to simplify its tasks and ease the burden of economic control.

It is rather surprising then that the Hungarian planners on this Task Group openly state that their new economic mechanisms will probably prove to be more difficult to administer than the old:

It is easier and simpler to give a direct order for each goal than to operate via complex financial mechanisms, whose interacting effects are to bring about indirectly the fulfillment of the planners' goals.²

These are very important points and they constitute the core of many Western remarks about the "claimed but unfounded superiority" of economic decentralisation. In other words, what the Committee is saying openly is that by conventional East European norms and measures of comparison, the

1. Ibid., p. 373.

2. Ibid., p. 373.

proposals contained in their report may result in second-best economic outcomes. Obviously, we have to ask why then their concern for these reforms, why did they want to complicate willfully the already burdensome process of economic planning and control, and why did they argue that even if the old model may prove capable of producing better economic results elsewhere, or even within Hungary, it must still be rejected? Their answer clearly reveals that the attitude of the Hungarian reformers towards the "necessity of economic decentralisation" is much more broader, more socially and politically differentiated than certain conventional and narrowly economic justifications.

What is essential is that the leading cadres, apparats, and all of the workers and employees, should learn how to think, how to act responsibly, how to take risks, to be creative, to learn to make decisions and be accountable for their decisions, to take on responsibilities, to analyse their environments and their abilities and capacities. In the past, because of the existence of direct commands, these basic human activities simply atrophied in our country.¹

In short, the necessity of reform and the necessity of economic decentralisation, in the opinion of Committee, is not purely a technical-economic one, but more importantly, a socio-economic, even humanistic one. The reformers — if not the politicians — are willing to trade-off administrative facility ("its easier and simpler to give a direct order") for "basic human activities".

And finally, the authors of this report are careful to draw attention to the problem of timing the introduction of reform. This concern stems from their fear that unless the timing and pace of the changeover are correctly defined, they will result in increasing economic imbalance and inflation rather than improved economic performance. They are conscious of the alternative of a sudden, all-encompassing "big leap" reform as opposed to that of a gradual, step-by-step approach. They recommend that the authorities should refrain from an immediate, all-encompassing reform of the mechanism of economic control and argue that a comprehensive reform must first be preceded by certain adjustments within the framework of the old mechanism (e.g. producer price reform). Nevertheless, while arguing against a comprehensive economic reform for 1957 they are resolute in their recommendation that "The full implementation of the

1. Ibid. p. 373-374

new mechanism cannot be treated as a distant or long run goal"¹ and say that after an initially necessary period of tight controls and preliminary readjustments during 1957, comprehensive implementation should become a reality in 1958-59.

Having examined these general guidelines proposed by the Inter-ministerial Task Group, let us turn to a brief analysis of the specific recommendations contained in that proposal for a new economic mechanism.

a. Planning

The report recommends that, based on the Communist Party's economic program, the Planning Office should begin detailed and thorough work on a long term economic plan. Long term planning (10-15 years) should be one of the most important of the planners' functions. As far as short term planning is concerned, the Planning Office should continue drafting its one-year plans, but these should not be broken down below the level of branch ministries or large strategic investments except in very special instances. The one-year plans drawn up by the National Planning Office should, also not specify the quantitative level of products and articles to be turned out during a plan year, but should simply delineate the major proportions or ratios of development and production.

Under the new system of economic guidance, enterprises too will have to work out one-year and quarterly plans. These plans will become operational and valid once they have received the approval of the enterprise's Workers' Council (!). The report recommends that these enterprise plans should neither require the approval nor be changed administratively (i.e. directly), by the branch ministry or by any other supervisory body, once the Workers' Council has approved them. The enterprise plans will be submitted to the ministries and will serve solely as information for these superior bodies (branch and functional) to help them in utilising the indirect economic regulators at their disposal more effectively in guiding production in the direction of the national or social interest. In short:

The development of the economy must be planned by the centre, in the direction of centrally designated goals, and guided in the direction of those goals by centrally designed methods. The methods of guidance from

1. Ibid., p. 372.

the past must, however, be changed. They should consist only to a small extent of direct commands, and they should be based primarily on the use of indirect economic regulators.¹

b. Supply of Materials

The Task Group recommends that direct central allocation of materials between units of production, the direct, central grip on enterprise out-puts which in the past had meant conversely also the direct central grip on all enterprise in-puts, should be maintained only in the case of a few essential and primary materials. The overwhelming portion of distribution of materials should be the function of direct commercial transactions between suppliers and consumers.² The monopolistic position of wholesale trading enterprises should be broken up, says the report, and if it proves to be more feasible or economical for consumers to order directly from producers, they should not be hindered by administrative controls from doing so.³

c. Product Mix (Profiles)

The firms' product mix is to remain under the supervision of the controlling branch ministry, but this control is to be much more general than in the past (i.e. it should not be so differentiated as in the past). To alter these general product profiles, the enterprise must ask for ministerial approval. If the firm goes ahead and alters its profile without receiving ministerial approval, then the ministry is empowered to sanction financial penalties, denial of credits, etc. (Note, however, that there is no mention of direct legal command sanctions but only of financial regulatory rights.)

d. Prices

The prerequisite for a comprehensive new economic mechanism, according to the report, is a thoroughgoing administrative producer price reform. It is recommended that this price reform should be made effective as of January 1st, 1958. The new producer prices should first of all reflect "prime production costs", but beyond that they should also express scarcities and the

1. Ibid., p. 376. (Italics added)
2. Ibid., p. 378.
3. Ibid., p. 379.

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"...expected development of supply and demand... In setting the new prices, we should also allow for the product's use value: greater utility should be rewarded by higher price".¹

The report recommends that direct central price fixing should apply in principle to only a few essential consumer items, to a few key primary products, and to items that are produced by firms in a monopolistic position. Apart from these, central authorities should not engage in direct, quantitative price setting. Price levels should be permitted to follow the interplay of supply and demand forces and the interplay of these forces with the state's fiscal and monetary policy.

Again, the report cautions against thinking either in terms of a "big leap" or "little-steps" and calls for the installation of certain transitional brakes into this general price schema. The new price policy, in other words, cannot be realised in one step. There must be a gradual evolution and relaxation of central constraints if severe initial dislocations and inflationary pressures are to be avoided. To be fully operational the new price policy requires the existence of more balanced conditions than those existing in Hungary in 1957, and of a certain degree of enterprise competitiveness:

Under the present conditions of our national economy, and as we resolutely proceed with the cutting out of various bureaucratic tumors from our system, we must retain a large part of the central constraints on prices. Under similar economic conditions -- regardless of their social systems -- all countries would be forced to restrict the area of free price formation... To ease the effects of these constraints during the transition to free prices rather than quantitatively fixing them, we should merely prescribe maximum levels.²

e. Taxes

The main feature of the new economic mechanism, according to its proponents, is that the enterprise and its workers are to be made much more materially interested in the achievements of their workplace than in the past. Under the old system, there were only two forms of taxation -- the turnover tax and the profit tax. According to the task group "...this system of taxation

1. Ibid., p. 381. (Italics added).

2. Ibid., p. 380.

did not serve the interests of the national economy and hindered the emergence of clear thinking...the size of the revenue realised by the enterprise was only to a small extent reflective of the work done in the enterprise itself".¹ Once a new producer price system is in effect, once a new turnover tax and profit system are counterbalanced by the abolition of state subsidies and corrected import prices, enterprise revenue will be syphoned off by the following centrally controlled taxation channels:

- i. a charge on the net value of fixed assets
- ii. interest on circulating funds
- iii. a 10-15% tax on the enterprise's payroll
- iv. turnover tax
- v. profit tax.

Enterprise nursery schools or day-care centres cannot depend on the vagaries of profit, says the report. They must be financed from the local council's budget. Enterprises will also be required by law to place a certain percentage of their profits into their reserve fund in order to cover themselves against possible future deficits. "Until such use is made of them, the reserve funds will constitute a part of the enterprises' circulating assets".²

Enterprises that work at a loss may receive state subsidies only if they produce products that are vital to the state economy and if it can be ascertained that their deficits are due mainly to the peculiarities of the state's price policy. In all other cases, i.e. when it is clear that the deficit is simply the product of management's inability to master the forces of the Socialist market and to remain a viable commercial entity, state subsidies are not to be granted. In such cases, enterprises will be called upon to work out a detailed and thorough financial auditing and reorganisation. They may also, on their own volition, approach the banks for a credit if they feel (and can convince the bank) that such a loan would eliminate the source of their deficit and make them commercially viable. The authors add that if the bank, considering the firm a poor credit risk, rejects the firm's request

1. Ibid., p. 381

2. Ibid., p. 383.

for credit, then the firm is formally classified as bankrupt. In this case the relevant ministry may assume responsibility for the payment of wages, and it may decide within three months whether to shut down the enterprise, appoint new management, amalgamate the firm with another enterprise, or whatever.¹

f. Wages and Material Incentives

Basic or nominal wages should, according to the report, constitute the central element of individual incentives. The report rejects the suggestion that the material interests of workers and employees should be stimulated mainly through profit-sharing.

Nominal wages, aside from constituting an important component of real wages, are seen by the reformers as a valuable tool in influencing the distribution and flow of labour in various sectors of the economy, and should also be relied upon to control inflationary pressures, to motivate management to utilise labour more efficiently, etc.

Once again, we are told that this tool is not to be used in a direct, command fashion by the central authorities. The bank's control over the enterprise wage fund must cease, says the report, as must the compulsory prescription by ministries of the size of a firm's labour force and its global wage bill.

Naturally, on the level of national economic planning we should continue to plan the labour demand, employment level and wage funds of the different branches. Even at the level of enterprises and ministries, such plans must be prepared. But these last ones will cease to be of a compulsory nature, and their fulfillment will depend not on legal, administrative sanctions, but on material consequences.²

The report comes down strongly on the side of average wage control. The authors recognise that average wage control might lead to various anomalies such as the overstaffing of a firm's labour force with unskilled, i.e. low paid workers, or -- since it establishes a concrete ceiling for wages -- a reduction in the effectiveness of material incentives. Nonetheless, they feel that, regardless of its harmful side-effects, average wage control is the best guarantee against inflation at present, and that it should be pursued during the transition period to the new economic mechanism. "If the mechanism proves

1. Ibid., p. 384.

2. Ibid., p. 385.

to be working well, we can diminish the grip of average wage control and, with time, replace it with a different method".¹

As in the previous cases, if there is noncompliance by the enterprise and if enterprises overstep the ceiling stipulated in the centrally designated average wage level, the Task Group recommends that the ministries should not be allowed to react by direct, legal or administrative sanctions. In these cases, firms will be required to pay a financial penalty or will have to dispense with an equivalent amount from their profit sharing fund to the treasury.

But while individual material interests of employees are to be stimulated by nominal wages, the enterprise's collective interest should be realised through the yearly profit sharing. Workers' Councils should play an important role here says the report and should have the final say on the distribution of moneys to individual workers.² The ratios of the fund's distribution between the various categories of employees should, however, be centrally defined.

g. Credit, Finance and Banks

The Task Group also calls for far-ranging reforms in this area and advocates that the traditional relationship between banks and enterprises should be redefined. Banks should pay an interest to depositors. The financing of enterprises' circulating assets should be from the enterprises' own circulating funds and only supplemented by bank credits. The report rejects the view that bank credits should serve as the only source of increments in circulating assets, for in its view this would not only severely impair enterprise autonomy but would also impair the use of bank credits as a flexible economic regulator.

How are the banks to realise the state's credit policy? Through the economic plan the state notifies the banks of its preferences that should be promoted and supported via bank credits. The banks then themselves evaluate individual enterprise credit demands based on commercial criteria — i.e. the firms' ability to repay, its profitability, expected returns on the venture,

1. Ibid., p. 387.

2. Ibid., p. 386.

etc. In short, a new, dynamic credit policy and the active and creative role of the banks in the channelling of this credit policy are important elements in the new overall synthetic regulatory mechanism.

The report advocates that depreciation allowances should be left with the enterprise, and the utilisation of these funds should not be administratively curtailed by the central authorities except in special circumstances. Until such time as it is to be used, the depreciation fund is to be deposited in a bank account by the firm as part of its own circulating fund, on which interest is paid by the bank.

As far as the financing of the expansion of productive capacity is concerned, the report feels that this should, in spite of contrary suggestions, be financed mainly from treasury funds. Enterprises could, however, if they choose, invest in projects of their own choice from their own profits (supplemented by short-term bank credits).

h. Foreign Trade

A radical reform was also to be implemented in this area. Compulsory export plans were to be replaced by a system whereby the enterprises themselves draw up their own export plans on the basis of agreements or contracts signed by them with the country's foreign trade enterprises. The state would stimulate producers in the direction of foreign markets via price, materials and foreign exchange regulations. The report also recommends that the direct exporting rights of individual producers be significantly expanded.

The authors of the report state that the efficiency and profitability of foreign trade is closely dependent on the structuring of the economy and, within this, on the structuring of industrial production. In their view, the fundamental question, when putting together the economic mechanism that will motivate firms towards efficiency and profitability, is that of domestic producer prices and the correct exchange price ratios. "Once this has been solved, there will be no longer a need to centrally fix the prices between industrial enterprises and the foreign trade enterprises. These prices can be negotiated freely by the two interested parties, based on commercial considerations."¹

1. Ibid., p. 391.

With respect to imports, the guidelines are more circumspect. The Ministry of Foreign Trade and the Foreign Trade Bank should exercise close supervision to ensure against the possibility of excessive importing. This supervision should, however, not be in the form of passing compulsory import plans down to enterprises, but should be exercised through foreign currency regulations, the manipulation of exchange ratios, and also by import licencing.

i. Monitoring

The report rightly points out that, faced with such a radical increase in enterprise autonomy and with the designation of profit as the enterprise maximand, there is a need to develop a well designed and effective system of central monitoring of enterprise behaviour. It is essential that the central decision makers and planners be in possession at all times of up-to-date and accurate information on the operation of enterprises, so as to be able to react quickly, flexibly and appropriately in the event of dislocations. Moreover, the practicality of the various economic regulators used by the state can only be assessed on the basis of accurate information on the effects of those regulators at the level of production. In short, says the report, both socio-economic stability and economic common sense require a thorough, sensitive and efficient monitoring system. The two principal methods of monitoring will be regular and compulsory reporting by the firms to their superiors (branch ministries, functional ministries and the statistical office) and independent auditing. But the new system of reporting by the enterprises must significantly differ from the old one. In the future, enterprises should not simply document the fulfillment of their plans; they should also report on the development of the enterprise, and on its accomplishments in various other areas. Again the task of Workers' Councils is sharply underlined and they are to be granted the right to engage outside auditors to assess the books of the enterprise. The various functional bodies — the Prices and Materials Office, the tax office, banks — should also be given the right to examine the operation and balance sheet of enterprises in order to assess the firm's observance of state decrees and the effectiveness of the various indirect regulators used.¹

1. Ibid., p. 392.

4. Debates on the Preliminary Guidelines for a New Economic Mechanism

The guidelines presented above should, of course, not be interpreted as blueprints. Blueprints for a comprehensive new economic mechanism would have required a much more thorough and detailed presentation and analysis than was the case. The two reports discussed above merely presented some general and specific guidelines or reference points as to which way to proceed towards a new economic mechanism. The "how" question, the nuts and bolts issues, the precise delineation of the new structures, functions, procedures and values of the new economic mechanism were still to be filled in. The previous reports sought merely to provide a framework for the researchers and specialists who would later have to work out the internal details of the new mechanism precisely.

But before such work could begin, most people involved in the process of reform realised that the general framework itself had to be accepted by the Party and meet the test of critical scrutiny by the community of economists. This is what the two reports that we have discussed tried to achieve. 1957 was consequently a year that saw a vigorous and increasingly rhetorical debate on the direction of future reform and specifically on the acceptability of the above outlined framework of a Socialist guided market model.

György Varga, a staff writer for Gazdasági Figyelő, gives us an interesting glimpse of the debate as he tries to outline the propositions of the leading reformers.¹ He states that there seems to be two rigidly polarised camps in the country on the question of economic reform: those who want a new economic mechanism and to leave all else alone, and those who are satisfied with the existing mechanism and want merely to see a change in economic policy.

Varga quite rightly rejects both of these either-or positions, and argues for the necessity of looking at reform in terms of the complex interdependence of policy and mechanism. He points out that the crux of the whole debate is the question of the law of value, and rightly dismisses "certain

1. György Varga, "Gazdasági mechanizmus 'vagy' gazdaságpolitika?" (Economic Mechanism 'or' Economic Policy?), Közgazdasági Szemle, Vol. IV, No. 7, 1957, pp. 759-770.

economists" as being openly revisionist and anti-Marxist when they argue that "...national economy should be placed under the direct control of the market" and that production and distribution should merely reflect the spontaneous forces of the law of value.¹ Varga says that behind this high-sounding recommendation it is not difficult to discern the dangers of creeping capitalism. The spontaneous realisation of the law of supply and demand, coupled with another suggestion, that of reselling of the means of production to enterprise employees, would, in Varga's view sooner or later completely disrupt the national economy and the dictatorship of the proletariat would be reduced to "utter passivity and helplessness": in the final analysis, he states that, the class that has lost its economic power has also lost its political power. "We can only perfect and properly reform our methods of economic control if we thoroughly analyse them from a political vantage point: are they going to strengthen the power of the working class, are they contributing to the growing alliance between peasants and workers?"²

As we have shown the guidelines presented by the Industrial Management Committee and those of the Interministerial Task Group clearly do not fit in to this "either-or" categorisation. As we have shown, neither of the proposals argued for the replacement of Plan with Market. Indeed, both proposals explicitly argued for the necessity of central planning and for the synthesis of plan and market. They were careful to point out the interdependence of policy and mechanism, the need to coordinate changes in goals with changes in means and vice versa. They were also very conscious of Hungary's chaotic economic conditions following the revolt, and argued for the necessity of taking those conditions into consideration when deciding on the timing of the reform's introduction and on the pace of its unfolding.

These two preliminary guidelines became the target of an important formal debate, organised by the National Planning Office on March 19, 1957. A resume of the debate was published in the May issue of Közgazdasági Szemle with the intention of "clarifying opposing views on economic reform."³

1. Ibid., p. 769.

2. Ibid., (Italics added)

3. "Vita a gazdasági irányítás tökéletesítéséről az Országos Tervhivatal Tervezőkörében" (Debate on the Reform of Economic Guidance by the Planners Circle of the National Planning Office), Közgazdasági Szemle, Vol. IV, No. 5, 1957, pp. 568-578.

Two basic positions or schools of thought emerge from the review of this debate. On the one hand there were those who simply argued for a "quantitative", i.e. peripheral, change in the system of economic control. They wanted a reduction in the number of detailed binding plan indexes, while maintaining the overall system of direct commands from top to bottom of the planning hierarchy. These "quantitative" changes in economic planning and control should be linked, according to the representatives of this group, to a more "realistic" economic policy, less grandiose and ambitious plans than before 1957, in short to new economic policies more in line with Hungary's natural endowments.

This view was opposed by the proponents of the guidelines (Kopátsy, Gadó, Wilcsek, et al.) who argued that "quantitative" changes in economic control would not be sufficient. Only by a comprehensive or "qualitative" reform of the system of economic control together with a new and "more realistic" economic policy will the country be able to cope with the difficult and challenging task of successfully paving the economic basis of Socialism.

The 'quantifiers' position can be best expressed by the following:

If we do not break down each section of the national plan to the level of the enterprise, and instead we desire to ensure the fulfillment of the national plan via economic regulators and incentives, then the plan will break with reality... What will be realised will not coincide with what we have planned. The system of material balances used by us forms a complex unity which cannot be dismantled at any point without endangering planning.¹

István Bartos from the Planning Office was vehemently against the suggestion of a charge on fixed assets "...since such a charge has no moral basis whatsoever...And anyways,...we cannot explain to the enterprises what is its practical significance, and why this idea came to us precisely now, ten years after the introduction of Socialist forms of economy".²

These planners were equally critical of the "unrealistic attitude" of the reformers for suggesting a comprehensive new economic mechanism at a

1. Ibid., p. 571. This was a view that was supported by some of the department heads of the Planning Office and a few of its staff members, e.g. Albert Katócs, Tamás Morva, István Bartos, Pál Füst, József Soos, Zoltán Wagner.

2. Ibid. p. 575. (Italics added)

time of deep economic crisis and disequilibrium, and when there was an urgent need to grip the reigns of command tightly so as to correct the imbalances, eliminate the disarray, and bring about quickly and without any uncertainty some of the needed restructuring of industry.¹

The reformers, led by Gado, Wilcsek, Ganczer and Kopátsy, simply reiterated their previously discussed positions. This was well summed up by Wilcsek, who said that the system of compulsory and direct plan breakdown to the level of enterprises, and physical command planning as practised in the past and present "...has not proven its worth in practice in Hungary...

As a system it did not ensure the full materialisation of central wishes, often it did not even lead to partial materialisation of the planners' goals, and indeed, not infrequently it led even to contradictory effects. ...We agree that today the country's economic balance is threatened, and therefore it is necessary to maintain temporarily the system of central commands until these tensions are eased. But afterwards, we must travel along the new road. We can argue about the pace, but we can no longer question the necessity of changing over the new methods.²

Reading the review of this debate, one gets the impression that the "quantifiers" (i.e. those who argued for simply a reduction in the number of central commands falling on the enterprise, without any reform of the overall framework of economic control) were in the majority, and that only the actual authors of the previous reform guidelines supported the idea of comprehensive, or "qualitative" economic reform. The small print at the bottom of the title page of that review tells us, however, that such was not the case at all.

The review tried merely to identify as clearly as possible the contending views on economic reform. This framework of reporting, that we chose ourselves, might, however, create the impression that the majority of the participants in the debate had rejected the recommendations, or that those recommendations were supported only by the authors of the guidelines themselves. This was not the case. In fact the reality of the debate was exactly the opposite. But due to the format we have set for this review, this reality could not be reflected.³

Summing up developments subsequent to the Party Central Committee's December 1956 call for a new "Hungarian road to Socialism", we find that an

1. See Albert Katócs' comments, *ibid.*, p. 569.

2. *Ibid.*, p. 570. (Italics added)

3. *Ibid.*, p. 568.

influential, and it is safe to say, majority, of Hungary's leading economists within the universities, within the planning departments of the various industrial ministries and in the Central Planning Office are united in calling for a major, qualitative overhaul of the previous command mechanism of economic control. These calls for a new economic mechanism are not to be equated with calls for the abolition of planning, or with calls for the total replacement of commands by economic regulators in one, giant step. While there is a marked preference for the expansion of economic regulators at the expense of the traditional command or administrative controls, the reformers do not wish to totally replace commands with indirect controls. They are, in other words willing to contemplate a "mix" of direct and indirect controls and are arguing that this "mix" ought not to be fixed in time and space, but should be permitted to freely move into any number of "half-way" houses according to the existing and future constraints and peculiarities of the national economy. In short, these reformers are not arguing that there are only two possible model solutions to the problems bequeathed by the Stalinist economic strategy prior to 1956. They are merely saying that there are two directions in which to proceed, and that in Hungary's case the direction of reform should be towards a greater reliance of economic regulators, with a parallel reduction in the domination of administrative, command economic control. Opposing them is another, relatively smaller and less influential group of economists arguing that the solution is simply one of reducing the number of commands, so that they will only cover the "key" links in the process of production. They argue that by making these commands even more binding than before, and by devising somewhat less ambitious or grandiose economic goals, the Party will be in a better position to surmount its economic problems. For this group, the essence of Socialist planning resides in the compulsory and binding nature of the plan. Any movement away from this principle towards indirect control via economic regulators is anathema.

But while there is this debate on the direction of economic reform, there is still no comprehensive economic reform blueprint worked out by either side and all eyes are increasingly rivetted on the upcoming report of the Task Force appointed by the Party in December, and mandated to work out an actual model solution to Hungary's political-economic problems. Let us finally examine the arguments of that body of specialists and find out what type of solutions they suggested to the Party leadership as a means of overcoming the problems and legacies of the past.

5. The Analysis and Recommendations of the Varga Committee

The Economic Specialists Committee, chaired by István Varga of the Task Force on economic reform, handed in its eagerly awaited final report at the end of 1957.¹ It isolated three economic problem areas for special attention:²

- i. The achievement and maintenance of economic balance.
- ii. The problem of economic planning and management and the relationship between central guidance and enterprise autonomy.
- iii. The problem of long-term economic policy, economic growth and economic structuring.

The report states that the deadline of ten months imposed on the work of the Committee was not sufficient to allow for a thorough exploration of these three problem areas and for the drafting of detailed and precise measures needed to rectify them. The Committee, therefore, asked that its mandate be extended, or rather that the government establish a team of specialists to work out the detailed blueprint of the new reform. (This request was ignored, and after the expiration of the Committee's mandate at the end of 1957 no new body was established to pursue the Committee's guidelines.)

By the time the Varga Committee was handing in its report, the political climate in Hungary and Eastern Europe was rapidly becoming inhospitable towards all suggestions of reducing the compulsory nature of economic plans.

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1. The full report of the Committee has never been published. Közgazdasági Szemle in two of its issues, October and December 1957, carried merely the summary of the full report as authored by István Varga. The full report of the Economic Specialists Committee is kept together with the reports of the other ten Committees of the Task Force in the library of the Ministry of Finance, and are treated as confidential material from the point of state security. See also István Varga, "Néhány gondolat a népgazdasági tervezés módszereinek megjavításáról" (A Few Thoughts on the Improvement of the Methods of National Economic Planning), Közgazdasági Szemle, Vol. V, No. 2, 1958.
 2. István Varga, "A Közgazdasági Szakértő Bizottság elgondolásai" (The Conceptions of the Economic Specialists Committee), Közgazdasági Szemle, Vol. IV, No. 10, 1957, p. 999.

We shall examine this "changing political environment" in detail during the next chapter and will demonstrate its effect on the direction of economic reform in Hungary. Here we simply want to point out, however briefly, that between December 1956 and December 1957 a profound change had taken place in Hungary's political superstructure, so that by the end of 1957 the advocacy of economic decentralisation and the restriction of command planning was once again, as in 1955 politically a very risky and difficult matter.

a. Basic Principles

In an implicit reference to the by then widespread tendency of the opponents of "qualitative" economic reform to blacken the reformers as "wanting to give up central planning and the basic tenets of Marxism-Leninism" the Varga Committee begins its report thus:

"In order to prevent the possibility of misunderstanding the Committee has laid down the following basic principles in its work":¹

- i. The development of the national economy must always follow the road of Socialist planning.
- ii. In order to pursue more effectively the targets of central authorities, a more comprehensive and widespread use should be made of various indirect means and techniques of economic guidance.
- iii. Economic balance is a top priority and must be maintained under all circumstances.
- iv. The consumption fund should be distributed according to work performed and should meet both the requirements of basic household needs and the demands of an effective material incentive system. Moreover the distribution of incomes between various strata should be effected in such a way as not to lead to possible social tensions or conflicts.
- v. The efficient operation of the new system of economic guidance requires that greater stress be placed on the economic and technical expertise of leading cadres.

1. Ibid., p. 1,000.

- vi. A new economic mechanism is not a goal in itself but a means to the most effective realisation of economic policy. The Committee recognises that the most immediate economic problems are not those that stem directly from the existing economic mechanism, but rather those that are, in the strict sense, problems of policy.
- vii. And finally, clearly pointing to the danger of political sabotage and political resistance by certain segments of society (and conjuring up the memory of the Party's sabotage of the 1953-54 reforms), the Committee asks for a serious political commitment on the part of the authorities to ensure the survival of the reform:

For some...our recommendations will seem like having to give up acquired advantages, and indeed, as a demand to make sacrifices. These recommendations can succeed only if we can convince everyone of their correctness. Economic regulations and decrees without the proper political backing are generally ineffective. The latter must ensure that the people accept and support with all their strength the policies that are in the service of our working people.¹

b. Economic Balance and Long Term Policy

Part I of the "Varga Committee Report" dealt with item one on its list of three major problem areas: the problem of maintaining economic balance, especially in the turbulent economic conditions following the uprising.

The report first briefly sketched out the policy errors of the past that had led to a built-in instability of the economy: the neglect of national endowments, the neglect of renewals, the excessive rate of heavy industrial development, distortions of the principle that at the outset of Socialist industrialisation sacrifices must be made at the expense of consumption, underfunding of agricultural investments, disadvantageous participation in the international division of labour, the distortions of democratic centralism whereby central authorities interfered actively in the smallest of local issues via physical commands, and the neglect of material incentives in harmonising state and local interests.

1. Ibid., p. 1,0002. (Italics added)

The report made a number of suggestions on ways to eliminate the immediate imbalances, and on how to reinvest and process the significant volume of financial aid provided by the USSR and other Socialist states after October.¹ We need not involve ourselves in depth in the nature of these recommendations. The commissioners advised that tight central control should be exercised in alleviating these immediate, short term, situation determined problems, and also advised that the strict regulation of wages is one of the main ways of ensuring the maintenance of balance.

We can also briefly summarise recommendations on problem area number 3, that is, long term economic policy.² The country's poverty in raw materials and energy resources is identified as a key problem that should be an important consideration in all major investment projects in the future.

Our country is poor in energy resources; with us the first and most important consideration should be the ensuring of lasting energy resources for industrialisation.³

The peaceful harnessing of nuclear energy is seen as the key solution to this problem. Hungary, according to the report, is in an advantageous position in this respect because of her considerable uranium deposits. This resource could serve as a source of fuel for the reactors as well as a source of hard currency earnings for the purchase of the equipment and technology needed in the erection and operation of nuclear reactors.⁴

1. We will discuss these financial aids in more detail in the subsequent chapters. For the moment, suffice to say that, whereas before 1955 there was, as we have shown, a very significant net outflow of capital from Hungary to the USSR, after the revolution this was reversed, and considerable amounts of financial aid were flowing into the country, first from the USSR and secondly from some of the other Socialist states.

2. The recommendations on long term economic planning are contained in Part II of the report. See István Varga, "A Közgazdasági Szakértő...", op. cit.,

3. Ibid., p. 1242.

4. By 1975 Hungary's uranium fields have become largely depleted. They are still under Soviet management, and details of the financial arrangements of this management are unobtainable. What we do know is that Hungary's uranium resources have not been fuelling her nuclear reactors, nor have they been utilised to earn capital for the purchase of the needed technology. Rather, they have been providing "fraternal assistance" to the Soviet Union, in loading up the nosecones of Soviet ICBMs.

Until such time as full use can be made of atomic energy, the report recommends the utilisation of the most up-to-date and efficient forms of energy. It advises that the question of the feasibility of expanding hydro-electrical energy should be explored immediately, along with the feasibility and cost-benefit analysis of importing energy.

Coupled with this insistence on the energy problem, the report also recommends that the direction of future industrialisation should be decided upon with full consideration being given to national endowments, raw material resources, and capacity. The report further argues for a greater utilisation of the principle of comparative advantage in foreign trade and for the creation of "...harmony between our industrial and foreign trade policy, especially taking account of the still untapped potentialities inherent in CMEA cooperation".¹

The commissioners do not deny the priority of heavy industry in industrialisation strategy. They simply argue for a more balanced and more diverse development of this sector than had been the case heretofore. They also advise that the expansion of heavy industry should not take place at the expense of stagnating or declining living standards. Moreover, the development of industry should not be interpreted as simply the rapid expansion of the quantity of industrial goods produced and the construction of new plant capacity. "In the future the development of industry...should depend much more on the modernisation of existing plants, the replacement of obsolete equipment, the increasing of the quality and variety of goods produced, and the lowering of costs".²

The Committee also recommended a much more dynamic and vigorous utilisation and development of agriculture in the future. The country's agricultural base should not be viewed as a static storehouse of resources from which planners merely "slice off pieces of value" in support of their industrialisation drive. Agriculture should be modernised, and the aim should not be simply the increase in quantity produced, but again, and importantly, the increase in farming efficiency, the increase in yield per acre, the increase or expansion of the variety of products, and the increase of agricultural production towards foreign markets.

1. István Varga, "A Közgazdasági Szakértő..." op.cit. p. 1244.

2. Ibid., p. 1244.

c. The Committee's Guidelines for a New Economic Mechanism

The section of the Committee's recommendations that aroused the greatest anticipation and curiosity among the country's economists was that dealing with the proposals for a new system of economic planning and management, i.e. with a new economic mechanism. This section was due in Part II of the Committee's report, and was expected to be published in the November issue of Közgazdasági Szemle.

However, rather than containing Part II of the Varga Committee Report, the entire November issue of the journal was devoted to Soviet economic questions and developments. While we shall discuss this in greater length in the next chapter, it should be pointed out that November was the month of the Moscow Conference of Communist Parties, at which ideological unanimity, the battle against revisionism, and the identification of the Soviet Union as the leading Communist power were again reasserted. November was also the month of the Moscow conference of Socialist economists, where again the battle against revisionism and for ideological conformism was strongly impressed on all participants. The November issue of Közgazdasági Szemle carried the translated article of the Soviet economist, L. Gatovski (first published in Kommunist, No. 9, 1957) in which Yugoslavia's economic model and market socialism were severely condemned as politically unacceptable and as being contrary to the tenets of Marxism-Leninism. The article also contained a sharp criticism of the ideas of W. Brus and F. Behrens, condemning both writers as the proponents of "un-Socialist" and "anti-Marxist" ideas.¹ The Varga Committee's recommendations, published in December, should be seen against this immediate backdrop. Cautious in tone (due very largely to rapidly changing political circumstances), the general thrust of the Varga Committee's recommendations is identical to the two previously discussed reports.

As in the Kopátsy and Gadó proposals, here too we find a call for a "qualitative" and comprehensive change in the mechanism of economic control.

1. L. Gatovszkij, "Az értéktörvény felhasználásáról a szocialista gazdaságban" (On the Utilisation of the Law of Value in a Socialist Economy), Közgazdasági Szemle, Vol. IV, No. 11, 1957, pp. 1134-1150.

The Committee rejects the idea of within-system tinkering with the traditional command mechanism and puts in a call for a major overhaul of the motor of socialist economic construction. The Committee recommends that out-put plans should not be broken down below the level of ministries and that instead of relying exclusively on physical commands to achieve sub-system compliance to central goals, the "center" should rely much more on economic regulators, material incentives and other financial levers.¹ Or as stated in the report:

"With the exception of investment plans...it is not necessary that these directing authorities should also break down the plan to the level of the enterprises under their guidance...the main, or most important indicators could, however, still be sent down to the enterprises, but only in the form of information, and not as a compulsory command."²

The Varga Committee report also echoes the earlier calls for a charge on fixed assets and an interest on circulating assets, and it endorses the idea of designating enterprise profitability as the key synthetic indicator and the best means for harmonising local and central intentions. The stimulation or 'shaping' of enterprise profitability in accordance with central designs would be best achieved, according to the report, through the utilisation of a complex network of price, credit, tax, rent, interest, and other fiscal and monetary means. The central authorities would also be empowered to establish the ratios between the various funds that enterprises should place their profits into.

On the question of price reform, the Varga Committee is at first glance significantly more conservative than the earlier reports:

The Economic Committee recommends...that centrally fixed prices should be retained in the majority of our prices, even in the long run. It does not agree with granting unlimited openings to the expansion of free prices, even in the long run when there is a greater abundance of goods available, because the planned economy -- especially at a time when it gives up the issuance of direct central commands -- cannot also give up the utilisation of the price system as a lever with which to stimulate production in the direction of central intentions. We cannot allow, therefore, that freely formed prices regulate in every sector, and in all areas, the flow and direction of production.³

1. István Varga, "A Közgazdasági Szakértő...", op. cit., p. 1239.

2. Ibid., p. 1233

3. Ibid., p. 1239.

This said, the report then turns to a discussion of some of the specific guidelines for its new price policy, which on reflection are not at all as rigid as the above statement would lead us to believe. As the recommendations closely resemble the new price system unveiled in 1968, we should briefly examine this part.

As the first step to a comprehensive price reform, the Committee recommends a thoroughgoing producer price reform:

In general prices should be so designed that they do not result in a deficit for the producing enterprise. Price supports or state subsidies should be provided to enterprises only under exceptional circumstances.¹

Once a producer price reform has been completed and if the great disharmony between supply and demand has been eliminated "...free price formation should be permitted -- with certain exceptions".² What were these exceptions? The Committee recommended that there should be close central control, by way of designating both the maximum and the minimum price levels, in the following groups of products:

- i. basic foods (bread, flour, lard, meat, sugar, etc.)
- ii. the most important industrial raw materials and primary products (coal, oil and petroleum, bauxite, iron ore, coke, rolled metal goods, alloys, rubber, etc.)
- iii. industrial luxury goods
- iv. basic services.

The commissioners advise that these maxima-minima should be closely monitored by the price office and should not remain rigid for long stretches of time, but should "...naturally be revised from time to time to reflect domestic production cost changes as well as changes in world prices".³

In a second category of products, for which free prices should be prevented even in the long run, the Committee recommends that the central authorities merely prescribe the maximum price levels and permit free play to determine the minimum levels:

1. Ibid., p. 1238.
 2. Ibid., p. 1237.
 3. Ibid., p. 1238.

In this category...enterprises should be free to deliver and market their goods at a price below the maxima level...this should allow for the emergence of a certain degree of useful competition between enterprises, within the framework of the Socialist economy.¹

This category of products comprises:

- i. important consumer goods that have a bearing on the standard of living and which have not been included in the above maxima-minima category;
- ii. those industrial goods that are produced only by one enterprise or other types of monopolies;
- iii. all other product groups where supply exceeds expected financial demand.

As we have pointed out, the Economic Specialist Committee's recommendations on the guidelines of a new economic mechanism were not very specific, and were by no means comprehensively worked out for all categories of centre-periphery interaction. One of the deterrents — perhaps the main deterrent other than the time limitation — was the growing political uncertainty during 1957 as to which form of the "radically new economic road to Socialism" would be politically acceptable to the Party, and not simply labelled and rejected as an "un-Socialist", "revisionist", "anti-Marxist" construct. Consequently the Committee demanded more time to work out the complex and interdependent elements of the NEM. As we have mentioned, no such extension of the Committee's mandate was forthcoming, and, as such, the framework was never filled in and no comprehensive reform blueprint was drafted or implemented.

Our review of the recommendations of the three key studies commissioned by the Party to draft the guidelines for the "new Hungarian road to Socialism" have shown a widespread preference by Hungarian economists for the principles of market socialism.

The comprehensive economic reforms they suggested were virtually identical to those adopted by the HSWP in 1968. In effect, our analysis suggests that the idea of the 1968 NEM was born during the mid 1950s. Clearly, if these ideas were so popular among Hungarian economists during 1957, and

1. Ibid., p. 1238.

if the option of a guided market model existed already at that time, we must ask ourselves, why it was that the option was implemented only ten years later, during the mid 1960s.

One cannot but recall the pathetic lines of Istvan Bartos, uttered during the debate on the reform of the economic mechanism on March 19, 1957: "And anyway...we cannot explain to the enterprises...why this idea came to us precisely now, ten years after the introduction of Socialist forms of economy."¹ We have tried to explain the politics of the process which led to the paradoxical emergence of "this idea...precisely now". Let us press on and explain why then this idea was submerged, and why it then re-emerged and was accepted by the Party leaders only twenty years after the introduction of Socialist economic forms.

1. "Vita a gazdasági irányítás Tökéletesítéséről az Országos Tervhivatal Tervgazdász körében", op. cit., p. 575.

CHAPTER V

THE POLITICS OF COUNTERREFORM

We recognise the existence of different paths, but what matters most is the general path.

Nikita Khrushchev

It would be both simplistic and ludicrous to argue that the main event longed for by Hungarians after October was the unveiling of comprehensive New Economic Mechanism. The vast majority of the citizens had probably never even heard of the term.

In order to speed up 'normalisation' or political consolidation and to pacify the feelings of various uncooperative groups and strata in Hungarian society, the new Party leadership issued a whole series of conciliatory promises, apart from economic ones, after October. Among these promises were:

1. Free elections sometime in 1957. As Kádár said: "We want a multiparty system and free, honest elections... We have to take into account the fact that we (Communists) may be thoroughly beaten at the elections, but we take on the election battle because the Communist Party has sufficient strength again to obtain the confidence of the working masses".¹
2. Hungary will remain a member of the Warsaw Pact, but Soviet troops will not be stationed in Hungary on a regular basis.
3. The study of the Russian language will no longer be a compulsory subject in elementary and high schools.²
4. Imre Nagy will be treated leniently and will not be imprisoned or punished for the role he played in the revolution.
5. The autonomy of student unions, scientific organisations, writers and artists unions, etc., will not be infringed upon by the Party. Members of these organisations will be free to elect and appoint their union

1. Népszabadság, November 14, 1956.

2. See Népszabadság, January 4, 1957.

executives without Party interference.

6. Workers' Councils set up in industry will not be dismantled, but will be provided with formal rights to creatively participate in the management of enterprises.
7. There will be strict respect of 'socialist legality' in the trial of 'criminal elements': the Party will not lead or permit a police vendetta against people who were involved in the October events.
8. If the peasants do not wholeheartedly wish it, a collectivisation program will not be forced through.

By the end of 1958 every one of these promises had been broken. As Ferenc Vali points out:

As soon as Kádár had consolidated his regime it became evident that his promises to form a coalition government and to permit free elections had been only empty phrases designed to appeal to the people who accepted them as being sincere. Once he felt himself in the position to do so, he turned his wrath against the workers, the intellectuals and the students whom the Soviet government blamed for the revolution.¹

The free elections promised for 1957 had been postponed indefinitely. In 1958 Kadar announced that Soviet troops would remain in the country "as long as necessary". They are still there today. General Grebenik of the occupation army was more specific: "Soviet troops will leave Hungary only when crayfish whistle and fishes sing".² In January 1957 the Journalists Union was abolished by order of the Central Committee of the HSWP, and a similar order disbanded the Union of Writers two months later. Some of the most prominent members of the journalist and artist community were arrested and sentenced to lengthy jail terms (e.g. Tibor Déry, Gyula Háry, Zoltán Zelk), and many more were simply kicked out of their jobs or administratively curtailed from practising their profession. About the same time, the Union of Students was also dismantled on the Party's orders. The student leaders were in many cases severely beaten up and imprisoned, and the most outspoken among them executed. In 1958 dozens of 16 year old children were executed who had been arrested in 1956.

1. Ferenc Vali, "Hungary Since 1956", Issues of World Communism, ed. Andrew György (New York: D. Van Nostrand Inc., 1966), p. 88.

2. Quoted by Ferenc Vali, Rift and Revolt..., op. cit., p. 433.

The only sign of respect for 'socialist legality' in their execution was that they were not shot immediately upon being arrested, but held captive until they reached the legal age for facing a firing squad.

Professor of Economics, György Ádám, who was the Secretary of the Revolutionary Council of Intellectuals, was arrested during 1957, severely beaten up, and sentenced to a lengthy jail term. In June 1957, the dreaded internment camp of Kistarcsa was reopened, as were many of the other detention centres where the state simply held thousands of people incarcerated without trial for as long as it wished. (We still do not know the fate of the thousands who were deported to the USSR.)

In June 1958, first Moscow and then, within hours, Budapest announced that Imre Nagy and some of his closest supporters had been tried and sentenced in camera, and that Nagy was already executed.

In January 1957 the basic right of workers was eliminated by the Party when it was announced that striking or the advocacy of striking would be punishable by death. S. Rácz and S. Bali, leaders of the Greater Budapest Workers' Council, were arrested on their way to a meeting with Kádár to which they had been invited. They were beaten up and sentenced to life imprisonment.¹ Of the 11 member executive of the Ujpest Workers' Council, eight were executed. J. Kovács, chairman of the Szeged Workers' Council, who had personally saved the lives of a number of AMI officers during the uprising, was arrested in 1957 and executed.

In 1957 the 'Workers Guards' that had been set up by the Workers' Councils to protect factories and premises from any attempts at private takeover or pilfering were disbanded by state decree. In their place a 'Workers Militia' was set up by the authorities — staffed by large numbers of former AMI members — for the purpose of bullying those workers who were still not cooperating with the state's new labour legislation.

After such harassment, the executive of the Greater Budapest Workers' Council disbanded itself rather than face the prospect of becoming once more

1. They were released from prison during the 1960's. Sándor Rácz has recently been in trouble with the police once again — because of his wedding which was held at Mathias Church on the "provocative date" of October 23rd, 1973.

simply a 'transmission belt' for superior commands:

We cannot carry out orders that oppose our mandate. We cannot sit passively while members of Workers' Councils are being arrested and harassed and when the entire work of the Workers' Councils is branded as "counter-revolutionary". For these reasons, and regardless of our personal fate, we have unanimously decided to resign our mandate. Our decision does not mean that we are trying to evade responsibility. It is our opinion that our continued existence would help to deceive the workers. We therefore return our mandate to the workers.¹

In early 1957 a series of norm tightenings was instituted in some manufacturing industries, and these amounted to a de facto cut in real wages. They sparked off a demonstration by industrial workers in Csepel and Sajószentpeter. Police were called in to quell the demonstration in both instances, and they fired their machine-guns indiscriminately into the unarmed crowds of demonstrators, fatally wounding dozens of workers.

And finally, at the end of 1958, the Party announced that in spite of its earlier statements, it would now go ahead once more with the collectivisation of agriculture. Within two years of this announcement, i.e. by 1960, collectivisation had been completed — with 90% of the arable land not in state farms having been turned into the collective sector.

The promises about a radical new comprehensive economic reform fared hardly better. Tibor Liska, irrespective of his occasionally ill-conceived and at times excessively flamboyant proposals for a new economic mechanism, has written a lucid summary of the extent of economic reform between 1957 and 1963:

The management of our economy has become more thoughtful, more skillful during the past few years, but the overall economic mechanism has not changed in fundamentals. With more thoughtfulness and expertise, the 'old command mechanism' can be better utilised. But apart from the improved utilisation of the old mechanism, we should and must think about the adoption of a new and more modern economic mechanism, because not only certain of its elements, but indeed the whole system of the old mechanism, is obsolete and, as such, it does not support our development, but rather

1. Quoted by Robert Black in "The Workers' Councils in the Hungarian Revolution", Newsletter, November 12, 1966, London. Rpt. in G. Healy, Revolution and Counterrevolution in Hungary, op. cit., p. 14.

acts as the most important inner brake on our progress.¹

Liska then proceeded to put forth a whole series of proposals for a new economic mechanism which, needless to say, were not greeted with open arms by the more prominent and responsible members of the reform-minded economists. Bela Csikos-Nagy and Tamás Nagy, for example, came out very strongly in writing against Liska's proposals.² Tamás Nagy summed up his criticism by saying that Liska

excessively exaggerates the shortcomings of the existing mechanism... he tries to give the impression that the source of all our economic problems stems from the imperfections of our mechanism... he confuses its actual shortcomings with those that he assumes... he throws around recklessly various disparaging labels such as "the amada of fetishized partial indices" or "milking-cow system"...and shutting his eyes to the complexity of the problem, he offers us his magic potent like some witchdoctor, promising that it will cure all of our ills.³

We must remember that Tamás Nagy was one of the arch-advocates of a comprehensive economic reform in the mid-fifties, and one of the leading spokesmen within the Petöfi Circle during 1956 calling for radical economic decentralisation. From the comments above, should we conclude that by 1963 he had changed his mind and had given up his belief in the need for the guided market model? Not at all.

The concern of Nagy and others like him during the early 1960's was greatly tempered by their own reform attempts during the 1950s. Their concern stemmed from the recognition of the tremendous political hurdles that had to be overcome before a guided market model could be transferred from the pages of academic journals or casual conversations into the mainstream of Hungarian economic life. For Nagy, Liska's timely comments were unacceptable because of their careless delivery, imprecise formulations, and recklessness. As they stood, they were to be easy prey for those dogmatic elements in the political system for whom it was anathema to even suggest that plan and market are reconcilable, or that Socialist economic control, can be attained via economic

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1. Tibor Liska, "Kritika és koncepció" (A Critique and a Conception), Közgazdasági Szemle, Vol. X, No. 9, 1963, p. 1058.
 2. Béla Csikos-Nagy, "Kritikai megjegyzések a világpiaci árbázisú árrendszerhez" (Critical Comments on the Price System Based on World Market Prices), Közgazdasági Szemle, Vol. X, No. 9, 1963, pp. 1077-1084; Tamás Nagy, "Egy kritikáról és koncepcióról" (On a Critique and a Conception), Közgazdasági Szemle, Vol. X, No. 9, 1963, pp. 1085-1093.
 3. Tamás Nagy, ibid., pp. 1085-87.

regulators and not simply by binding commands. In short, Liska's "reckless" statements could have been poured upon by the orthodox wing of the Party and held up as evidence of the "harmful and un-Socialist nature" of any and all proposals in favour of a Socialist market mechanism. By proxy, therefore, the reformers could have been politically discredited once again, perhaps for another ten years to come. Tamas Nagy and the other "serious" reformers certainly did not intend to wait that long. And so Tamas Nagy ends up his criticism by clearly pointing, on the one hand, to the administrative curtailment of the comprehensive reform of the economic mechanism after 1956 and, on the other, to the need to bring the debate out into the open once more:

The perfecting of our economic mechanism cannot be realised on the basis of extremist, imprecise, careless and in many ways incorrect theoretical conceptions. But whatever happens, we must ensure that the criticism directed at these incorrect conceptions should not frighten away the participants from debating the nature of the new economic mechanism. This debate, which came to an end after 1956, is once again in the process of unfurling, though not, as yet, in wide enough circles or in a fully satisfactory way.¹

As in the political, and social realms, so in the economic, we have found that after the initial period of grandiose promises of change, the HSWP began once again to pursue distinctly Stalinist practices during 1957-58. While a number of changes were introduced in the mechanism of economic control and the economic policy pursued by the Party was less grandiose and not so onesidedly dominated by heavy industry fetishism, the overall framework of command economic control was left intact.

The paradox in these developments is especially obvious since we do know that Kadar was personally in favour of the 'New Course' policies announced by Imre Nagy in 1953 and had little sympathy for pre-1956 Stalinist practices. As Francois Fejtó points out:

Kadar -- according to information we have received from a private source -- at the beginning of 1955 witnessed without pleasure the fall of Nagy, caused by intrigues of what Kadar later was to call the "Rakosi-Gero clique", and insisted on the need to continue the New Course of 1953 in spite of the removal of Nagy.²

1. Ibid., p. 1093.

2. Francois Fejtó, "Hungarian Communism", *Communism in Europe*, ed. William E. Griffith (Massachusetts: M.I.T. Press, 1964), Vol. I, p. 201.

What then are the sources of the contradictions between promises and effects, programme and performance, aims and results? Could not the new Hungarian leadership learn from the experiences of the late 1940's and early 1950's that Stalinist practices are extremely destabilising?

We must go beneath the level of superficiality to understand the constellation of pressures and forces that led to these apparently paradoxical contradictions between post October promises and performance.

I. EXTERNAL POLITICAL CONSTRAINTS ON A NEW ECONOMIC MECHANISM

1. Socialist Internationalism After October 1956

The events of October 1956 had created massive and visible cracks in the apparently smooth mirror of international Socialist unity in Eastern Europe. The surfacing of these schisms and the ensuing military manoeuvres of the USSR in trying to repair them had provided the "leading Socialist power" with its greatest internationalist challenge since 1917.¹ The security of her grip on the states of Eastern Europe had been seriously shaken -- it was not, at the time, inconceivable that some of the other Eastern European states might also break out in open revolutionary defiance -- and these revolutionary pressures might even become so intense that they would reach into the territory of the Soviet Union itself.

The open and vivid evidence of Soviet military repression in Eastern Europe also had a tremendously damaging effect on the carefully cultivated public relations image of the USSR as the champion of national liberation, anti-colonialism and Socialist egalitarianism. In the bi-polar international political order of the 1950's, and in the fight between the US and the USSR for the "votes" of the vast uncommitted part of the world, evidence of blatant Soviet colonialism was a serious handicap. To this, of course, we should add the tremendously destabilising and crippling effect that these Soviet police actions had on the efforts of West European Communist parties and other Socialist movements to increase the ranks of their supporters.

1. See Richard Lowenthal, World Communism (New York: Oxford University Press, 1966); and Zbigniew Brzezinski, The Soviet Bloc, op. cit.

This need to maintain a flawless "public relations image" can easily be overemphasised and, as Prague 1968 has shown, it is not so strong as to deter the Soviet Union from embarking on a military solution when it senses a threat to its dominance in Eastern Europe. As all admen, including the Soviet leaders, know, "consumers" are a fickle lot and, while occasional instances of shoddy production do shake their confidence in the producer, this shaken confidence can be repaired over a period of time if attacked aggressively and with sufficient concentration.

The first step towards eliminating the suspicion of the users of any product is to have the product attractively packaged. Hence the Moscow Conference of Communist Parties in November, 1957.

For most of the Communist leaders, but especially the Communist Chinese, the severe cracks in the facade of Communist solidarity that emerged during 1956 were due to the mistakes committed during the process of political de-compression after Stalin's death. (The Chinese leaders, fully realising the possible harmful effects of such an act, have never instituted a formal de-Stalinisation campaign inside their country.) Of the mistakes committed during the process of de-Stalinisation, the Moscow Conference identified the toleration of "revisionist ideas", as the most serious one. It identified "the germ of revisionism" as the principal threat to Communist power and solidarity and signalled the public relations unveiling of a supposedly happy, confident and resolutely united anti-revisionist family of Socialist nations. As Lowenthal pointed out

By May (1957) all of the leaders of the ruling Communist parties realised how seriously their ideological disputes might endanger their power, and they were looking for means to restore at least a semblance of international unity.¹

The resolution of the Moscow Conference, that was signed by all of the Communist party delegates present except those from Yugoslavia, declared that the Soviet Union is the leading Socialist country, the one that has gone the furthest along the path of Socialism, and that the touchstone of all ruling Communist Parties should be their steadfast and unequivocal support of the "general path to Socialism" practiced in the USSR. The resolution also formally

1. Richard Lowenthal, World Communism, op. cit., p. 68.

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declared that all of the ruling Parties should unleash a war against all forms of revisionism and against all attempts at polycentrism.

Parallel with the Conference of Communist Parties, a Conference of Communist Economists was also held in Moscow during November. The purpose of the Economists' Conference was similar to that of the other, main conference. It was aimed at reestablishing unity in Socialist economic theory and at impressing all Socialist economists that, in economics as in politics, there is only one centre of authority, and that polycentrism (i.e. divergent economic reforms), the toleration of revisionist economic ideas (i.e. economic ideas different from those found in the USSR) — all of these are bound to lead to the betrayal of Socialism unless they are stamped out early.¹

It is, to begin with, against this general external political backdrop of "Socialist internationalism" that we must examine what became of the grandiose calls for a comprehensive economic reform in Hungary and of the specifically Hungarian road of building Socialism.

2. The Fate of Market Socialism in Eastern Europe Between 1957 and 1961: A Brief Survey

We mentioned that the Hungarian reformers, like many reformers in Eastern Europe, had been profoundly influenced by the economic alternatives worked out in Yugoslavia after the emergence of the Tito-Stalin schism. The Moscow Conference of Communist Parties and the Conference of Economists clearly laid down that the Yugoslav economic reforms were fundamentally revisionist in nature and, therefore, not to be emulated.

We have also mentioned that the Polish economic reform ideas on a Socialist guided market model were carefully and sympathetically followed by Hungary's economic reformers. It is well known that though numerous suggestions were made to that effect, a comprehensive new economic model was not

1. See György Varga, "A szocialista országok közgazdászainak tudományos ülésszaka" (The Conference of Socialist Economists), Közgazdasági Szemle, Vol. V, No. 5, 1958, pp. 524-534; and "A közgazdászok moszkvai értekezletének határozata" (The Resolution of the Moscow Conference of Economists), Közgazdasági Szemle, Vol. V, No. 2, 1958, pp. 209-214.

after all implemented in Poland between 1957 and 1961. We need to briefly review the reasons behind this turn of events in Poland because the objection of comprehensive economic reform in Poland had a number of similarities with the rejection of reform in Hungary.

The analysis of the movement towards economic reform in Poland suggests that of the many constraints on the adoption of a Socialist market mechanism in that country, external and internal political factors seem to have been the most influential ones. First of all, tremendous external political pressure was brought to bear on Gomulka in early 1957, calling on him to check the advance of the dominant economic reformist ideas in Poland. These political pressures emanated not so much from the USSR as from the other similar Socialist States. They accused Gomulka and the Polish reformers of whetting the appetite of "revisionists" all over Eastern Europe, of undermining thereby the political stability and domination of the ruling Communist Parties and as a consequence, hindering the drive towards rebuilding the shattered unity of the "Socialist Commonwealth". These arguments were directed not only at the Polish Communist leadership, but were also articulated to Khrushchev and the Soviet leaders. The Soviet leadership strongly endorsed this anti-Polish criticism and while not being the originators of the "anti-Polish critique" they certainly became the most influential proponents of that line during the ensuing months.

Internally, the major source of the political pressure against the reformers originated from a powerful faction within the Polish Communist Party, the State and Planning bureaucracy. A combination of ideological orthodoxy and dogmatic narrow-mindedness (sincere or otherwise) on the one hand, and a genuine fear that the reform would restrict their privileges, compelled this faction to blacken the reform as an attempt to re-establish capitalism. They argued that if implemented, the reforms would undermine the leading rôle of the Communist Party and it was on the basis of these arguments that they were able to block the emergence and implementation of a coherent and comprehensive reform Theses.¹

1. See Michael Gamarnikow, "Poland Returns to Economic Reform", East Europe, Vol. XVIII, Nos. 11-12, 1969; and John M. Montias, Central Planning in Poland, op. cit., pp. 311-333.

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The recommendations of the theses published by the Polish Economic Council in 1957 had been severely curtailed, and they contained a number of contradictory elements. This was, however, not due to some inherent "theoretical backwardness" on the part of the economists compiling the theses, but rather to the fact that the authors had to tread a very precarious path among the political minefields thrown up by external and internal political events. In short, the theses were the culmination of a vast process of political compromise, the crippling evidence of which was all too obvious.

Apart from Poland and Yugoslavia, the Hungarian reformers were also curious about the ideas of F. Behrens and A. Benary of the Institute of Economics of the Academy of Sciences of the DDR. These two economists and some of their colleagues were the most outspoken advocates of a Socialist market mechanism in East Germany. (These East German reformers were, however, far less dominant both in number and in impact in their country than were the Polish and Hungarian reformers in theirs, and their formulations were, moreover, neither as comprehensive nor as carefully cognizant of political factors as were those originating in the other two countries.)¹ The fate of the East German reform proposals of the mid 1950's was similar to that of the Poles'. F. Behrens, the arch advocate of the reform, was compelled by the Party to practise self-criticism for his revisionist economic ideas, which "...underestimated the significance of the political power of the working class, ignored the leading role of the Party, and minimised the menace of imperialist saboteurs".²

The position of the Soviet Union on these questions was by no means ambiguous. This position, which was directly passed on to all the Communist regimes and to the East-European reformers was well articulated in the celebrated article of L. Gatovski that we have referred to on page above.³

Gatovski dispensed very briefly with the ideas of Behrens and Benary.

1. On the process and stages of economic reform in East Germany, see Harry Trend and Dorothy Miller, "Economic Reforms in East Germany", Problems of Communism, Vol. XV, March-April 1966; and Thomas Baylis, "The New Economic System: The Role of the Technocrats in the DDR", Survey, No. 61, 1966.
2. Quoted in Thomas Baylis, ibid., p. 141.
3. L. Gatovskij, "Az értéktörvény felhasználásáról a szocialista gazdaságban" (On the Utilisation of the Law of Value in a Socialist Economy), Közgazdasági Szemle, Vol. IV, No. 11, 1957.

He said that the two East German economists had "simply risen up in opposition to central planning" and that they advocated that the spontaneous anarchy of the market should regulate "behind the producers' backs" what should be produced and how products should be distributed. He cast the two DDR economists in the same role as that played by "...certain Yugoslav economists" who had also ignored the reality and necessity of Socialist planning, and he concludes his analysis of the Behrens-Benary proposals by saying that: "the anti-Socialist stance of these ideas has already been unmasked by a number of writers in the German Democratic Republic".¹

Gatovski then focused his attention on the ideas of Wlodzimierz Brus, to explain why they too cannot be tolerated by any Socialist country:

It is clear that in his construct, the Plan is merely a supplement to the spontaneous workings of the law of value, a mere fig-leaf that tries to cover up the spontaneity of the market. In effect, by his conception, the State would cease to lead us according to the objectively necessary laws of Socialist development, but would become a mere servant, a middle-man, transmitting to enterprises, via the price mechanism, the spontaneous impulses of supply and demand. In the Polish Press, severe criticism has been directed at Professor Brus' conceptions, which as such clearly contradict the foundations of the Socialist economy.²

The fate of economic reforms in Poland and the DDR, the rising crescendo of attacks in Yugoslavia's economic system were certainly not passed unnoticed in Hungary. Indeed, they became key benchmarks in the internal debate on the direction of economic change.

II. DOMESTIC POLITICAL CONSTRAINTS ON A NEW ECONOMIC MECHANISM

Before turning to the analysis of the political rationalisations against the acceptance of the NEM in Hungary, we must look briefly at the constellations of political forces within Hungary after October and at the power position of the Party Secretary Janos Kadar.

For a number of important reasons, Kadar's domestic political power during the first months and even years after the revolution was little more

1. Ibid., p. 1135.

2. Ibid., p. 1136.

than that of village mayor. For the first post-October months he was only a nominal leader of the country and of the NSWP. The prospects for his long term tenure in office as well as his short term position as Party leader were immediately under Soviet supervision and day-to-day review.

During these early months, most of the important tactical and strategic decisions affecting the nation were made by Soviet advisors who were rushed into the country with the invading Red Army. In the opinion of the Kremlin leadership, the Hungarian Party leadership — both its reformist and its Stalinist wings — had committed a series of fundamental errors in decision making in the previous years. These mistakes had in turn resulted in a very dangerous and embarrassing situation for the Soviet Union. Consequently, the Soviet Union was very reluctant to entrust the process of "mopping up the mess" to the Hungarian comrades, and instead it reacted, as most imperialist powers would react under similar circumstances, by actively interfering in rearranging the "storefront display". The Hungarian leadership placed into office by the Soviet invading force was, in other words, initially simply a tactical 'cover' whose prime function was to hide the blatant Soviet interference in Hungarian domestic affairs.

The Kremlin was naturally grateful to Kádár for his cooperation, but it did not consider Kádár entirely trustworthy during the first months and years of the post-October period. Why was this so?

Kádár was, to begin with, a 'domestic' Communist who had spent the inter-war years in Hungary. He did not have the 'internationalist' credentials of a Rákosi or a Gerő, or even of an Imre Nagy. During the early 1950's Kádár had been imprisoned and, as a result of this, he had not had the opportunity to establish a close working relationship with the post-Stalin Soviet leadership. Indeed he was largely an unknown figure in the Kremlin.

During the first post-October period these considerations became a serious handicap in combination with some additional political factors.

As is well known, Tito had, prior to the outbreak of the revolution in Hungary, actively promoted Kádár as the man to replace Rákosi. This support, useful as it may have been prior to October, became a burden thereafter when

Tito and the Yugoslavs were branded as revisionists and as the arch-heretics of Socialism in East-Central Europe.

No doubt the Soviet leaders also recalled with unease Kádár's public proclamation during the uprising that he would, if need be, fight a Soviet military invasion with his bare hands. Kádár had also added his signature to the documents that introduced a multiparty system in Hungary at the end of October and that declared Hungary's neutrality in international affairs.

The Soviet leaders were well aware that Kadar's personal support base within the HSWP was very shallow as a result, firstly, of his absence from Party life during most of the pre-October years and, secondly, of the composition of the HSWP after November 1956. During the first months of 1957 the Party was heavily dominated by Stalinists who, together with out-right opportunists, were the first to flock into the newly reconstituted HSWP. This Stalinist faction also had an active leader in the person of József Révai who, as has been mentioned, was a powerful figure in the Rakosiite politburos of the 1950's. There was thus a well organised and powerful anti-reformist group within the Party.¹

To the Soviet leaders the Révai-led wing of the Party was quite trustworthy, i.e. 'internationalist'. Fully subservient to Soviet interests (many of the top members, including Révai, had actually fled to the USSR during the first days of the revolt), fully convinced of the superior wisdom of the Soviet leadership and of the superiority of Soviet methods of policies of Socialist construction, these Hungarian Party members could be relied upon to carry out without question all Soviet orders. Their handicap, correctly assessed by the Soviet leaders, was their excessive zeal and inflexibility in copying the traditional Leninist-Stalinist transfer path to Socialism. In other words, while finding them fully trustworthy, the Kremlin also realized that it was the intransigence of this group that led to the October uprising.

This Stalinist faction of the HSWP saw in Kádár and Kádár's publicly declared intention to introduce far-ranging reforms and to follow a "Hungarian

1. See Péter Toma, "Revival of a Communist Party in Hungary", The Western Political Quarterly, Vol. XIV, No. 1, 1961.

road to Socialism" after October the unmistakable signs of the "disease of revisionism". They began to conspire actively against Kádár, and wanted to have him replaced by Révai or by one of his followers.

The attitude of this dogmatic, anti-Kádár faction towards economic reform was best expressed by Révai himself, in an article appearing in the Party daily Népszabadság. His comments are especially worth noting in the context of the post-October factional struggle within the HSWP, since they were reprinted in full by Pravda,¹ and thus appeared to have the tacit approval of the Soviet leadership.

...the general attack on the old Party leaders against the so-called "Rakosi-Gerő clique" is only a screen behind which the ideological acceptance of the counterrevolution hides... A lot has already been done to defeat revisionism, which wants to undermine the leading role of the Party, but there is still plenty to do... Revisionism takes as a starting point the premise that, in the case of a slackening or a termination of the centralised State planning of the economy, there is no need for the factory Party organisation to safeguard the interests of the State and society against factory and local interests... The Party organisation...cannot turn its back on managerial questions because were it to do so, it would renounce the Party's leading role.²

An important landmark of this factional struggle was Kádár's attempt to curtail the power of local party organisations and apparats.³ János Radványi, who was at that time a high-ranking member of the HSWP and later functioned as a senior member of Hungary's delegation to the U.N., gives us a revealing "inside view" of this factional struggle:

Kádár wanted a relatively small central party apparatus that would control but not duplicate the functions of the state bureaucracy... As Kádár explained to a group of party employees of the Central Committee in late December, 1956, Communists held the leading positions in the state organs; hence there was no need to maintain in the party apparatus a Department of Agriculture, for instance, or a Department of Industry, as had been the case in Rakosi's time. A small highly centralised party apparatus would guarantee the fulfillment of the most important resolutions of the Politburo.

1. Pravda, March 18, 1957.

2. Népszabadság, March 7, 1957. (This quotation is taken from the English translation of the full article: József Révai, "Ideological Purity", in East Europe, Vol. VI, No. 5, 1957, pp. 50-57.) For a subsequent reiteration of this thesis by Révai, see his comments in Népszabadság, June 29, 1957. (Italics added).

3. See Népszabadság, February 28, 1957 on some aspects of this reorganisation.

This concept was understandably unpopular among the party bureaucrats who feared the loss of their power and influence or even of their job. Kádár, ignoring the complaints, fired more than 80% of the old personnel. The offended group sought help from the Soviets. Plotting against Kádár, they charged that his reduction and centralisation of the party constituted in fact a separation of party and state power that could lead eventually to a Hungarian variation of Titoism. The Soviet party apparatchiks, appreciating the dangers inherent in Kádár's policy, exerted pressure. In the course of a year this maneuver, combined with that of the Hungarian Party bureaucrats, resulted in the growth of the central apparatus of the party and the local party administration to approximately the same number as before.¹

This struggle over this question became particularly intense in the middle of 1957, as is pointed out by one of the provincial dailies in Hungary:

Since November the growing sense of unity has been disturbed by dissonant chords. Intrigue within the Party has become a common occurrence throughout the country... Much intrigue is generated by some comrades who were eliminated from State and Party positions because of lack of ability or simply because personnel cuts became necessary.²

The Party, as we have stated many times in this thesis, is the commanding political force in the transformation of the economy. It makes and breaks economic reforms, and the most consistent economic reforms will remain largely ineffectual — regardless of the support of the government bureaucrats or planners — unless the Party apparatus itself actively supports those policies at all levels of the Party hierarchy.

If we look at the size of the HSWP during the early months following the uprising we see a vivid sign of the physical scars left from the October events. The newly reformed HSWP had only 110,000 members in the first months of 1957, as compared to the pre-October figure of 900,000. An inordinately high percentage of the 1957 membership were, as has been noted, Stalinists. The number of basic or primary Party organisations was also severely reduced following the uprising. All in all, not only was the Party leadership working with a drive mechanism that was severely restricted in size, but with one that was deeply divided on the question of how to exercise effectively its traditional political primacy over the economy.

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1. János Radványi, Hungary and the Superpowers (Stanford University: Hoover Institute Press, 1972), p. 60.
 2. Hajdu-Bihari Napló, Debrecen, July 7, 1957.

In an attempt to regain its commanding force in numbers, as well as to redress the balance of power within the Party, the leadership was forced to issue an ultimatum in May to all former Party members to rejoin the newly reconstituted Party.¹ Subsequent to this ultimatum there was a sharp rise in membership, but even in 1959 membership totalled less than half the pre-October figure.²

Faced with such a decrease in Party membership and with such a deeply divided Party machine, Kádár resigned his premiership in early 1958 so as to be able to devote his "fullest attention to Party matters".

In this political struggle, the Soviet Union played her political cards very shrewdly, and did not initially commit herself fully in support of either of the contending factions. All of the contestants for power knew, of course, that only a Soviet vote of confidence would finally decide the issue. The shortest and surest way to political power in Hungary, accordingly, was to demonstrate utter dedication to the currently dominant policy line in the USSR.

It was under these external and domestic political conditions that the strategy and tactics of "Kádárism" were first formed and later grew into a distinctly recognisable "unique model" in East-Central Europe.³ The pillar of this model is: the greater the commitment of the Hungarian Party leadership to Soviet aims, the greater will be the toleration of the USSR of unique socio-economic experiments within Hungary. And so Kádár rapidly discovered, after he was placed in a position of power by the Kremlin, that he would have to become one of the leaders of the bloc-wide battle against revisionism and poly-centrism not only in words but also in terms of his concrete actions.

This post October "road" of Hungarian Socialism, which was later to be applauded by many for its hardheaded pragmatism, was clearly marked out

1. Népszabadság, May 5, 1957.

2. See Péter Toma, op. cit., pp. 87-104.

3. See Sándor Kiss, "The Kádár Inprint on the Hungarian Party", East Europe, Vol. XVIII, No. 3, 1969, pp. 2-9; L. Jotischky, "Hungary 15 Years After", The Political Quarterly, Vol. 42, No. 2, 1971; and Radoslav Selucky, Economic Reforms in Eastern Europe, op. cit., pp. 135-149.

for Kadar by Soviet Party leader Nikita Khrushchev during, among other occasions, the course of a series of public statements in Hungary in early 1958:

(Janos Kadar) will guarantee that the Hungarian Communist Party will avoid in the future the grave mistakes of the past...but the Hungarian Communists should not stand around like idiots with their mouths open... you must be tougher... your class consciousness must be strengthened and you must be able to distinguish clearly between friends and foes and weed out the revisionists from amongst you.¹

And so each successive increase in the level of the leadership's "resoluteness" against revisionism, while strengthening its tenure, was but a nail in the coffin of the comprehensive new economic mechanism.

Not wanting to "stand around like idiots with their mouths open", the HSWP got tougher. In June 1957 the provisional executive committee of the Party called publicly on all Party activists and agit-prop personnel to "...start a war...against all anarchistic tendencies in order to guarantee state control over the economy".² A few weeks later, the National Party Conference pointed out the most important lesson taught by the events of October: "The unity of the international communist movement must be solidified, it must be protected against all covert and overt attempts aimed at undermining its solidarity".³ This having been deduced as the key lesson, the Party Conference declared that:

...although decisive successes have been achieved in the struggle with counterrevolution, the battle is still far from over... the forces of counterrevolution have not been completely smashed...with western guidance they still pursue their aims of creating political and ideological confusion and disorder in our ranks. They try to work their way into our Party, the state apparatus, the economic and cultural organizations, as well as into the mass organisations... They slander and intrigue in order to upset and hinder our future development. There is a great need, therefore, to increase our vigilance...and to show no mercy in the battle against the enemy... The road followed by the revisionists from their distortion of Marxist-Leninist theory through to

1. Népszabadság, April 4,5,6, 1957. See Ferenc Váli, Rift and Revolt..., op. cit., p. 429.

2. "Az MSZMP Ideiglenes Intéző Bizottságának Határozata az 1957-58-as pártoktatási év feladatairól" (The Decree of the Provisional Control Commission of the HSWP on the Tasks of Party Education in 1957-58), A Magyar Szocialista Munkáspárt határozatai és dokumentumai, op. cit., p. 62.

3. "Az MSZMP Országos Eltekeztetének Határozata", op. cit., p. 71 (June 27-29).

their factional intrigues, leads necessarily right into the camp of the international bourgeoisie... its representatives must be purged from our Party and we must wage a resolute battle against any attempts to appease them.¹

A few months later, in November 1957, the Central Committee resolved that this battle against revisionism was still not over, and that its June 27-29 resolution was not being fully implemented. It therefore reiterated its earlier call for an ideological offensive in politics, economics and culture.²

Delving deeper into the analysis of this process of the politics of counterreform, we can see how the external political constraints interacting with the domestic political opposition percolated out into the arena of the specialised discussions on a new and comprehensive economic mechanism that was to operate primarily by way of indirect economic regulators as opposed to direct commands.

First we must find out what became of the call of the Közgazdasági Szemle editorial committee for "a new Hungarian road in economics" which was to eliminate the roots of the October political disturbances. In answering this question we shall use as our reference a lengthy article written jointly by three lecturers at the Party Academy in response to that editorial.³

The authors begin their riposte to the editorial by vigorously condemning it as simply a:

1. *Ibid.*, pp. 71-76.

2. "Az MSZMP Központi Bizottságának Határozata a Nemzetközi és Belpolitikai helyzetéről és a párt előtt álló feladatokról" (The Resolution of the Central Committee of the HSWP on the International and Domestic Political Situation and on the Tasks Facing the Party), November 1957, *ibid.*, p. 151. In a subsequent resolution, a few days after the November Moscow Conference, the Politburo of the HSWP called on all publishing firms to "stand up and fight against the right wing and revisionist views...and support more fully the Party's policies...primarily with political methods they should ensure the improvement of publishing. They should train such editors who will consistently condemn the various anti-marxist tendencies...for especially at the end of 1956 and early 1957 revisionist views have reached into the publishing realm as well, and as a consequence theoretically incorrect books have been published". "Az MSZMP Központi Bizottsága Politikai Bizottságának Határozata a könyvkiadásról" (The Resolution of the Politburo of the Central Committee of the HSWP on Publishing), November 21, 1957, *ibid.*, p. 161.

3. Ilona Beiber, József Fábian and Emil Gulyás, "Megjegyzések a Közgazdasági Szemle, 1956 11-12 számának vezércikkéhez" (Comments on the Editorial of Közgazdasági Szemle, Nos. 11-12, 1956), Közgazdasági Szemle, Vol. IV, No. 4, 1957.

...pseudo-scientific interpretation dressed up in a marxist costume full of double meanings and dark innuendoes...(The editorial) tries to support the false view which suggests that the October events were inevitable because our economic system was dominated by such severe contradictions that only a revolution could have put an end to them... unfortunately, the fact is that on a good many questions the editorial simply repeats the conceptions that emerged at meetings of the Petofi circle. It seems that certain of our economists still do not see the damaging effects of that false, demagogic and destructive "criticism" that grew up within the Petofi circle during the months prior to October.¹

The article asserts that "much of the work of the leading Hungarian economists prior to October was un-Marxist and openly revisionist", and that this anti-Socialist approach "...virtually covered the whole of economic thinking of the pre-October months...and even in subsequent months".² The Party teachers accuse the editorial board of ignoring these "counterrevolutionary and revisionist" views, of providing a cover for them, and of "...falling prey to the ideas of Kardelj and the Yugoslav comrades...even if they do not say so directly, the authors seem to have adopted the incorrect stand of comrade Kardelj on the whole question of state and public ownership. This view is utterly unacceptable...and has been vigorously and comprehensively rejected by all of the Communist parties".³ The three lecturers are openly dismayed by the "audacity" of the editors in suggesting that Workers' Councils are all-peoples organisations: "They (the Workers' Councils) had to be disbanded because of their blatant counterrevolutionary behaviour... Is the editorial trying to suggest that these were more advanced forms of social organisations?"⁴ The suggestions that there could have been a contradiction between the forces and the relations of production in Hungary prior to October also astonishes the Party teachers. Doesn't the editorial committee know, they ask, that a Socialist revolution puts an end to such contradictions once and for all? The editorial, they say, clearly smacks of anti-Marxism on this question. "How on earth could there have been a contradiction between the forces and the relations of production in our country while we were building Socialism, when in fact productive relations, ownership relations, were essentially Socialist? Or, we ask, are they trying to tell us that these

1. Ibid., pp. 393-394.

2. Ibid., p. 393.

3. Ibid., pp. 398-99.

4. Ibid., p. 400.

relations were not Socialist!"¹ The authors are equally vehement in dismissing the editorial committee's criticisms of the old economic mechanism, and they categorically dismiss the suggestion that this mechanism of economic control had anything at all to do with the economic problems of the country. They also reject the editors' suggestion that the command mechanism is useful only at certain times and in certain places, asserting, on the contrary, that it is valid for all times and for all Socialist states: "The detailed, direct central command is a permanent method of Socialist economic management and it applies to all areas of the people's economy... It is unimaginable that we could have achieved such great economic feats as we did, without this mechanism."² The lecturers argue that there was certainly some popular discontent in Hungary and that there were economic problems prior to October, but that the sources of these difficulties were purely political miscalculations on the part of the old leadership and certain mistakes committed in economic policy. The editorial committee's critical arguments against the command mechanism, say the teachers, are nothing but "repetitions of errors made in certain neighbouring countries... where there are also attempts to make a fetish out of the law of value and to deny and denigrate the role of central planning".³ The editorial committee is condemned for lack of responsibility and for carelessness in permitting the publication of such an "uncritical article" as that which reviewed the deliberations at the 2nd Congress of Polish Economists, and which expressed "numerous examples of incorrect views on the law of value": "These views are essentially those of the Yugoslav revisionists which simply cannot be tolerated."⁴

In a brilliantly argued article immediately following this attack by the three Party teachers, Zsuzsa Esze also addressed herself to the question of contradictions between forces and relations of production in Hungary prior to October and to the general theoretical problem of the relationship between politics, economic policy and economic mechanism.⁵ Although she never actually refers to Beiber et al by name or to their article, it is clear that her article is a reply to the charges we have just enunciated.

1. Ibid., pp. 398-99

2. Ibid., pp. 402-403

3. Ibid., p. 403 (Italics added)

4. Ibid., p. 403.

5. Zsuzsa Esze, "A szocialista termelési viszonyok lényege és a gazdaságpolitika társadalmunkban" (The Essence of Socialist Relations of Production and Economic Policy in our Society), Közgazdasági Szemle, Vol. IV, No. 4, 1957, pp. 410-425.

She begins by saying that while the October-November events certainly had a counterrevolutionary tendency, it is absolutely essential to draw some lessons from the fact that the "counterrevolution" managed temporarily to lay claim to considerable mass support. She agrees with the view that the primary or direct cause of the evidently widespread discontent on which "the counter-revolution was able to grow" was a combination of political ideas and economic policy. This, however, is not a sufficient explanation, in her opinion, of the sources of the popular resentment:

The immediate causes of all types of social attitudes is political, that is, they all stem from social consciousness. The superiority of historical materialism resides in the fact that it does not halt in front of this discovery of the direct causes of attitudes but searches deeper, seeking to unearth the objective causes that reside within the economic base of society and upon which rests social consciousness. There are those who attack us violently when we attempt to follow this method of analysis in seeking the clues and lessons behind the discontent of the Hungarian masses.¹

Remaining firmly entrenched within the analytical approach of Marxist dialectics and using the standard arguments of Marxism-Leninism against the Marxist-Leninist critics of Közgazdasági Szemle's editorial, Esze gives a lucid lesson on the relationship between base and superstructure, mechanism and policy, under Socialist forms of productive relations. Her argument can be summarised as follows:

1. The essence of Socialist productive relations says Esze resides in the social ownership of the means of production.
2. During the transition to Socialism the specific forms of Socialist productive relations, the system of interaction between producers and individuals, within the process of production, is to be determined by the Socialist state, through the dictatorship of the proletariat and, specifically, through the vanguard Communist Party leadership's recognition of and reaction to the laws of objective necessity.
3. "If", (and clearly we must recognise the gigantic importance of this 'if' in the argument, for it was the product of the "disintegration of the secular faith" after the 20th Party Congress of the CPSU),
if the proletarian state makes an incorrect choice about a specific form or element of productive relations, the source of this mistake

1. Ibid., p. 410.

is in the subjective sphere -- that is, it belongs to the superstructure. But this subjective error has given rise to objective forms, i.e. to specific, objective economic relations, which in turn and as such do have an influence on social consciousness. The specific forms or elements of Socialist productive relations that are brought into being by the political superstructure could be incorrect, even though the essence of those productive relations is Socialist... if all our problems are simply due to mistaken economic policy or to politics, then why cannot the product, the concrete forms of this policy and politics be judged incorrect as well? The obvious aim of the opposition is that it wants to prevent under all circumstances any criticism being levelled against specific forms of productive relations.¹

And so, Esze re-states the prevalent conviction of the Hungarian economic reformers that the traditional command mechanism of economic control must be radically altered for it hinders the emergence of Socialism.

But if it is only the detailed command plan which constitutes or prescribes all of the specific forms of mutual interaction between producers, then the huge superiority residing within the essence of Socialist productive relations cannot emerge fully... it stifles the creative power of the working masses... the complete dominance of central commands contradicts the essence of Socialist productive relations... in this form we cannot realise the essence of Socialist productive relations.²

This kind of counter-argument could only be combatted by political threats, and a good example of such a threat is found in the May 3rd issue of Gazdasági Figyelő: "When certain elements suggest the abolition of centralised direction and espouse decentralisation as a principle of democracy and a panacea for fighting bureaucracy, they tread on perilous ground".³

One of the first steps in the "fight against revisionism" in economics was to purge the editorial committees of the mass media of all "suspected or active revisionists" so as to prevent the continued dissemination of their "harmful ideas". The executive or commanding posts in academic institutions were similarly purged. A detailed expose of this purgative process is unnecessary here; it is sufficient to point out its salient features.

The journal Gazdasági Figyelő was frequently a forum for so-called revisionist ideas prior to October. At the end of 1956, László Hay (member of the Party's Central Committee) was given the simultaneous appointment of Rector of Karl Marx University of Economics and editor of the economic journal

1. Ibid., p. 418.

2. Ibid., pp. 414-416.

3. Gazdasági Figyelő, May 3rd, 1957.

Gazdasági Figyelő. Hay, who had been educated as a medical doctor, was "re-educated" in the art of Stalinist political-economy in the USSR prior to 1945 and was generally considered as one of the most dogmatic of the orthodox, Stalinist pupils of Marxist economics. After 1945, he was one of the chief architects of the transplantation of the Stalinist type command economic system to Hungary. As the recent obituary in Közgazdasági Szemle points out:

We have also much to be thankful to Laszlo Hay for his contribution to the advancement of economic and Party education in our country. During 1957-1963, as Rector of Karl Marx University of Economics, he played an important role in the elimination of the confusion and disorder that had free rein during the counterrevolution.¹

Indeed, shortly after Hay's appointment, both Figyelő and KMUE became "off limits" to the circulation of comprehensive guidelines or arguments for a guided market model, or to any economic ideas that clashed with the Party's leadership's views. (A good example of the kind of grandiose cleansing operations staged by Hay was his convening, in 1959, of about a hundred economists to hear him and his assistant, Laszlo Csapo,² condemn a recently published study for its "revisionist" and "therefore dangerous"³ views.)

A similar "cleansing out of revisionism" was implemented on the editorial board of Közgazdasági Szemle.

By mid 1957 we find that there is a sharply increased number of political assaults against the ideas of market socialism. The ideas of the reformers are blackened with increasing frequency as "attempts at eliminating economic planning as "dangerous and unacceptable copying of Yugoslav revisionist experiments", etc. One of the ring leaders in this Stalinist or dogmatic name-calling was Géza Ripp⁴

1. Közgazdasági Szemle, Vol. XXII, No. 3, 1975.

2. Csapo has recently emigrated to the West. His views appear to have "mellowed" radically, as we can find in his "The Hungarian Reform: Towards a Planned, Guided Market Economy", Economic Policies Compared: West and East, ed. E.S. Kirschen, Vol. II (N.Y.: North Holland Publishing Co., 1975).

3. The book in question was written by E. Molnar and entitled A jelenkori kapitalizmus néhány gazdasági problémája (Some Economic Problems of Contemporary Capitalism), (Budapest: Kossuth Könyvkiadó, 1959). For a review of the book and of the debate organised by Hay, see Társadalmi Szemle, Vol. XIV, No. 10 and No. 12, 1959.

4. Géza Ripp, "Tervgazdaság vagy anarchia" (Planned Economy of Anarchy), Gazdasági Figyelő, No. 4, April 11, 1957. Another example of Ripp's Stalinist diatribes and his paranoia can be found in "Tervszerűség és spontaneitás" (Planned Economic Management and Spontaneity), Közgazdasági Szemle, Vol. V, No. 2, 1958, pp. 133-150.

and the paralysing influence of his attack and others like him, was well articulated in an earlier quoted article of György Varga:

Certain economists...upon hearing of the proposals for a new economic mechanism immediately begin to fear for the life of the planned economy, and thereby frequently accuse these recommendations as being anti-Socialist and directed against the political system itself... It is to the great detriment of our economic science -- and indirectly therefore to the detriment of the development of Socialism in our country -- that if now and then one of our economists brings out a new idea in the interest of improving our system of Socialist planning, certain individuals at once begin to sound the alarm, to make insinuations about the open and hidden enemies of Socialism, and thereby force these well-intentioned researchers into a state of paralysis, destroying their creative spirit.¹

Indicative of the Party's attitude to all this talk of "paralysing the reformers", the Central Committee appointed Géza Ripp in early 1958 to the editorship of Közgazdasági Szemle.

The purging of the "hotbed" of economic revisionism, the Economic Institute of the Academy of Sciences, proceeded somewhat more slowly. In the middle of 1957, the Central Committee of the Party appointed a special commission "to look into the work of the Institute". This commission was headed by László Orbán, Chairman of the Central Committee's Science and Cultural Committee, who pointed out:

The Institute was not able to cleanse itself and create order in its own house. This is why the Secretariat of the HSWP had to conclude that, in spite of the good work conducted under its roof, the Institute has not become a solid bastion of Marxist economics... The Party set up its commission to separate the strands connecting the Communists with those of their colleagues who had become the prisoners of revisionist ideas... Thanks to the lessons of Hungary, the unity of the international workers' movement has become once more cohesive. If, today, the workers' movement is able to reject the Yugoslav deviations with greater unity than two years ago, this is also due to that historical lesson. With undeniable facts, the Hungarian events have proven that revisionism leads straight into treason, to the rejection of the dictatorship of the proletariat, and opens the way to the bourgeois restoration.²

After many months of political screening and weeding out of revisionists by the Orbán commission, an open meeting was organised at the Academy, chaired

1. György Varga, op. cit., p. 767.
2. "A Közgazdaságtudományi Intézetről" (On the Institute of Economics), Közgazdasági Szemle, Vol. V., Nos. 8-9, 1958, pp. 945-46.

by the "political janitor" of the Institute, Istvan Friss. Friss roundly condemned all of the key figures of the reform movement who were in the employ of the Institute before or after October. (Tamas Nagy, Ferenc Donath, Janos Kornai, Ferenc Fekete, Andras Nagy, Peter Erdos, Gyorgy Peter, Lajos Horvath were all singled out by name for special mention.) All of them with the exception of Donath (formerly Deputy Director of the Institute), who was by then imprisoned, had to exercise self criticism and promise to mend their ways. As Friss pointed out to the hesitant members:

Right from the beginning of its work...a good many members of the Institute supported most of the incorrect views of Imre Nagy, and a section of these people, even today, have not made amends... It is absolutely essential that everyone should face up to their errors... With a deep and analytical self criticism they should dig out the past, uproot all that could evoke the past... Although this is a personal responsibility to oneself, in one's own interest, still at the same time this is a duty we owe to others as well. Others expect that the members of the Institute will pour fresh water into the glass... The decision of the Central Committee demands that we make up for our neglect, and it provides us with the opportunity to follow the correct road.¹

Under its newly appointed editor, Geza Ripp, the Institute's journal soon became off limits to the earlier lively discussions about economic reform. In their place were published an increasing number of political diatribes against the "advocates of anarchy"² (the common label used for the advocates of market socialism). The dogmatic faction never had it so good. Not having to fear any counter-arguments, because the reformers were administratively silenced, they busied themselves scoring "brilliantly convincing theoretical victories" against the "obviously misinformed, un-Socialist, anti-Marxist" reformers.³

One of the most adept and enthusiastic little knights of this anti-revisionist crusade was Gyorgy Göncöl, who has probably never won so many debating victories in his life as he did in 1957-58, when he was able to

1. Ibid., p. 942.

2. See Geza Ripp, "Tervszerűség és spontaneitás" (Planned Economic Management and Spontaneity), Közgazdasági Szemle, Vol. V, No. 2, 1958.

3. See for example, Arpad Haasz, article "A revizionizmus elleni harc néhány elvi kérdése" (Certain Theoretical Questions on the Fight Against Revisionism), Közgazdasági Szemle, Vol. VI, No. 10, 1959.

run circles around his administratively silenced opponents.¹ Göncöl condemned all attempts at the type of reasoning that we referred to in the case of Zsuzsa Esze as "nothing but false card tricks... Lenin's comment is very applicable to them, when he points out that only a small step separates dialectics from sophism... Giving free rein to market mechanisms cannot become the antidote of the imperfections of our planned economy, it cannot serve as the basis of perfecting economic planning... The faithful followers of 'models' based on the theory of market mechanisms or profitability are trying to make a square out of a circle... trying to make iron out of wood... to open in practice the floodgates of anarchy in production".² Göncöl marshalled together a whole army of supporters to demonstrate the absolute depravity and ignorance, not to mention the anti-Socialist stance, of all those who strive to utilise the law of value in the process of Socialist economics. Among other things, he writes that "Even P. Wiles, the British economist who comments with such envy on our rapid economic growth, has proven convincingly that (the application of the law of value)...would necessarily slow down our growth rate to a snail's pace and would sacrifice tomorrow's golden bustard for today's sparrow".³ Göncöl adds that Socialist economic planning cannot be dominated by the static, "stick-in-the mud" viewpoint which characterises the theories of the "value" men. On the contrary, Socialist planning must always be dynamically motivated: "...we should not follow the dictum that 'you should stretch only as much as your blanket allows', but rather that 'you should weave a longer blanket so that you can stretch further tomorrow'".⁴ In a subsequent article Göncöl parted with his economic theorising and simply "proved beyond doubt" that the reformers are in league with the Yugoslav opportunists who in fact are concerned with nothing else but "...to

1. See his "Gazdaság és politika Lenin imperializmuselméletében" (Economics and Politics in Lenin's Theory of Imperialism), Közgazdasági Szemle, Vol. V, No. 1, 1958; "Az értéktörvény a kapitalizmusban és a szocializmusban" (The Law of Value in Capitalism and Socialism), Közgazdasági Szemle, Vol. V, No. 5, 1958; "A két rendszer harca és az egységes világ gazdaság kérdése" (The Battle of Two Systems and the Question of a United World Economy), Közgazdasági Szemle, Vol. V, Nos. 8-9, 1958; and "Megjegyzések a nemzetközi munkamegosztás elvi kérdéseire" (Comments on the Theoretical Questions of the International Division of Labour), Közgazdasági Szemle, Vol. VI, Nos. 8-9, 1959.

2. György Göncöl, "Az értéktörvény a kapitalizmusban és a szocializmusban", op. cit., pp. 464, 476.

3. Ibid., p. 477. (Italics added)

4. Ibid., p. 477.

lure the Socialist states into the swamp".¹

And what specifically became of the recommendations of the Varga Commission report? As we have said, this report simply laid down some guidelines and asked the Party to set up a research commission to work out the details of the new reform. The Party did not set up any such commission, and the work of filling in the body of the comprehensive new economic mechanism was not undertaken. Even the unfulfilled guidelines themselves were, however, rejected -- and, as will be shown, not on economic grounds, but on ideological-political ones.

Edit Varga, a member of the editorial board of Közgazdasági Szemle, in a strongly worded attack, completely rejected the suggestions of the economic specialists committee. She pointed out that "there cannot be planning without commands... István Varga, who earned his fame as a bourgeois economist, under the slogan of perfecting our planning system, is in fact leading us into a dead-end where planning will cease".² The major flaw in the recommendations of the economic specialists committee, according to Edit Varga, was that "it completely missed the political role that economic planning plays in a Socialist state." She says that István Varga

ignores the relationship between the plan and the laws of the Socialist economy, and as such, he ignores the possibility of planning based on a scientific foundation... The necessity of Socialist economic planning stems from the condition that, apart from the social ownership of the means of production, society (or rather its representatives, the Party and the state) is equipped with the ability to recognise the laws of Socialist development. these laws are then given a close representation in our economic plans... The plan is the main tool in the fulfillment of the Party's economic policy. According to Lenin, it is the Party's second programme. For this reason, then, the national economic plans, based on the Party's aims, are state plans which the state can also fulfill with the tools of the proletarian dictatorship... The political function of the plan demands that the plan should be as firm as possible... The liquidation of the command functions of the plan, or even its weakening, would simply open up the floodgates to the full rule of spontaneity...to anarchy. Is it possible to fulfill the economic programme of the dictatorship of the proletariat without commands? Obviously it is utterly impossible. It also flows from the political

1. "A két rendszer harca és az egységes világgazdaság kérdése", op. cit., p. 785.

2. Edit Varga, "A tervezés módszereinek megjavítása" (Correcting the Methods of Economic Planning), Közgazdasági Szemle, Vol. V, No. 7, 1958, pp. 696-697. (Italics added).

role of planning that the fulfillment of the plan requires not only commands but political education and political organisation and management, since millions of people must be mobilised for the fulfillment of any one element of the plan... What we need are more precise plans...and in those areas where we cannot work out the proper plan directives, we should simply utilise the tools of the class war.¹

These critical comments cannot, of course, be taken as evidence of official Party rejection of the I. Varga proposals. We present them here merely as part of the overall onslaught that was unleashed against the concept of market Socialism as a consequence of the external and internal political factors enumerated earlier in this chapter.

The official public rejection of the proposals put forward by the Varga Committee and, as such, of all proposals for a guided market model, came in mid 1958 in an article written by István Szürdi, who was chairman of the Industry and Transportation Committee of the Party's Central Committee. Szürdi stated² that the opinions expressed by him had been discussed and put together by the Party's Working Collective on Economic Theory. In short, his statement carries the official stamp of the Central Committee of the HSWP.

In tone, this official repudiation of the Varga Committee's guidelines for a NEM was strikingly more conciliatory than the earlier statements that we have discussed. Szürdi acknowledged the great service and dedication of the Economic Task Force in helping to solve the country's economic problems. He said that there were many useful suggestions made by the Committees and that the Party is actively incorporating these suggestions into its economic policy. The framework of the new economic mechanism suggested by the Varga Committee was, however, unacceptable to the Party. This rejection of the proposals for a guided market model was based not on economic arguments, but purely and simply on ideological and political considerations:

We must clearly nail down the following points. The decisive question, or problem, is not what should be the proper ratio between direct and indirect methods of economic control. We must state this with the utmost clarity

1. Ibid., pp. 697-701. (Italics added).

2. István Szürdi, "Néhány észrevétel a Közgazdasági Szakértő Bizottság elgondolásaihoz, javaslataihoz" (A Few Observations on the Thoughts and Recommendations of the Economic Specialists Committee), Közgazdasági Szemle, Vol. V, No. 7, 1958.

and without any ambiguity whatsoever: the fundamental and inseparable basic feature and the main method of state control over the economy is the commanding of the state-owned enterprises... If we were to part with the principle of economic command control, we would clearly lose a very important source of our power, we would let slip from our hands a very important weapon... In summary: Our economic mechanism is in the service of our Socialist society, where the workers-peasants' state authority is waging class politics, strengthening the Socialist elements of the economy, restricting the still existing capitalist sector, and striving to group small scale producers into cooperatives. All these necessitate that the Socialist state give out specific commands. Without these commands the politics of the Communist Party would not be realised in the state control of the economy.¹

There is some confusion on the question of how serious the Party was in rejecting the Varga proposals. William Robinson, for example, correctly points to the apparent contradiction between Szurdi's official rejection of the concept of a Socialist market mechanism and a subsequent statement by one of Hungary's deputy premiers, Matyas Timar.² Timar wrote in 1968:

...we can say that the great majority of (the recommendations) were correct and that many of the recommendations were accepted and implemented by the government.³

Timar's statement skirts around the central issue, which is that the reformers wanted to institute a comprehensive economic reform of the economic mechanism, and to replace the overall framework of direct, physical command system with the framework of the guided market model. This new framework was not accepted by the Party, and, in its place, the authorities merely instituted a series of within-system reforms.

It is interesting to note however, that in a more recent book Timar seems to have changed his views. Moreover, he now gives us an unmistakingly clear statement as to why the Varga proposals were rejected in 1958.

The comprehensive implementation of the (Varga) committee's recommendations did not come about, because at that time the most important concern was to achieve a political consolidation as fast as possible...⁴

1. Ibid., pp. 694-95. (Italics added)
2. William F. Robinson, The Pattern of Reform in Hungary, op. cit., p. 27.
3. Matyas Timar, Gazdasági fejlődés és irányítási módszerek Magyarországon, op. cit., p. 71.
4. Matyas Timar, Gazdaságpolitika Magyarországon: 1967-1973, op. cit., p. 31. (Italics added).

III. SOME TECHNICAL-ECONOMIC ARGUMENTS AGAINST COMPREHENSIVE REFORMS

The foregoing was not intended to prove that only political arguments were or could be marshalled against the proposals for a comprehensive reform of the mechanism of economic control. It is because this dissertation is about the politics of the NEM, that we have focused by choice on the political arguments. We need, however, to at least be aware of some of the economic arguments or critiques of the earlier mentioned reform proposals. These economic arguments may be divided into three types: those that stress the existing weaknesses and distortions of the system, those that question the theoretical validity of the suggested remedies and those that stress the inherent strengths of the existing system.

To illustrate the first position, we can find a number of criticisms of the reform proposals which argue that precisely because the Stalinist command system has created all sorts of structural distortions (lack of sufficient reserves, lopsided industrial structures, sellers' market, foreign trade indebtedness, pent up consumer unrest, an unreal price system, etc.) wholesale economic decentralisation would be doomed to failure. Subsystem decisions and competition for scarce resources would be made not on the basis of equality between competing units of production, but on the basis of gross, and irrational power differentials. It would be highly unlikely, that the ensuing system of resource allocation would be any more efficient, or socially more accurate than the preceeding one, and the resort to indirect economic regulators as opposed to specific direct commands, would simply compound the existing imbalance.

One could certainly argue that to adopt a radically decentralised control mechanism and to replace direct commands with incentives in Hungary especially after the October uprising, when for many months the economy was in disarray,¹ would have been sheer economic folly. Such arguments against the timeliness or usefulness of a new economic mechanism are not at all meaningless or out of place.

1. On the material and financial damages sustained during the Revolution, see Fontossabb adatok az 1956 október-december időszakról (Some Important Facts on the October-December 1956 Period), Central Statistical Office, Budapest, 1957.

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We must however be careful to note that the three principal reform guidelines proposed during 1957 (see pp.222⁻²⁵⁶ above) which in effect constituted the 'mainstream' reform thinking in Hungary, were all cognizant of these economic constraints and considerations. None of them advocated a whole-sale abandonment of commands and their total replacement with market forces for 1957. They recommended instead a series of preliminary, within-system corrections (e.g. producer-price reforms) and asked the Party to simultaneously provide the political and financial support needed to work out down the road the blueprint of a comprehensive new economic mechanism. They did not ask the Party, in other words to unilaterally replace all of the cogs of command with the cogs of the profit motive in one "big leap" as so many would accuse them, but called for a careful and comprehensive approach to reform to ensure that whatever new bits and pieces of reform were implemented, would blend, rather than grate against the overall framework of economic control. This position is clearly stated for example by the Kopatsy Committee thus: "What would happen if we would now simply give the enterprises the single task of maximising profits without first of all working out and instituting a comprehensive new economic mechanism? Up to now our problem was that enterprises frequently contravened social interests, and they did not have to harmonise their behaviour with social interests. The complete abolition at this moment in time of central constraints would simply turn this contravention of social interests into a general phenomenon. Enterprises would proceed to produce items which under the existing price system would prove most profitable for them, and that choice, in most cases would simply not coincide with the interests of the national economy".¹

The arguments for a comprehensive economic reform may also have been resisted by pointing to a flaw in the so-called "economic theory of bi-modalism" (i.e. in the idea that piece-meal reforms, or within-system reforms cannot work on the long run and that only the total revamping of all of the elements of the old mechanism, simultaneously, can achieve a truly long term solution to the economic problems of those states). The anti-bi-modal critique suggests that there are in fact a number of sensible within-system options available, and that the only truly interconnected elements of the old mechanism of economic control are the Gosplan, detailed

1. Sándor Kopátsy, "Tervgazdálkodásunk megjavításáért" op. cit., pp. 139-40.

command, passive prices and forint control. This critique dismisses the arguments of J. Bognár, J. Kornai, P. Myers and the whole "Hungarian School of economic reform" as misleading and rejects as mere propaganda the reformers' suggestions that "One cannot exchange a cog in an integrated, functioning machine for another cog of a different type".¹ It is pointed out, in criticism of this Hungarian reform line that a number of new and different cogs, such as a capital tax, bank finance, and most any kind of wage policy can be and indeed have been fitted on quite successfully to the body of the old mechanism (as e.g. shown by the case of the USSR).

We are told in short, that if not on the grounds of existing structural distortions and constraints then certainly on the grounds of theoretical inaccuracy, we should dismiss as unfeasible the proposals of Kpatsy, Gado, Witesek, Varga, et al.

In many respects this anti-bi-modal argument is correct and important. It is true that there has been and there is still a tendency among the advocates of economic decentralisation to argue in absolutes and to exaggerate the "superior qualities" of their own suggested remedies in a rather naive fashion. J.M. Montias' criticism, for example on page 23 above is well taken. But there are two important considerations to be made, not so much in defense of the "technical or economic accuracy" of the so called "Hungarian School of reform" but to clarify the objectives of the Hungarian reformers (largely misunderstood by the "anti-bi-modal critique") and to clarify their usage of the terms "comprehensive" and "piece-meal" since they meant something quite different by these terms than what is imputed to them by their detractors.

The first point to be made is that we should not judge the feasibility, usefulness, accuracy of the Hungarian economic reform proposals by solely a technical-economic gauge. Indeed, we should not judge any mechanism of economic control by purely a technical-economic gauge, be that mechanism the Stalinist command system or the guided market model. The feasibility of any mechanism of economic control, East or West, North or South must be and usually is evaluated by reference to social and political dimensions beyond the purely economic ones. Britons, for example, are shunning the Stalinist command

1. János Kornai, "Overcentralisation in Economic Administration", op. cit., pp. 225-226

mechanism as a way of overcoming inflation not because of the Stalinist model's proven economic ability to beat inflation (clearly it is far superior in that respect to the British model) but because the Stalinist economic model would be politically and socially unfeasible in Britain.

One can certainly not deny that the probability of centrally sanctioned goals being complied with at the periphery is greatest under the truly closed, stimulus-response paradigm. If we want producers to follow the designs of planners, technically the most rational solution is to totally deny producers any way out from the planners' preferences. But we have to realize, that such a solution may be socially, politically, culturally and ethically unacceptable in certain societies and historical moments.

The first problem with the anti-bi-modalism critique resides therefore in its insistence that the accuracy of the reform remedies, and indeed, the need for economic decentralisation, must be established on no other grounds than the demonstrable technical-economic superiority of the new remedies over their predecessors. This, however, misses the critical point: ~~that~~ The problem with the Stalinist mechanism of economic control in Hungary was not that it did not increase industrial growth fast enough, but that it proved socially and politically too costly to operate.

As an economic mechanism designed to achieve a very rapid rate of industrial output in some sectors, the command model must be applauded. Also, what other mechanism could on the one hand create widespread static inefficiency and then transform this weakness into a dramatic and dynamic rate of economic growth?

Few societies, however, can live for long by rapid economic growth alone, and the "economic success" of the Stalinist command model not only depended on massive political and social oppression but, in the case of Hungary, it also set off a massive socio-political earthquake in its wake.

Both the necessity and accuracy of the Hungarian economic reform proposals must, therefore, be evaluated in the socio-political as well as economic circumstances of October 1956. The purpose or ultima ratio of economic reform was not simply that of engineering a couple of percentage gains along some internationally esteemed economic indicators, but much more importantly, to reduce the socio-political cost of the transition to Socialism and to

create a more authentic fusion between social and individual, or central and peripheral needs.

This overriding objective stands out very clearly in all of the Hungarian reform proposals that were worked out before, during and immediately after October. Instead of narrow economic objectives, there was, in Hungary, a multiplicity of objectives behind the reform proposals and indeed, many of the reformers were even willing to sacrifice some of the technical-economic advantages of the command model (see pp 233 above) in order to create thereby a more humane, less rigid, less crisis prone socio-political environment.

We ought also to look at the Realpolitik background of some of the exaggerated and possibly naive claims made on behalf of the "guided market model" in Eastern Europe, for this background provided and still provides a powerful impulse for "overselling" the economic necessities of the guided market model.

As witnessed by the heated political passions it raised, the type of economic reform advocated by the "Hungarian School" was highly suspect and seemed to be politically dangerous on a number of counts as far as the vanguard Communist party was concerned. This was due to the fact that the reform was:

1. untried in Hungary
2. seemed very much like Yugoslavia's "revisionist" solution
3. did not resemble the Soviet model at all
4. clashed with the vanguard's political-economic wisdom
5. promised to eliminate many of the economic-administrative functions of the local party secretaries.

In such a situation, where the Party is "the buyer" and the economists are "the sellers" of reform, and where such genuine political fears exist on the part the buyers, the sellers must not only downplay the political threat, but also overplay the reform's economic need. It was dangerous to argue, though many did in the mid 1950's, that economic reform was needed as a vehicle to change the political status quo (e.g. see our earlier reference on page above "When certain elements suggest the abolition of centralised

direction and espouse decentralisation as a principle of democracy and a panacea for fighting bureaucracy. they tread on perilous ground").¹ Had the reformers argued that non-comprehensive economic reforms are also possible (and Soviet and East European political-economic practice clearly demonstrates at least up to the present moment that technically they are possible) it is highly unlikely that the ultimate policy-makers -- i.e. the Party -- would have brought their ideologically and politically suspect economic solution. And so, while on the one hand Realpolitik would begin to increasingly dictate in 1957 that the socio-political objective and ramifications of the reform be downplayed, it simultaneously began to dictate, that the promised economic advantages be overplayed. In other words, not only was there a multiplicity of purposes behind the economic reforms, some of which for tactical-political reasons had to be covered up, but there were also two quite different functions to be fulfilled by the Hungarian "theory of economic reform". On the one hand, the theory had to be made economically iron-clad and irresistible, it had to be presented as an absolute, foolproof objective and indispensable economic law, and on the other hand it had to serve as a sharp, tactical weapon in a strenuous political conflict. Our task in this dissertation, as we have pointed out on a number of occasions, is not to present a technical-economic autopsy of the macro and micro economic rationality of the reform proposals, but rather to look at the "second function" of the theory, and to examine the political process of economic reform.

Finally we also need to look at the terms "comprehensive" and "piece-meal" for many of the anti-Hungarian reform criticisms are due to a mistaken interpretation of the meaning assigned to these terms in Hungary. Comprehensive versus piece-meal, as used by the Hungarian reformers did not mean "big" versus "small" reforms, it did not mean that all of the components of the old mechanism must be rejected and replaced by new components (in spite of the statement that "one cannot exchange a cog in an integrated, functioning machine for a cog of quite a different type").²

1. Gazdasági Függetlenség, May 3rd, 1957.

2. János Kornai, op. cit., pp. 225-226.

The willingness to allow old and new cogs to live side by side, albeit in a radically changed proportion than in the past, is clear from all of the reform proposals referred to on pp 222⁻²⁵⁶ above, and it is simply not true that the reformers argued that every single element of the old mechanism was indispensable, irreplaceable and, on its own unreformable. The Party's rejection of the reform proposals underlines this assertion. As can be seen on page 286 above, it does not reject the reform proposals because they advocate a unilateral, wholesale abandonment of command, but because they advocated what to the Party was an unacceptable blend or synthesis of commands and indirect regulators.

"Full Market" and "Full Command" are opposing ideal types or modes of resource allocation. As such, they do exercise, consciously or unconsciously a kind of dichotomic magnetic pull on the fancy of those restless economists who are never satisfied with the status quo and who rightly believe that the current model of resource allocation in their country can not be the final and most optimal solution that mankind can ever offer. As Jan Prybyla rightly pointed out:

Rationality in a Socialist economy could be obtained either by total central planning abetted by an electronic market computing efficiency indicators for every activity down to the tiniest sector, or by reliance on prices supplied by a competitive market within some system of indicative planning.¹

This, however, does not mean, as Prybyla rightly points out, that there are only two possible model solutions to the problems bequeathed by the Stalinist command model. These are merely two poles of reform (according to Peter Wiles' typologies of allocative models this is CC and FM).² To go in one or the other direction via economic reform should not be seen as necessarily leading right into CC and FM. In actual fact there are many possible stops, many possible model solutions or half-way houses between these two opposing ideal types or modes of resource allocation.

The Hungarian reformers, (R. Nyers, T. Nagy, J. Wilcsek, O. Gado, B. Csikos-Nagy, I Varga, etc.,) contrary to the criticism against them, were not blinded by the existence of merely two logics, but by the logic of

1. Jan Prybyla, "Patterns of Economic Reform in East Europe" op.cit., p. 6.
 2. Peter J. Wiles, The Political Economy of Communism, op. cit.

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institutions (i.e. the central notion underlying Wiles' earlier referred to volume). They simply recognised that the Stalinist command model is a much more rational piece of equipment than is usually assumed, and it was this recognition that led them -- purely from the economic side this time -- to harp so much on the necessity of tackling reform comprehensively (dynamically) rather than in an atomized, piece-meal (statically) fashion.

In the end it might, and it did transpire that after being held up to the light of analysis after the issue of reform was comprehensively tackled, some elements of the old mechanism can cohabitate with the innocent virgin shoots of the new mechanism. But the initial urge or decision to tackle a complex mechanism of economic control in a comprehensive, dynamic fashion rather than statically surely can not be labelled wrong. Maybe ambitious, but surely not wrong. Perhaps a metaphor may help at this point.

Any professional car mechanic knows that an engine tune-up will have less probability to succeed if the carburator, the timing, the spark plugs, the compression, the points, etc., are adjusted only relative to themselves, or relative to the optional level given for each component on the back of the package from which the element is taken. The probability of better engine performance increases the more dynamically or interdependently the tune up is carried out. At the same time, however, the same professional car mechanic is fully aware that when he has completed his tune-up, the spark plugs, or the points, or some other components may be left unchanged. He also knows that there are many cars running on the highways that have never had a comprehensive tune up, or that have only had their spark plugs examined and cleaned. He realises that some of these partially, or statically tuned up cars may perform even better, or travel even faster than his machine over which he had just spent many long and difficult hours of work. It also may transpire, as sometimes it did, that a comprehensive tune up will appear to have reduced the power and performance of the engine, and many a car owner has felt cheated out of his or her money by some ambitious mechanic. And still, in spite of these exceptions, few car mechanics and car owners believe that generally speaking, static tune-ups are more likely to keep cars running on our roads than dynamic tune ups.

In short, the Hungarian reform school did not think in terms of polar-

opposites, either everything or nothing, but in terms of a continuum. They would not deny the possibility of numerous half-way houses between command and market, and moreover, they would not equate the terms "half-way house" with "piece-meal". They were careful to distinguish the direction of movement from the limits or modes of movement. Marching westward from Moscow towards Washington, compass in hand (i.e. using CC and FM as reference points) did not mean to them that their final destination was Washington. True, by the compass they were heading towards Washington, but they were aware of the happiness and harmony awaiting them in the half-way houses of Warsaw, Bucharest, or Budapest.

The Hungarian strategy of reform is best summed up by the now deposed Rezső Nyers. The strategy does not reflect a belief in the possibility of only two economic models, and does not reject the possibility of a number of differing half-way houses. The strategy simply indicates a very strong commitment to be thorough, to be analytically or diagnostically dynamic rather than static in the movement away from the magnetic pull of full command towards (but not into) full market.

In which direction do we think it is necessary to develop our system of planning and management? Should we transmit the central intention to the enterprise with even more compulsory plan indicators, or proceed in the directly opposite way, by narrowing down the field of commands and by widening the use of incentives? With us, the first path can not be followed, only the second. In order to approach optimal development, the direct control over economic processes must become restricted and we must widen the use of Socialist commodity -- money relations and commercial methods... we are confronted by very complex and underdependent economic matters which demand in essence that we place under critical scrutiny the entire control mechanism and designate in unison the changes that must be implemented.¹

Apart from the disequilibrium and distortions of the Hungarian economy due to the pre-1956 economic strategy and to October, apart from the technical possibility of piece-meal reforms and the problems raised by the theory of "bi-modalism" the arguments for comprehensive reform may also have been opposed on a couple of other economic grounds. Given the widespread use of the argument by the Party in the 1960s which stressed that the guided market

1. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., p. 98, 131. (Italics added).

model was necessary because Hungary exhausted or bypassed the stage of extensive economic growth, we ought to expect that, conversely, the guided market model should be criticised in the 1950's because it was developmentally pre-mature. In other words, on the basis of official rationalisations for the need for economic reform in the 1960s one would expect that the Party would support the old mechanism by arguing that there was still some more mileage to be gained by extensive methods and that it was Hungary's "developmental stage" in the mid 1950s that should have ruled out of order the guided market model in 1957.

Coupled to these arguments based on the "economic unfeasibility", "prematurity" "theoretical inaccuracy" of the reform proposals, one may also have expected that the opponents of the new reform proposals would stress such positive elements of the post-October situation as: the massive inflow of Soviet financial aid, the Party's willingness to pursue a far less ambitious industrialisation policy, which coupled to certain within-system reforms could bring about a considerable improvement in economic performance.

In summing up, even if we bear in mind the various qualifications made by the Hungarian economic reformers with respect to their model solutions, and even if we realize that on balance many of the economic arguments imputed to the reformers by their opponents were misguided, we may still expect some resistance to their solutions to be based on economic arguments. But what is particularly interesting to us, and what, at least in the context of this particular dissertation makes this discussion of the technical-economic arguments against economic reform largely an academic exercise is the simple fact that the guided market model was ruled unacceptable on the basis of political arguments rather than technical-economic ones. The Party did not reject the option of a guided market model in 1948, 1955 or 1957 because it was economically premature or economically inaccurate. It rejected such reforms for all times, as indicated in the comments of I. Szürdi on page 286 above because as Szürdi pointed out "If we were to part with the principle of economic command control, we would clearly lose a very important source of our power..."¹

We have now described the process that vetoed the idea of a comprehensive economic reform after 1956. Let us now turn to the resurrection of

1. I. Szürdi, op. cit. p. 694-95.

this politically vetoed idea, and see how and why the Party leadership began to champion the same idea for economic reform in the mid 1960's that it had so clearly rejected on political grounds ten years earlier. What curious forces were responsible for the transformation of the guided market model from being seen as a "threat" to the Party's leading role in 1957 to being "the best means for strengthening the Party's leading rôle" in 1966?

CHAPTER VI

THE RESURRECTION OF ECONOMIC REFORM

Philosophy, which once seemed outmoded, is now alive, because the moment of its realisation has been missed.

Theodore W. Adorno

I. THE POLITICAL FOUNDATIONS

A thorough examination of Hungary's post-1956 experience with the politics of economic control suggests that there is an umbilical relationship between the NEM and Kadarism. Moreover, the analysis of this experience also suggests that the economic reform, coming into being at a specific point in time during the evolution of Kadarism, is a de facto product of that regime's stages of political development. In other words, the reform must not only be understood in terms of its pre-1956 roots, but equally in terms of the unfolding of Kadarism as a unique political system in East Central Europe.

These stages of political development are, we must be careful to point out, not held within fixed boundaries, and the specific demarcation of them in time is rather arbitrary. To be more precise, they are more like strands or threads that were added to the general fibre that we know as Kadarism. The additions of the new threads did not mean that the older ones were outdated, but simply that the general fibre of the Hungarian political system became stronger and as a consequence it was more able to support the idea of market socialism than before. Clearly, this is not the equivalent of suggesting that the reform was therefore politically more necessary in the mid-1960's than the mid-1950's. As we have indicated before, and as the political theory of economic reform suggests, the cause of economic reform cannot be discovered in a single variable and must in fact be sought in the interplay of social, economic and political forces. Thus we should be careful to note that in discussing the political foundations of the reform, our aim at this point is not to demonstrate as such the political

necessity of the guided market model, but rather to show that compared to the earlier years, Hungary's political system became politically more receptive to reform, and that the ideas of market socialism were politically more opportune during the 1960's than at anytime before.

Let us turn to the analysis of the composition of the first two main political threads (main, that is, vis-à-vis the NEM) that gave shape to Kadarism after 1956 and led to the adoption of the NEM by the Central Committee at its May 1966 Plenum.

1. The Elimination of Domestic Factionalism and the Forging of a Solid Basis of Soviet Support

This stage of the regime's development falls roughly between November 4th, 1956 and December 5th, 1959. In our previous chapter we have shown how the idea of a guided market model became a political football in that bitter factional struggle that shook the HSWP after October 1956, and how the Party's original call for a new economic mechanism fell victim to this struggle and to the demands of "Socialist Internationalism". Paradoxically, while this period was, as such, unfavourable to the emergence of the NEM, its playing out was an important precondition for the resurrection of market Socialism in the mid 1960's.

Kádár's firm actions against his local "revisionists" during 1957-1958 took much of the wind out of the sails of his domestic dogmatic critics. Coupled to Khrushchev's own purge of the Soviet "anti-Party group" in 1957, and the nature of the charges against Molotov, Kaganovich and Malenkov — "...[they are] prisoners of old ideas and methods...they are dogmatic sectarians"¹ — Kádár's own centrist position was strongly reinforced after 1957. As Francois Fejto remarked, "In Hungary it was Kádár's centrist group that benefitted from the changes in the Kremlin. His Stalinist opponents, such as József Révai, had counted on Molotov's victory. Their patron's defeat banished their last hopes of restoring Rakosi".²

Without a doubt, one of the most important external legitimating actions taken by Kádár, and one that at the same time stood out as a very

1. Francois Fejto, A History of the People's Democracies, op. cit., p. 135.

2. Ibid., p. 136.

clear warning to the domestic "revisionists" in Hungary, was his delivery of Imre Nagy's head to the altar of Socialist Internationalism. This physical sacrifice to the cause of Socialist unity was quite similar to the sacrifice of László Rajk in 1949. Both executions had much to do with the struggle against revisionism (in 1949 it was domesticism), the fight against Titoism, the fight to preserve the sacred tenets of Soviet political orthodoxy. Both executions had much to do with winning for Rákosi, and then Kádár, the coveted prize of "The Kremlin's Best Hungarian Disciple".¹

It was also to Kádár's "internationalist" credit that Nagy's execution didn't set off any perceptible unrest in Hungary. The execution of Hungary's most popular post-war political leader, the symbolic leader of the October revolution, caused hardly a stir in Hungary²-- and this surely must have impressed the Soviet leaders of Kádár's ability to "maintain order in his own house" and thus, indirectly, in the Socialist Commonwealth.

But there was an additional major political issue, the outcome of which had greatly reinforced Kádár's external and domestic authority: this was the issue of collectivisation. According to János Radványi, it was Kádár

1. Kádár as far as we know was also intimately involved in Rajk's execution. As Minister of Interior it was he who convinced Rajk (the two men were the closest of friends) to cooperate with the prosecution and to confess his "guilt." Kádár promised that the trial will be purely a publicity stunt at which Rajk will be sentenced to death, but that the sentence will not be carried out and Rajk will be secretly sent to freedom in the USSR. Of course, the promise was never kept. Shortly after Rajk's execution Kádár himself was also imprisoned, apparently because he uttered some unfavourable comments about Rákosi during his conversation in Rajk's prison cell, which Rákosi found out since he had the whole conversation tape recorded without Kádár's knowledge.

2. There was, however, a good deal of internal "invisible stress" following Nagy's execution, especially among those Party members that had been imprisoned at one time or another during the Rákosi era. As J. Radványi points out: "Central Committee members like György Aczél, who had served long prison terms in the 1950's, fearing that persecution of high-ranking Party functionaries would follow, nervously requested an explanation from Kádár. The first secretary was able to allay their anxiety only by issuing a Party directive to the Ministry of the Interior that members of the Central Committee were not to be arrested for political reasons without prior knowledge of the Politburo. It took a few months, however, before they felt reassured". J. Radványi, *op. cit.* p. 67. We might point out that there is a very close personal friendship going back a very long time between Kádár and Aczél. This has affected several recent developments, especially during 1974-75, when considerable pressure was exerted to move Aczél (along with L. Fehér, R. Nyers and J. Fock) into the political background. While Kádár went along with the other personnel changes (which constituted clear cut demotions), he refused to go along with the calls asking for Aczél's removal from high political office.

himself who suggested to Khrushchev, at a private meeting shortly after Nagy's execution, the idea of starting a collectivisation drive in Hungary.¹ Apparently Khrushchev was deeply moved by this second manifestation of spontaneous Hungarian support for the "general path". Considering himself an expert on agriculture, and being quite familiar with the problems set off during Rákosi's collectivisation drive, Khrushchev was, we are told, very pleased with Kádár's frequent requests for advice and he actively consulted with Kádár on how to proceed so as not to commit the same errors as Rákosi had committed.

But this collectivisation strategy was also important in another respect. While Nagy's execution did strengthen Kádár's hand it also seemed to provide a temporary spiritual renaissance to the Party's dogmatic wing, who saw in this act, and in the heating up of the anti-Yugoslavia attacks a possible return to dogmatic and more orthodox principles. Kádár's moves on collectivisation however, completely outflanked them by 1959. The dogmatists' leading agricultural spokesman, Minister of Agriculture Imre Dögei, was apparently completely unaware of Kádár's discussions with Khrushchev about the upcoming collectivisation. Dögei, sensing a new tendency towards Stalinist, i.e., traditional practices, began to call for the launching of a "class war" against the peasants so as to force them into the collectives. He argued that the necessary first step in this new class war was to impoverish the private peasants by placing a heavy tax burden on them; this would leave them no choice but to join the collectives. Kádár and his centrist supporters did not argue against the call for collectivisation; indeed, they too came out strongly in its support. But it was only at the fateful December 1958 Central Committee meeting that Kádár unveiled the content of his earlier discussions with Khrushchev, and the forms of collectivisation that he and Khrushchev had favoured. Following the unveiling of the "Dögei Plan" at the Plenum, Kádár's collectivisation policy was put to the Central Committee members by Lajos Fehér. When it was revealed that Khrushchev approved of the "Fehér proposals", the Dögei plan was rejected, and the Central Committee unanimously agreed that the proposals outlined by Fehér should be the ones pursued by the Party. As Radványi points out:

Lajos Fehér characterised the Dögei plan as illogical and dangerous. Reproaching the Minister of Agriculture for having no contact with the peasantry and for misunderstanding the entire situation, Fehér explained that the purpose was not to destroy the villages economically, but to

1. János Radványi, op. cit., p. 65.

reorganise them. Like Khrushchev, he warned against repeating Rakosi's mistakes of forcing the peasants into the cooperatives by administrative police methods... Labelling Dögei a "sectarian leftist", and those who advocated postponement "revisionists", Kádár proposed that Fehér's position be accepted... The Central Committee voted unanimously in favour of the plan... immediately following the 7 December session, Kádár reduced Dögei to a figurehead in the Ministry of Agriculture, working instead through the new deputy minister István Tönpe, previously Kádár's watchdog in the Ministry of the Interior. In January of the following year, Dögei was replaced as Minister of Agriculture and...in 1962 Dögei was ousted from the Central Committee and appointed city water supply director.¹

By early 1960 it was clear that the battle to settle Hungary's post-October crisis of political succession, and the fierce competition to win the Kremlin's unanimous vote of confidence -- via a demonstration of the fullest possible dedication to Socialist Internationalism, i.e. to the "general path" -- had been won by Kádár.

One of the key mechanisms used by the Kremlin in maintaining the intensity of Hungary's "purification campaign" against revisionism was, as has been noted, that of keeping the political competitors "guessing" as to where exactly they stood in the Soviet leaders' eyes. A vital link in this mechanism was Moscow's ambassador in Budapest. The signal that Kádár had "won his ribbons" came in 1960 when the Soviet ambassador was recalled shortly after having attempted to browbeat Kádár in front of the latter's Politburo colleagues about Hungary's recent economic policy. As Radványi notes in this connection:

In late spring of 1960, Ambassador Stikhov invited the members of the Politburo to his residence for a dinner party, during which he criticised the Hungarian Three Year Plan, maintaining that more emphasis should be placed on heavy industry. With regard to the agricultural campaign, he advised that more pressure should be exercised to achieve complete collectivisation... Rejecting Stikhov's advice, Kádár informed the ambassador that he had discussed the whole matter with Khrushchev and abruptly left the party. It was soon after this that Stikhov was recalled.²

2. The Technocratic Revolution

For the casual observer, the political scene in Hungary from 1960 onward was relatively calm and unexciting. It was during this period that the regime consolidated its political gains and its unity, while meticulously

1. Ibid., p. 23.

2. Ibid., p. 168.

going about eliminating those residual blemishes that could undermine the country's stable political climate (e.g. the granting of an amnesty, greater artistic freedom, etc.).

Looking below the surface of events, however, the more careful observer would find that the period was extremely lively and dynamic, involving nothing less than what Pareto has so aptly called the transformation of leaders from "lions into foxes", a period during which the personnel profile of the Party and the country's administrative organs underwent a radical change.

Let us briefly identify the salient features of this rejuvenation process and the thrust of the post-1959 cadre policy, as it unfolded with increasing intensity following the seventh Party Congress, held in December 1959. The slogan that was used to express this new cadre policy is, of course, Kádár's well-known revision of Rakosi's "whoever is not with us is against us" into "whoever is not against us, is with us".

The extensiveness of the transformation in the composition of the Party's leading organs and in the administrative or bureaucratic elite is well documented in some Western studies, which clearly highlight the uniqueness of this personnel change in Hungary as compared to the other Socialist states (see Tables VI. 1 and 2).

Beck's figures (Table VI. 2) show that, although most of the new Party recruits in Hungary (Politburo and Central Committee) reveal a "mix" of career channels, a significant shift was noticeable in the early 1960's towards the recruitment or promotion of personnel possessing a solid technocratic or specialist background. In terms of the survey of managerial or other leading administrative posts, we find that Hungary was the scene of the sharpest rise in the promotion of non-Party specialists in all of Eastern Europe.¹ Within the State administration, the functional and branch ministries, banks, planning offices, the shift away from purely ideological or political reliability as the main criterion of appointment towards the increasing emphasis on technocratic excellence became even more noticeable. For example, by the time of the NEM's introduction, 14 of the 16 portfolios in the Council

1. Carl Beck, "Career Characteristics of East European Leadership", Political Leadership in Eastern Europe and the Soviet Union, ed. R.B. Farrell (Chicago: Aldine Publishing Co., 1970), p. 191.

Table VI.1.

Percentage of Politburo Members Possessing Technical in Addition to Party Career Specialization

| | 1949 N=113 | 1952 N=119 | 1955 N=109 | 1958 N=118 | 1961 N=134 | 1964 N=142 | 1967 N=147 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| USSR | 53 | 50 | 62 | 50 | 40 | 47 | 44 |
| Poland | 27 | 26 | 29 | 22 | 30 | 27 | 20 |
| G.D.R. | 22 | 28 | 29 | 28 | 30 | 32 | 32 |
| Hungary | 14 | 12 | 18 | 30 | 40 | 54 | 57 |
| Czechoslovakia | 31 | 43 | 40 | 38 | 29 | 40 | 36 |
| Yugoslavia | 64 | 62 | 40 | 36 | 36 | 27 | 51 |
| Romania | 0 | 0 | 8 | 23 | 23 | 29 | 25 |
| Albania | 44 | 44 | 30 | 23 | 23 | 31 | 31 |
| Bulgaria | 17 | 22 | 40 | 25 | 25 | 30 | 33 |

Source: R.B. Farrell, "Top Political Leadership in Eastern Europe", Political Leadership in Eastern Europe and the Soviet Union, ed. R.B. Farrell (Chicago: Aldine Publishing Co., 1970), p. 99.

Table VI.2.

Direction of Change in Technocrat Career Types Recruitment 1957-1966

| Country | Politburo | Secretariat | Central Committee |
|----------------|-----------|-------------|-------------------|
| Bulgaria | + | + | -.26 |
| Czechoslovakia | + | + | .64 |
| Hungary | 2.50 | + | .91 |
| Poland | 1.60 | 10.17 | .86 |
| Romania | + | 0 | no figures |

.00 = no change

+ = no measurable increase

0 = impossible to measure degree of change

Source: Based on computer data presented by Carl Beck in his "Career Characteristics of East European Leadership", Political Leadership in Eastern Europe and the Soviet Union, op. cit., ed. R.B. Farrell, pp. 190-191.

of Ministers were held by people who were in possession of a doctoral degree in various fields of specialisation.¹ Some of the ministers were, indeed, better known internationally for their academic publications and research than for their political positions.

As Sándor Kiss has observed, the essence of this rejuvenation process was that:

...the basis of power must be reinforced by improving the quality, composition and education of the party members, and above all of the party leaders. The unity of the party must be nurtured at the same time that the expert knowledge of those who are not party members are fully exploited. The current policy is totally pragmatic.²

These political changes should not be confused with concrete structural political changes. The significance of the transformation stemmed not from a formal, organisational reform, a formal revision of leading roles, structures or functions. This transformation was basically attitudinal, and, as such, it was not an irreversible transformation. Behind these attitudinal and personnel changes, however, one can very certainly find the lessons and experiences of October.

Kádár and the architects of this "revolution" had learned from the pre-1956 experience that direct Party control over all administrative posts leads first of all to the swelling of the Party's ranks with untalented "opportunists" who join the movement purely as a shortcut to career advancement. In competition for a top administrative post, the Party card was far more valuable than a university diploma or administrative experience. But this, according to the "new philosophy" promoted by Kádár, had sharply retarded the country's political-economic development. It had made the construction of Socialism's economic base much more difficult and time consuming, and as such it placed an unnecessary burden on the country's political and social organs of system maintenance. A final reason for the rejection of the old cadre policy was that it created a highly visible barrier between rulers and the ruled, and as a consequence any and all public hostility was permanently targeted against the Party.

Of course, we should be careful to note that these changes were not

1. Hazai Tudósítások, M.T.I., No. 10, May 15, 1969 (Budapest)

2. Sándor Kiss, "The Kádár Imprint on the Hungarian Party", op. cit., p. 5.

XXI made independently of Soviet development. In fact, they were closely supported and reinforced by transformation taking place in the Soviet political super-structure. Perhaps the most decisive of these external factors came in 1961, with the placing, by the XII Party Congress of the CPSU, of de-Stalinisation once more at the centre of attention in the Socialist Commonwealth.

The Soviet Party Congress not only accelerated the drive to reshape the HSWP's attitude towards non-Party specialists and to redefine its values with respect to the selection of leading cadres, but it also provided an opportunity for Kádár to get rid of some senior Party dogmatists from various positions of power where they could hinder his plans and the current re-alignment.

At the very first meeting of the Hungarian Central Committee following the Soviet Party Congress, in November 1961, it was decided (at the insistence of Kádár) to set up a commission headed by Béla Biszku to investigate the "mis-use of power" during the cult of personality. The Biszku committee handed in its findings a few months later, and recommended the rehabilitation of 190 former Communist victims of the Rákosi era.¹

Before and after the tabling of the Biszku committee's recommendations, twenty-five senior officials were removed from their posts in the Party on grounds of being responsible for one kind or another of the "deformations" committed during the cult of personality. One of these former Stalinists was István Friss. He was removed from his post as head of the Central Committee's Economic Department in early 1962 because of his "past contribution to Stalinist economic practice", and because of his "unwillingness to completely cut out those errors from his own practice of economics".² A fairly thorough shakeup of personnel in the Central Committee, especially within the

1. See "Az MSZMP Központi Bizottságának Határozata a személyi kultusz évszében a munkásmozgalmi emberek ellen indított törvény sértési perek lezárásáról" (The Decree of the Central Committee of the HSWP on the Closing of the Proceedings taken against Members of the Workers' Movement During the Cult of Personality), August, 1962, in A Magyar Szocialista Munkáspárt határozatai és dokumentumai. 1956-1962, op. cit., pp. 573-577. The "rehabilitation" of tens of thousands of other innocent, but non-Communist, victims of Rákosi's police has never been undertaken. The Central Committee, moreover, gave notice that, with the publication of the Biszku committee's findings and recommendations, it has closed once and for all the book on all past illegalities.

2. See Pártélet, Vol. VI, No. 1, 1962, p. 28.

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various economic departments, ensued. The Government or State administrative apparatus was also greatly affected when six deputy premiers and more than a dozen senior civil servants were removed from office during 1962.¹

Two additional elements of this rejuvenation tendency must still be mentioned. The first is the publication, in 1962, of a new comprehensive Theses on cadre policy,² and the second is the guidelines adopted at the Party's VIII Congress in November 1962.³

The new Theses on cadres formally and vigorously rejected the May 22, 1951 resolution of the Hungarian Communist Party, according to which the Party ought always to first of all guard itself "against the class enemy which worms itself deeply into the Party".⁴ The Theses also rejected the 1951 Central Committee resolution which stipulated that the leading role of the Party implies that card carrying Party members must fill all leading administrative posts. The Theses mentioned that, while it had already been established at the VII Party Congress that a Party card is not essential for holding a leading administrative position, this had not been fully implemented by the cadre selectors. All responsible apparatus were called upon in the Theses to begin to fully uphold this principle.⁵

The Theses underlined even more forcefully than earlier statements the need to promote technically competent people into leading administrative positions and to part with the practice of promoting people purely on the basis of political and ideological reliability and of working class background. As the text of the Theses says:

The Party no longer judges people on the basis of pieces of paper, on the basis of public speeches or promises, but first of all on the basis of achievements and performance... It is very dangerous to apply mechanically the leading role of the working class, by which was understood

1. See Hivatalos Közlöny, February 11, 1962, p. 1.

2. "Pártunk kádern munkájának tapasztalatai és irányelvei. Tézisek" (The Experience of our Party's Cadre Work and its Guidelines. Theses), February 1962, in A Magyar Szocialista Munkáspárt határozatai és dokumentumai. 1956-1962, op. cit., pp. 535-547.

3. "Az MSZMP VIII. Kongresszusának Határozata a Szocializmus építésében elért eredményekről és a Párt előtt álló feladatokról" (The Decision of the VIII Congress of the HSWP on the Achievements of Socialist Construction and on the Tasks Facing the Party), November 20-24, 1962, in A Magyar Szocialista Munkáspárt határozatai és dokumentumai. 1956-1962, ibid., pp. 578-609.

4. Tézisek, op. cit., p. 536.

5. Ibid., p. 539.

that all leading administrative posts should be filled by workers who are also Communist Party members... Today this mechanical interpretation of the working class' leading role is a hindrance to socialist construction ...and the dogmatists are not taking into consideration the fact that in our country great social transformations have taken place in the relationship between social classes.¹

The Theses called for the unleashing of "a great battle" against "the old and backward views" and against dogmatic attitudes that "distrust the wisdom of the masses",² and it summed up the new cadre requirements in the following way:

In essence, capitalist exploitation has come to an end in our country, and there are no longer any antagonistic class interests. Taking this into consideration we must clearly see what, at the present phase of Socialist construction, are the specific political, technical and moral requirements of our cadres, and how important it is now to improve on the quality of leadership. The momentum, pace, and eventual success of Socialist construction depend largely on the selection of the correct leaders who will fill the responsible state and economic positions of authority... Without the co-optation of honest and competent non-Party people into leading positions, it is simply impossible to complete the construction of Socialism.³

The roots of the new personnel policy were even more firmly established at the VIII Congress of the HSWP in November 1962. Even more importantly, however, the Congress loudly proclaimed that this new cadre policy and the revitalisation of the country's administrative core was not undertaken just for the sake of putting "new faces into the bureaucracy". The new administrative elite was, in fact, given the first call in 1962 to start working on the revitalisation of the country's traditional economic policies and mechanisms, to start applying their specialised knowledge to the task of revamping the country's economic system. The Congress sharply underlined the need to graft the creative support of sub-systems on to the engine of Socialist construction, the need to provide a framework within which the "so far untapped creative force of the masses" could be utilised towards a more effective pursuit of Party goals. The Congress announced that the foundations of Socialism had now been fully completed in Hungary, and that national unity had, as a consequence, been consolidated. This "fundamental" transformation, announced

1. Ibid., p. 540.

2. Ibid., p. 540. (Italics added).

3. Ibid., p. 543.

the Congress, must be reflected by new and altered forms of socio-economic processes and behaviour:

The forms and methods of the class war must change. The main battle-fields of the class war today are: the strengthening and development of the Socialist economy and the fullest development of Socialist consciousness... An important requirement of the future development of Socialist democracy is that increasingly wider strata of society must be directly involved in the management of public affairs... We must fight against that bureaucratic attitude and behaviour which continues to hold back the unfolding of Socialist democracy and retards the independent creative activity of the people... The governing principle of our economic activity is: to increase economic efficiency, productivity and to reduce the cost of production... that is, to achieve maximum effects from minimum outlays... The targets of our industrial policy can be achieved only by a rapid increase of productivity and by accelerating technological development... The development of productivity, the increase of profitability, the increase of production, these are the key fronts along which the struggle must be carried out for the full construction of Socialism.../In short/ the precondition for continued progress is to improve the management of our economy. Both in production and in management, a greater sphere must be set aside for the creative initiative of workers. Our system of economic control and our managerial practices must help to bring into play the creative strength of our workers.¹

The politically most exposed and strategically most important of the new "technocratic" recruits of the early 1960's was none other than Rezső Nyers. In 1962 he was appointed to the Politburo and made head of the key Economic Department of the Central Committee. Legally and formally he was put in command of the same "economic levers" that had been used with such genius by the political and economic "father" of detailed physical command planning in Hungary — Ernő Gerő.

Nyers only joined the Communist Party in 1948, when he was 25 years of age. Formerly he had been a member of the Social Democratic Party, and his membership in the Communist Party was the result of the fusion of the two "Labour" parties in 1948. At the age of 28, Nyers entered the Karl Marx University of Economics, from which he received his economics degree in 1954. He thus was trained in economics at a time when the first full onslaught against command planning was unfolding at KME, and among his professors were some of the key reform economists of the 1950's and the future "fathers" of the NEM.

Nyers' close friendship and collaboration over many years with his

1. "Az MSZMP VIII. Kongresszusának...", op. cit., p. 594.

former professors and advisors at KNUÉ (e.g. Tamás Nagy) need not be treated as a state secret. Nyers was also closely associated with Imre Vajda -- formerly chief economic advisor to the Social Democratic Party in Hungary -- Peter Erdős, György Péter, and many of the leading and long-time advocates of the guided market model. The promotion of such a man into the Party's leading economic post undoubtedly had an enormous and decisive influence on the way the economic reform movement unfolded in Hungary after 1963.

As subsequent events in Hungary show, one of Carl Beck's principal hypotheses can be fully vindicated:

When the nature of the political system, and the nature of those who compose and are recruited into the political elite are assessed in terms of relevant concepts, shifts in one will be reflected in the other. More specifically, shifts in the way in which system-related demands are perceived, will be reflected in and reflective of shifts in the career characteristics of those who compose and those who are recruited into the elite. They will be reflected more directly in those recruited.¹

Having now looked at these political developments, let us now turn to the examination of the forces that sparked off the resurgence of full scale economic reform in Hungary. As in all the earlier cases when a radical change was to be instituted in Hungarian economic policy and mechanism, external factors played a crucial role. Let us first turn, therefore, to the analysis of the external compellants of radical economic reform.

II THE INFLUENCE OF REGIONAL REFORMIST TENDENCIES

My aim in this section is to identify, first of all, those general economic problems that seem to have been shared by most if not all of the Socialist states during the early 1960's. First strictly from an economic stance and then from a more broader socio-political stance, these problems undoubtedly provided a powerful impulse towards changing certain elements and in some cases, the whole framework, of the existing mechanisms of Socialist economic control in Eastern Europe.

The actual model solutions adopted by individual regimes cannot, of course be explained by solely these economic pressures for reform. Why one regime adopted a relatively modest response and another a more daring, deep-going set of changes, this can only be explained by reference to a whole

1. Carl Beck, op. cit., p. 162.

series of additional circumstances than purely that of the existence of economic problems.

Having surveyed the profile of regional economic grievances, I shall then briefly examine some of the national attempts to overcome these problems. Ultimately my aim is to highlight Hungary's position within the international Socialist movement towards economic reform, to isolate the dominant political constraints and propellants of Socialist economic reform in the region during the early 1960's, and to understand more fully the interaction between domestic (Hungarian) and external political forces in the process of introducing the NEM.

1. A Survey of Regional Economic Problems

Any general review of the economic problems of Socialism in Eastern Europe is bound to be incomplete and will suffer from various shortcomings. There are significant enough differences from country to country along such dimensions as the share of industry and agriculture in the GNP, the modernity of industry, the level of economic development, natural endowments in raw materials and energy resources, the share of foreign trade in the GNP, the degree of centralisation in decision making (i.e. significant within-system reforms were made by all of the Socialist states after 1953 and these were by no means identical in each country), the pattern of investments and current consumption, etc. All of these differences may create unique problems of their own within individual states, they may significantly increase the 'weight' of the general problems or reduce them, and finally they could easily be missed in a general survey of regional economic problems.

Another variable that could play havoc with our general survey is political culture, and the divergent socio-political context of these economic problems. Differences in socio-political contexts would mean, put very simply, that similar economic conditions may be more or less problematical from country to country (e.g. a 10% unemployment is acceptable in Canada -- in Hungary it would result in an uprising and the collapse of the government). Differences in the composition of the ruling elite would also be significant since it would lead to divergent perceptions of the seriousness of existing economic problems.

It is with keeping these points in mind, that we should discuss the general problems of the Socialist economies, and it is also through these variables that we should discuss the incentive or impulse for economic reforms.

a. The Technical-Economic Indices

1. One of the most frequently pointed to 'problem' of the early 1960's was the decline of the rate of growth of national income in Eastern Europe. I do not want to get into a lengthy arithmetical demonstration of this phenomena or to debate the accuracy of various calculations purporting to show the severity of this slowdown. Some would argue that a slowdown is inevitable - the international law of diminishing returns is alive and well in Eastern Europe -- while others may say that a slowdown is purely the result of more honest statistical work. Irregardless of the reasons for this slowdown, the fact remains that national income did not generally grow as fast during the 1960's as it did earlier (see Table VI.3) and this situation did cause a good deal of anxiety to all of the ruling elites in Eastern Europe.
2. A second general problem was the prevalence of micro-economic waste. Labour, capital and land were the major sources of economic growth during the 1950's and early 1960's. With respect to the use of all these, wastefulness was prevalent before 1960. But with the increasing exhaustion of these extensive sources of economic growth in the early 1960's, wastefulness appeared to be particularly more difficult to sustain. Please note that this should not mean that Socialist economics could more afford waste at their earlier or poorer stage of development than at their later, more developed stage. Common sense alone should tell us that obviously the reverse should hold true. What we mean here is simply that, whereas earlier on, the wasteful or extravagant use of labour could be "covered up" so to speak because additional increments of labour, capital and land were still available, this "cushion" had significantly diminished in size in many of the Socialist states by the early 1960's, or as J. Wilczynski pointed out, among many others

Waste and stagnation were most pronounced in the early 1960's in the more developed Socialist countries -- Czechoslovakia, the German Democratic Republic, Hungary, Poland and the USSR. These adverse effects were not as

Table VI.3.

Western and Socialist Estimates of Socialist Rates of Growth

| Author | Basis of Estimate | Period | Average Annual Rate | Official Socialist Rate* |
|---------------------|---|-------------------------------|---------------------|--------------------------|
| 1. R.W. Campbell | Soviet GNP at 1958 non-agricultural sectors weights.) | 1950-58 1958-63 | 7.0 5.5 | 10.9 6.3 |
| 2. S.H. Cohn | Soviet GNP at 1959 factor cost weights.) | 1950-58 1958-64 | 7.1 5.3 | 10.9 6.7 |
| 3. M. Ernst | Eastern European GNP at 1956 factor cost weights)* | 1951-55 1956-60 1961-64 | 5.7 5.2 3.6 | 8.5 6.5 4.5 |

* National income, industrial production, agricultural production according to Socialist definitions.

** The countries included are: Bulgaria, Czechoslovakia, the GDR, Hungary, Poland and Romania. The price weights applicable to the GDR are the German 1936 weights (equivalent to the East German 1950 weights) and to Hungary of the year 1955.

Sources: R.W. Campbell, 'The Post-War Growth of the Soviet Economy', Soviet Studies, July 1964, p. 3; S.H. Cohn, 'Soviet Growth Retardation: Trends in Resource Availability' in U.S. Congress, Joint Economic Committee, New Directions in the Soviet Economy, Washington, GPO, 1966, Part II - A, p. 105; M. Ernst, 'Post-War Economic Growth in Eastern Europe' in New Directions in the Soviet Economy, Part IV, pp. 880, 883-4, 913-14; J. Wilczynski, Socialist Economic Development and Reforms, (London: The Macmilland press, 1972), pp. 16-17.

widespread in Bulgaria and Romania, which were still in the relatively early stages of economic development.¹

3. A third and related problem was the frequent misallocation and ineffectiveness of many investments. The problem was and is widely acknowledged in Socialist and Western literature and may be illustrated, among others by the increasing capital/output ratios of the Socialist economies from the early 1950's onwards.

Table VI.4.

Incremental capital-output ratios: East European countries, 1950 to 1965*

| Period | USSR | Bulgaria | Czechoslovakia | Hungary | Poland |
|---------|------|----------|----------------|---------|--------|
| 1950-55 | 1.20 | 1.48 | 1.84 | 3.14 | 2.05 |
| 1955-60 | 1.60 | 1.62 | 2.24 | 2.18 | 2.61 |
| 1960-65 | 2.46 | 3.34 | 10.83 | 4.43 | 3.38 |

* Related to productive Investment.

Source: UN Economic Bulletin for Europe, Vol. 18, No. 1, November 1966.

4. A fourth and also frequently discussed economic problem was the relative technological backwardness of industrial production and the paucity of technical innovation at the enterprise level. Producers, it seems, were simply not motivated sufficiently to innovate, which consequently resulted in lagging technical development. This problem is well documented.² It was a problem that was also very frequently discussed in Hungary, especially in the context of the high share of foreign trade in Hungary's GNP, and the consequent need to be at the forefront of technological innovation so as to be more competitive on international markets.

1. J. Wilczynski, Socialist Economic Development and Reforms, op. cit., p. 37.

2. See for example M. Boretsky 'Comparative Progress in Technology, Productivity, and Economic Efficiency: USSR versus USA' in U.S. Congress, Joint Economic Committee, New Directions in the Soviet Economy, Washington, GPO, 1966, Part II-A, pp. 149-50, 156-9.

Tables VI. 5 and 6 give a fairly good, if a rather onesided, indication of this problem.

Table VI. 5

Inventions Registered Per 100,000 Inhabitants -- 1964

| <u>Country</u> | <u>Number of Inventions</u> |
|----------------|-----------------------------|
| Belgium | 164 |
| Austria | 147 |
| Denmark | 131 |
| Norway | 121 |
| Czechoslovakia | 52 |
| Hungary | 20 |
| Poland | 10 |
| Romania | 7 |

Source: R. Burks, Technological Innovation and Political Change in Eastern Europe, RAND Corp. Memorandum, RM-6051-PR, August 1969, p. 11.

Table VI. 6

Patents Taken Out in 1965 and 1966.

| Country | 1965 | | 1966 | |
|----------------|-------------|---------|-------------|---------|
| | Applied for | Granted | Applied for | Granted |
| USSR | 1,675 | 700 | 2,268 | 1,032 |
| France | 19,628 | 12,464 | 21,090 | 13,796 |
| United Kingdom | 31,729 | 18,819 | 31,733 | 19,388 |
| United States | 103,484 | 70,155 | 110,897 | 74,567 |

Source: R. Burks, Technological Innovation and Political Change in Eastern Europe, op. cit., p. 11.

Again this problem began to be more strongly felt as extensive sources (labour, capital, land) of growth were harder to come by during the early 1960's, and was consequently recognised as a serious brake on the future progress of these economies.

5. A fifth problem, and one that became particularly acute in Czechoslovakia, was the prevalent hoarding of raw materials and other goods coupled to the growing stocks of unsaleable manufactured goods.¹ To be sure, a certain increase in stocks is quite natural subsequent to the growth of market forces within the socialist economies. The problem thus is not so much one of increasing stocks. The main source of anxiety about increasing stocks is that the levels or increases are too high on the one hand, and on the other they are due not so much to the need to forestall bottlenecks as to the fact that a growing amount of current production was unsold because of poor quality and because of the growth of a buyers' markets for finished products. Thus as Wilczynski pointed out

With a greater role assigned to the market, the need for reserves and stocks is naturally greater... To this extent [increases in circulating assets] are not necessarily wasteful, as they may forestall bottlenecks with which Socialist economies had been frequently plagued before. However, it appears that a considerable portion of the increases in stocks is wasteful and causing serious concern to the authorities.²

6. A sixth problem, closely interlinked with the problem of inefficient capital utilisation and lagging technological innovation, was the relatively slow rate of growth of labour productivity per man-hour. Again one should be careful not to create the impression that labour productivity deteriorated in the 1960's or that its slow rate of growth during the 1950's ought not to have been problematical. The relatively slow rate of growth of labour productivity may become simply more obvious to political decision-makers as labour reserves are becoming depleted, and as political force and regimentation are seen to be increasingly ineffective in stimulating a greater amount of production per man-hour.

1. See for example Pénzügyi Szemle (Financial Review) Budapest, No. 7, 1969, p. 569; UN Statistical Yearbook for 1966; L. Sirc, Economic Devolution in Eastern Europe, op. cit., pp. 16-17; J. Wilczynski, Socialist Economic Development and Reform, op. cit., pp. 172-73.

2. J. Wilczynski, ibid., p. 172.

7. Problems in the area of foreign trade were also widely acknowledged and can be traced back to the outset of the first Five-Year Plans aimed at "import substitution".¹ Interestingly enough, the process of autarkic industrialisation patterns in Eastern Europe did not reduce the share of foreign trade in the national incomes of those economies. On the contrary the volume of foreign trade grew significantly faster than national incomes. For a number of reasons, however (e.g. distorted price structures, disequilibrium exchange rates, the lack of incentives for marketing and the neglect of comparative advantage) foreign trade flows have been recognized to be highly irrational and increasingly costly. Should the rate of growth of national income subside, while that of foreign trade continues to increase, the harmful effects from irrational trade flows and foreign trade inefficiency are especially noticeable. As Brown and Marer point out this is precisely what happened during the early and mid-1960's:

Eastern and western economists seem to have reached an agreement that traditional CPEs neglect efficiency considerations in foreign trade and that individual CPEs' problems are compounded by inadequate cooperation within CMEA. As the volume of trade increases rapidly, the opportunity cost of this inefficiency also rises, and this leads to intensified reform pressures... The planners' concern with slow or declining rate of growth tends to direct their attention to inefficiencies in foreign trade, particularly, if the unsatisfactory growth performance is associated with slow technological progress and if trade is important. In addition to growth performance, another very important pressure for reforms emanates from balance-of-payments problems.²

8. The slow rate of increase in living standards and the frequent failure to meet planned targets in the consumer sector is another problem area. Of course, the restriction of consumption and consumer goods production was a conscious element of the traditional developmental plans of all of the Socialist states, and was explained as indispensable during the transition to Socialism by the 'law of proportional development of the national economy'. Table VI. 6 and 7 give a good illustration of the implementation of these aims.

1. See Alan A. Brown and Paul Marer, Foreign Trade in the East European Reforms, International Development Research Centre, Indiana University, Working Paper No. 9, 1972, pp. 1-2; also M. Kaser "The East European Economic Reforms and Foreign Trade". The World Today Vol. XXIII, No. 12, 1967; P.J. Wiles, Communist International Economics (New York: Praeger, 1969).

2. A.A. Brown and P. Marer, Ibid., pp. 3-4.

Table VI.7.

Comparative Levels of Personal Consumption Per Capital

| Country | Prewar * | 1964 |
|----------------|----------|------|
| West Germany | 100 | 100 |
| Czechoslovakia | 95 | 57 |
| East Germany | 95 | 60 |
| Hungary | 87 | 48 |
| Poland | 45 | 40 |

* 1936 for West Germany and East Germany; 1937 for Poland and Czechoslovakia; 1938 for Hungary.

Source: M. Ernst, 'Postwar Economic Growth in Eastern Europe: A Comparison with Western Europe' in New Directions in the Soviet Economy. (Washington, D.C.; GPO, 1966), Part IV, p. 887, Table 12.

Table VI.8.

Percentage of Manufactured Consumer Goods Production in the Total Manufacturing Output of Socialist Countries

| Country | Before WW II | 1960-62 | 1964 |
|----------------|--------------|---------|------|
| Bulgaria | 77.4 | 50.3 | 48.6 |
| Hungary | 55.2 | 32.8 | 34.6 |
| Poland | 52.9 (1949) | 39.8 | 37.6 |
| Romania | 54.5 | 39.2 | 31.3 |
| Czechoslovakia | 49.3 | 39.8 | 38.1 |

Source: L. Sirc. Economic Devolution in Eastern Europe, op. cit. p. 32.

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The official concern for increasing consumer satisfaction should not be looked upon as simply an act of charity or magnanimity on the part of the planners. Indeed, the demand for increased productivity per-man-hour and the increasing social cost (see below) of the traditional political mobilisation techniques brings to the fore among others the need also for new material incentives. Lagging consumption acts as a serious brake on productivity, or at least, it was seen to act in that fashion by a growing number of political economists in Eastern Europe, and through its hinderance of labour productivity, it was thus seen as an important source of the slowing economic growth rates of the 1960's. Or as W. Brus pointed out:

The rate of growth of national income has here been taken as an index of the declining efficiency of the old economic system. It is clear however, that in the last analysis the real criteria for success should be sought in the consumer sector. In this area the failure to meet the planned targets was even greater, both in terms of current real incomes and in terms of investment in collective consumption sectors.¹

In sum, our survey of the East European economies indicates a widespread concern and unease by Socialist political-economic decision makers with the performance of their economies.

We may not think that these problems were really that important, or we may say that compared to many western economies their economic growth rates, full employment and no inflation were indeed enviable. All that, as we have explained in Chapter I, pp. 61-62 above, while holding a certain degree of truth is quite meaningless. It is unimportant for us to argue that their problems were not that serious. What is important is that in terms of their own terms of references, capabilities, expectations and values, Socialist economists, politicians and, what is most important, the vast majority of consumers, were unhappy with the functioning of their economy. Some of us in the West may not have wanted a change -- most of them in the East -- and that is what counts -- did.

It would be a mistake, however, to argue that these concerns about economic performance only surfaced during the 1960's, that they manifested themselves with uniform intensity in all of the Socialist states, that they alone necessitated the various model changes attempted during the 1960's and finally, that there was really only one feasible alternative to all of these

1. W. Brus, The Economics and Politics of Socialism, op. cit., p. 34.

problems -- namely to relegate the one-year plans to the dustbins of history and to institute a wholesale, comprehensive economic decentralisation.

As we have shown in the case of Hungary, many of these problems were recognised and present in Hungary prior to 1956. The official analysis and reformist reaction of the ruling elites must however be mediated through the socio-political implications and context of the aforementioned economic performance levels. The homogeneity, social, career and education background as well as the attitudinal disposition of ruling elites within individual nations, the characteristics, size, influence, style of the indigenous economic reform community, the degree of legitimacy of the rulers, the extent of popular discontent and consumer dissatisfaction, the relative power, disposition and orientation of social groups such as managers, workers, peasants, the intelligentsia, etc., all of these socio-political factors were equal if not more important in deciding the direction and eventual outcome of reform. One cannot, therefore, discuss the societal necessity and feasibility of any new model solution by reference to technical-economic variables alone. Before examining some of the model solutions, let us therefore briefly survey some of the superstructural implications of the aforementioned economic problems.

b. The Socio-Political Implications

1. The harmful socio-political implications of the aforementioned economic problems manifest themselves along many levels of society (individuals, groups, classes, the polity, etc.). In the context of the transition to Socialism, perhaps the most important or worrisome aspect was the inability of the system to fuse social and individual interests. It was recognised by a growing number of political economists in Eastern Europe that the command model, its system of incentives, its characteristic forms of bargaining, did not promote the harmony of social and individual necessities but quite their reverse. The traditional command model did not motivate producers to think socially, it did not motivate them towards ever closer approximation of their own, human, creative potentials, and it did not motivate producers to fuse their own interests with those of the planners so as to produce an ever closer approximation of the public good.

Instead, the traditional model had motivated producers to simply discover the "path of least resistance" in meeting the quantitative command targets of economic planners (e.g. by often ignoring quality, marketing considerations, innovation, costs, etc.). In effect the system created a kind of ping-pong mentality, with planners and producers each bent on outscoring each other, but with neither of them taking any note of the social cost of their game, or of the fact that perhaps their own individual development may be better served by different motives and different games. It is possibly to this point that Prof. Brus was alluding when he wrote that

The way to increase the effectiveness of incentives is to ensure that they provide a proper link between individual and social interests. If this is done, or even if something close to this can be achieved, then the factors fostering integration, coupled with political education in the socialist ideals of communal life, will operate more powerfully than in the present situation, where in many ways the system of incentives is an expression of the antagonisms between the social interests and those of individuals, not of their harmony.¹

2. Another harmful socio-political side effect of the complex of economic problems discussed above which began to be officially acknowledged much more frequently during the 1960's (i.e. the problem itself was not as such new -- only its acknowledgement was) was that technological backwardness and outdated production methods, coupled to distortions caused by the traditional incentive system of the command model, had fostered a 'quasi-developed social structure'.

This argument was well articulated, among others, by the Hungarian economist Ferenc Jánosy.² According to Jánosy, the traditional "tonnage ideology" of the old model, its obsession with quantity of production and relative inattention to efficiency, profitability, quality, technological innovation, comparative advantage, etc., have fostered a 'quasi developed economic structure'. The prevalence of archaic and outdated production, and lagging technological development at the enterprise level perpetuates the

1. W. Brus, The Economics and Politics of Socialism, op. cit. p. 37.

2. F. Jánosy, "Gazdaságunk mai ellentmondásainak eredete és felszámolásuk" (The Origins of Contradictions in our Economy and their Elimination) Közgazdasági Szemle, Vol. XVI, Nos. 7-8, 1969.

'under-education' of large segments of the industrial proletariat in modern production techniques. Moreover, workers and managers are not that concerned about the fact that they are producing often low grade and "useless" articles for they know that they will be paid "even for that". In other words, says Jánosy, the system seems to favour those individuals who work quickly and carelessly -- rather than those who take their time and are concerned about the quality and marketability of their products. But while workers are producing imperfect and "shoddy" goods they are at least conscious of the fact that their out-put is of low quality. Since according to Marx 'man defines himself' through the process of production, then this kind of situation, this kind of production, fostered by the existing mechanism of economic control, is clearly an inhuman and degrading one. Thus, for Jánosy and many other Socialist economists, technical improvement, the provision for conditions that will generate greater technological innovation and better quality of products is not purely an economic problem but a much wider, sociological one, in fact, one that goes to the very heart of the struggle to establish a genuinely Socialist society.

3. Apart from perpetuating disharmony between social and individual interests and retarding human development by denying producers the right to think for themselves, there were some additional deleterious socio-political implications of the old model. These additional socio-political effects were particularly problematical from the perspective of the leading rôle of the Communist Parties.

One of these destabilising effects, and possibly the most obvious, was the growing consumer unrest of the late 1950's and early 1960's. Again the problem should not be seen as involving a relative decline or worsening of the consumer basket, but rather as a growing social dissatisfaction with the relatively slow increase in consumer goods production and living standards. Coupled to the decreasing utility of open political repression, and the 'opening up' of Eastern Europe (via travel, trade and communications) to the 'demonstration effects' of Western consumerism, consumer dissatisfaction was creating increasingly serious political problems for a number of ruling Communist Parties. This was especially strongly felt in Czechoslovakia during the early 1960's, when that country's living standards not only failed to increase sufficiently fast, but indeed experienced a period of decline.

Svitak paints a vivid picture of this intimate connection between political instability and consumer dissatisfaction in Czechoslovakia as follows

...in the past twenty years, [the Czechoslovak leadership] avoided any internal political shock, having succeeded, during the critical years, 1956-1957 in reducing the price of salami-sausage (tsabajka)... This sausage-realism in politics was effective so long as there was something else of which the price could be reduced... But then all the resources which had been guaranteeing its grand policy, that of bribing the nation with a higher standard of living, suddenly failed. The sudden collapse of the economic structure, by no means incurable, was enough to shake the precarious stability of this dictatorship and to evoke a remarkable change in political orientation.¹

Increasing consumer and workers dissatisfaction with living standards manifested itself along many fronts in Eastern Europe. It not only found expression in occasional food riots, temporary strikes, or such related acts of blatant opposition. It was also expressed in growing cynicism, black-marketeering, stealing, deteriorating work discipline, absenteeism and high labour turnover. All of these developments, of course, significantly increase the problem of political rule, they place increasing pressures upon the party's system-maintenance mechanism and make it difficult to create a stable basis of defuse-support. In short lagging consumption was clearly one source of the many problems surrounding the Party's leading rôle in society.

Another source of socio-political pressure on the Party's leading rôle was due to the increasing complexity of the Socialist economies, and the consequent need for more flexible and workable methods of management. There was a growing realisation in many official circles during the early 1960's that the Party could not pursue effectively its intended goals of increasing efficiency, profitability, technological innovation, productivity, quality on the basis of the existing socio-political deployment of forces. In the past social organisations were generally speaking only passive participants in the task of Socialist economic construction. Many of the Communist Parties, and even more economists and sociologists were coming around to the view that if the various social organisations' energies were creatively harnessed and fused to the project of Socialist construction, this would, perhaps, significantly boost the thrust of the main, Party dominated engine of Socialism. As Kádár pointed out

1. Ivan Svítak, op. cit., pp. 30-31.

Believe me, we can be a hundred times more assured about the fate of the country if we know that hundreds of thousands, or, I may safely say, millions of conscientious people are concerned with the fate of the country than if only fifteen, five, or even perhaps one single man is concerned with it.¹

The necessity to tap individual and group creativity, to engineer a voluntary and creative participation of sub-systems in the construction of Socialism so as to reduce the increasing burden on Party structures was one of the important motives behind most economic reforms including the Hungarian one.

In some of the East European states -- notably Czechoslovakia, Hungary, and Poland -- there was also a growing tendency to blame the obviously 'undemocratic' command economic model for the failure to fully develop Socialist political democracy. This argument was of course a very dangerous one to use for clearly it implied that the Party did not exercise, at the given time, democratic rule to the fullest (see for example page 279 above). In Czechoslovakia, this argument was frequently and openly voiced during the mid-1960's. In Hungary, the lessons of the mid-1950's have taught most reformers that while indeed this is what they too were aiming at, it was perhaps best to stay quiet about it lest they arouse the political fears of the ruling Party elite and thereby lose another reform battle. Thus, while the following line was frequently made in private by Hungarian reformers, it was seldom so clearly stated in public view as below

How and to what extent an economic mechanism can realise the most unhindered unfolding of human abilities, this is our main concern. The revolutionary transformation going on in our country affects the entirety of our social relations, the development of political democracy... allow me to mention just the main problem, namely, that political freedom may become absolutely formal if economic relations are not democratic, ensuring almost unlimited power to a minority actually in possession of the economic power. In vain has everyone from Hyde Park to Parliament /sic/ the equal right to make his voice heard directly or indirectly, if at the same time he is obliged to work in the hierarchy of an ever more bureaucratic economic system, where the freedom of economic action and its result are the privilege of a superior minority small in number... As a result, behind the facade of equality in the field of politics, the ones who dispose of capital have the upper hand.²

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1. Quoted by W.F. Robinson, *The Pattern of Reform in Hungary*, op. cit., p. 78.
 2. Tibor Liska, "The Unsettled Questions of Economic Mechanism, Economic Growth and Economic Laws" (mimeograph) pp. 10-11.

Rezső Nyers, significantly enough, though far less dramatically, comes to more or less the same conclusion as Liska, and as a member of the Hungarian Politburo during the 1960's in charge of economic affairs his comments are noteworthy.

Every sign indicates that the Hungarian economic reform can not be treated as a purely economic process, that it had and will have far reaching social and political effects... What we want is nevertheless a radically new kind of democracy, which we have to develop ourselves to correspond to Socialist conditions and this democracy is not yet ready -- not even in our heads -- but we are building it while looking for a way.¹

The above discussed economic problems and their socio-political implications can not be denied. The only thing we can debate is the seriousness of those pressures, or more accurately, the degree of importance and political significance attached to them by individual regimes and classes of consumers/producers in Eastern Europe. Obviously, the problems were not uniformly present in all states, and equally obviously there were deviations in the political significance attached to these problems by individual regimes. Thus while these social, political and economic pressures are indeed the necessary causes of reform, they still can not be advanced as the necessary as well as sufficient explanation of every model alternative suggested and implemented in Eastern Europe during the 1960's.

One thing does, however, stand out in all of these problems, namely that the full utilisation of resources via traditional mobilisation techniques (see our Chapter I) was less and less workable not purely in an economic sense but more importantly, also in a socio-political sense. Stalin was dead, the first heroic stages of enforced economic sacrifices, restricted consumption, political regimentation were exacted. It became obvious, however, to a growing number of socialist economists and politicians that the traditional strategy has to be altered one way or another for it was demanding an increasingly higher social cost. Coincidentally or not, but certainly of tremendous significance as far as the revival of economic reform in Eastern Europe is concerned, the Soviet Party Secretary, N. Khrushchev himself began to show more than passing interest in these issues. Thus opens the curtain on Act III of economic reform -- the final act on the way to Hungary's guided market model.

1. Rezső Nyers, "Social and Political Effects of the New Economic Mechanism", The New Hungarian Quarterly, Vol. 14, No. 34, 1969, pp. 3, 16.

2. The Reforms

a. The Impact of Libermanism

The usual starting point of Western analyses of Soviet and East European economic reforms of the 1960's is the by now well known article by E.G. Liberman, published in Pravda on September 9, 1962.¹ As Michael Gamarnikow, for example, points out, "The turning point in the tide of economic revisionism was the publication in Pravda of the now-famous article by Professor Liberman and the discussion of his ideas by Soviet economists".² It is mentioned only by a few people, however, that Professor Liberman had made far more radical proposals on the use of profits and material incentives in 1955, and that the reason why he did not set off a "turning point in the tide of economic revisionism" in 1955-56 was that the Soviet political leadership was, at that time, more interested in a different type of economic revolution -- namely, the revolution against Malenkovism and the "belching of the right wing deviationism".³ In other words, economic novelty in the 1962 Liberman proposals is rather limited when compared to his earlier pronouncements, and even further limited when compared to the ideas put forth by some of the Polish, Hungarian and East German reformers in the mid 1950's. The Soviet attempts to try out Liberman's ideas on a few isolated Soviet enterprises were quite similar to the reforms in Hungarian light industry during 1955-56.⁴ By 1957, the Hungarian reformers had drawn the proper consequences of such "isolationist" attempt.

1. E.G. Liberman, "The Plan, Profits and Premium", Pravda, September 9, 1962.

2. Michael Gamarnikow, Economic Reforms in Eastern Europe, (Detroit: Wayne State University Press, 1968), p. 45.

3. Jozef Wilczynski has written that "It is known that in 1948 he [Liberman] explained his ideas at a meeting of economists in Moscow, but he was told by well-wishers to keep quiet about them. After Stalin's death his interest in the subject was further intensified, and he published several articles in learned journals, but they went largely unnoticed. It is only the publication of his article in the daily organ of the Communist Party, Pravda, (with a circulation of 7 million copies) in early September 1962, followed by other writings, that has led to a widespread interest in his proposals". Profit, Risk and Incentives under Socialist Economic Planning (London: Macmillan, 1973), p. 12.

4. János Kornai, intimately involved in the Hungarian reform process of the mid 1950's and specifically in those piecemeal attempts, has clearly expressed the Hungarian view about such experiments. "An attempt was made to 'simplify' planning in itself in isolation from the entire mechanism of the economy. No wonder the results were meagre". Overcentralisation in Economic Administration, op. cit., p. 220.

This is evident from the reform guidelines that were submitted by them in 1957 and that were, as has been shown, then vetoed by the Hungarian Communist Party on political grounds.

Liberman's proposals in 1962 were concerned with little more than improving the surface of the playing field for command economic control. He was a business economist concerned with providing a less cluttered environment for enterprise management. He favoured a reduction in the number of binding central commands but did not call for the overhaul of the entire framework of the system. Instead of the application of numerous compulsory index numbers, he suggested that the "profitability rate"¹ should be designated as the most important compulsory index number to govern the behaviour of firms. Strangely, however, he remained silent on the thoroughgoing price reform that must proceed such a reform, and he seemed to be ignorant of (or unconcerned with) the irrational resource allocation that would follow a radical decentralisation of decision making within the confines of the traditional price system. He favoured an increase in the direct interaction between enterprises, but said little about the organisational changes that would need to be made along various levels of the administrative bureaucracy to sustain such a reform. As Zaleski remarks, "The success of reform does not depend on the discovery of perfect indexes, but on the correct distribution of functions, rights, and obligations among the various links in the chain of planning and implementation".²

Indeed while Liberman's aim was to find some relief from the glaring economic irrationalities of the Soviet command system his "solution" suffered from a number of ills aptly pointed out by Prybyla

It is a manager's a business economist's brainchild, and its major merit lies in its not giving nightmares to politicians... Because it is so easily grasped by bureaucrats, the Liberman reform ends up with all sorts of conservative caveats hanging around its neck, so that it becomes a half measure rather than basic reform.³

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1. Eugene Zaleski defines the "profitability rate" as "the ratio of profits to fixed and working capital". Planning Problems in the USSR, 1962-1966 (Chapel Hill, North Carolina: University of North Carolina Press, 1967), p.79.
 2. Ibid., p. 85.
 3. Jan Prybyla, "Patterns of Economic Reform in East Europe", East Europe, Vol. XVII, No. 11, 1968, p. 9.

Hindsight has by now given us the luxury to judge that the most important effect of Libermanism on the direction of economic reforms in Eastern Europe was political rather than economic. Vladimir Treml has argued very cogently that indeed this might have been intentional. He suggests that Liberman might have been "appointed" by some of the more "famous" Soviet reformers to champion these ideas as a trial balloon, for he stood less chance of setting off a political reaction than the other economists.¹

By apparently winning Krushchev's indirect support,² Liberman's proposals had indeed constituted as such a milestone along the road to a new economic transfer culture in Eastern Europe. The renaissance of the debate on profits, and economic reform in the USSR, and the tolerant attitude of the Soviet leadership towards this debate, was rapidly seized upon by a number of East European economic reformers. They too began to unfurl the "old flags", to question anew the "permanency of command control", and to search once again for a qualitative reform of the mechanism of Socialist economic goal attainment. As Gamarnikow so correctly remarks: "...the real political importance of the Libermanist ideas was that they had given economic pragmatism a more respectable status throughout the Soviet bloc".³

It was this Soviet led revival of the debate that served as the immediate source of a series of concrete economic reforms adopted in Eastern Europe during 1962-67. As far as the Soviet Union was concerned, the descendant of Libermanism was the "Kosygin Reforms" of 1965.⁴ While this reform involved some rationalization of producer prices, accepted the profit criterion, provided increased independence to enterprises and farms, and abolished the regional economic councils it left the overall framework of the command economy intact. As Kosygin pointed out: "The ministries will plan and control production, decide questions of technical policy, materials supply, financing, labour and wages".⁵ On the question of price reform and "rational

1. Vladimir Treml, "The Politics of Libermanism", Soviet Studies, Vol. XIX, No. 4, 1968, p. 572.

2. N.S. Krushchev in Izvestia, September 20, 1962, See also J. Wilczynski, Profit, Risk and Incentives under Socialist Economic Planning, op. cit., p. 12.

3. M. Gamarnikow, Economic Reforms in Eastern Europe, op. cit., p. 46.

4. Theodore Frankel, "Economic Reform: a tentative appraisal", Problems of Communism, Vol. XVI, No. 3, 1967, pp. 29-41; Keith Bush, "The Reforms: A Balance Sheet", Problems of Communism; and G.S. Schroeder, "Soviet Economic 'Reforms': A Study in Contradictions", Soviet Studies, Vol. XX, No. 1, 1968.

5. Quoted by Alec Nove, "Economic Policy and Economic Trends", Soviet Politics Since Krushchev, ed. A. Dallin and T. Marson (Eaglewood Cliffs, N.J.: Prentice Hall Inc. 1968), p. 90.

prices", without which "rational resource allocation" through the "profitability rate" is but a pipe dream, the Soviet position is as follows: "The state will continue to fix both the general level of prices and the prices of important products -- there can be no question of return to the first year of the NEP and to free price formation".¹ Regardless of increasing cost-output ratios, the "imperatives of the intensive developmental stage" or any of the other general economic arguments that "out to have compelled" the USSR to switch to the use of synthetic resource allocation and indirect economic regulators through the Socialist market mechanism, the old framework remains intact and, moreover, shows very little sign of being transformed in the near future.

Writing a number of years after Liberman unveiled his ideas in Pravda and elsewhere, and assessing the scope of Soviet economic reforms during the 1960's, Alec Nove writes

In the USSR the older pattern remains with little change... Resistance to change is very strong in the political organs of the USSR and could be overcome, in my view, by a combination of two circumstances. Firstly, a clear realisation that the present economic system is responsible for continued relative backwardness in the competition with the West... secondly a firm leader or group of leaders must not only be committed to reform but have the power and will to enforce their views on the party and state machine. No such leader or leaders seem to exist today.²

b. Economic Reforms in the German Democratic Republic

As far as timing is concerned, the GDR must be seen as the 'trail-blazer' for economic reforms in Eastern Europe during the 1960's.

The first concerted attempts to diminish the direct responsibility of central authorities in economic management, and to shift some of their planning and decisional functions towards the periphery -- i.e. towards the enterprises -- were made in July 1963. Named the New Economic System, the German economic reforms were, according to Michael Keren, "...the only testing ground for the ideas associated with Evsei Liberman...The inception

1. Alec Nove, quoting Mr. Stietmin, GOSPLAN's Chairman, ibid., p. 93.

2. Alec Nove, "Economic Reforms in the USSR and Hungary: A Study in Contrasts" Socialist Economics, ed. A. Nove and D.M. Nutti (Harmondsworth, Middlesex: Penguin Books, 1972), p. 358-361.

of the NES was in fact related to the start of the Liberman debates in the USSR... It [the NES] was an experiment in the devolution of various allocative functions to lower bodies with a centralised hierarchy, an attempt to let the lowest rungs of the bureaucracy make decisions on those problems which can be delegated without the centre losing its tight grip on the economy... It was...the only laboratory in which Libermanist ideas have been tested for a whole economy".¹

Compared to the radical ideas of Behrens that were proposed during the mid 1950's, the NES was a relatively 'mild' reform. This time around, moreover, the reform was actively promoted by the top Party leadership of the GDR. While the traditional framework of the command economy was retained, the NES would have to be seen as the most determined and probably most successful attempt to rationalise the cogs of the old command mechanism.

Parallel with the introduction of the reform, the East German Communist Party unleashed a massive propaganda campaign to induce administrators "to think economically". The Party also began to institute a veritable technocratic revolution, by way of a rapid and radical rejuvenation of administrative personnel. Ulbricht and the other top East German political leaders began after 1963 to warn in no uncertain terms that all those apparatchiki that failed to meet the demands of the new "ideology of economic rationality" would be demoted regardless of their unblemished political past.

There are many arguments put forth for the causes of the East German economic reform, and as to why these and not some other type of reforms were chosen by the East German political leaders. We need not get into this debate, and should merely say that the 1963 reform was championed by the Party with such enthusiasm primarily because of its relatively safe political concomitants. The reform in other words did not demand or suggest any systemic changes in the Party's traditional economic structures and functions. It was "tailor made" for Germany's traditionally apolitical "technocratic class",

1. Michael Keren, "The New Economic System in the GDR: An Obituary", Soviet Studies, Vol. XXIV, No. 4, 1973. (See J. Naor's rejoinder, "How Dead is the GDR New Economic System?", Soviet Studies, Vol. XXV, No. 2, 1973; and, for further reading on the nature of the 1963 reforms and on East Germany's own "technocratic revolution", see Thomas Baylis, "The New Economic System: The Role of the Technocrats in the GDR", Survey, No. 61, 1966; and Harry Trend and Dorothy Miller, "Economic Reforms in East Germany", Problems of Communism, Vol. XV, No. 2, 1966.

which was to reap (and which continues to reap) not inconsiderable material benefits from the NES (now called the ESS). Last but not least, the NES was put into the mainstream of the East German economy with relative ease because "The East German Party has shown little tolerance for dissent within its ranks; it is probably the most authoritarian -- or disciplined -- of all parties. This characteristic helps to explain the relative lack of opposition to the new economic model, and hence the rapidity with which the Party has been able to get the economic reform program underway".¹

c. The Politics of Economic Reform in Poland and Czechoslovakia

As elsewhere, Poland and Czechoslovakia also placed economic reform at the centre of the political stage shortly after the emergence of the Liberman debates.

We are not going to present yet another catalogue of the various rationalisations that have been put forth for the necessity of reform in these two countries, nor will we go into a description of the economic features of their reforms. We merely wish to point to the re-emergence of the idea of market socialism in Poland and Czechoslovakia as a solution to their perceived economic problems and to briefly describe the politics of the process which finally aborted these reform proposals during 1967-68.

In Poland the opportunities for putting through or discussing fearlessly and in detail a comprehensive new Socialist market model were politically less favourable in 1964 than in 1956. While the guiding principles of the 1957 Theses and the related ideas on harmonising plan and market, social and individual interests, had certainly not died out (they had indeed become even more refined), the political obstacles to them became even more severe than in 1956-1957. Following the unsuccessful reforms of 1957-58 it was primarily the opponents of market Socialism who consolidated their power within the Polish Communist Party apparatus and in the administrative bureaucracy.

While the Fourth Polish Party Congress in June 1964 had come out in support of greater economic decentralisation, and of the need to devise

1. Harry Trend and Dorothy Miller, ibid., p. 31.

measures that would permit the strengthening of economic efficiency and productivity, there was very little concrete guidance from the top of the Party hierarchy on just how to proceed towards this goal. As such, the process of reform became simply a free-for-all among various schools of reform thought and the political factions organised around these schools.

The reform blueprint that was finally adopted by the Polish Central Committee in July 1965, just like the 1957 reform Theses, carried within it all the scars of this political free-for-all. As Gamarnikow points out, the guidelines approved by the Central Committee were a "hodgepodge combination of unrelated half measures...replete with built-in safety valves clearly intended to perpetuate bureaucratic controls".¹

But even these measures were less than enthusiastically supported by the Polish Party apparat. Helped by an indecisive and basically distrusting Politburo attitude towards economic decentralisation and market Socialism, the dogmatic opponents of economic reform began to busily dismantle many of the more progressive elements of the 1965 reform blueprint. Moreover, intense political pressure was brought by them to bear against the leading advocates of market Socialism, whereby the Polish economic reformers were placed in a very precarious political positions.

What is absolutely certain is that the attack on market socialism and synthetic resource allocation was not based on economic arguments (such as, for example, the economic feasibility of the measures), but primarily on political and ideological rationalisations.² The reforms were condemned and revived on the grounds that they were politically dangerous and potentially disruptive of the Party's leading role. As Trybuna Ludu pointed out, under the proposed new economic system "...real power will pass into the hands of a narrow group of economic experts [while]...the leading role of the party would be reduced to a minimum".³ The dogmatic political offensive against the advocates of market Socialism reached its zenith during 1967 following the Arab-Israeli War.

1. Michael Gamarnikow, "On Again - Off Again", Reforms in the Soviet and East European Economies, op. cit., ed. L.A.D. Dellin and Hermann Gross, p. 97.

2. See Bogdan Mieczkowski's "Poland: Politics vs. the Economy", East Europe, Vol. XVII, No. 12, 1968; and Michael Gamarnikow, "Poland Returns to Economic Reform", East Europe, Vol. XVIII, Nos. 11-12, 1969.

3. Michael Gamarnikow, "On Again - Off Again", op. cit., p. 99.

Under the slogan of fighting against Zionism, most of the Polish economists who were of Jewish descent and who advocated market Socialism were purged from their posts. They were demoted on the basis of their ancestry, which supposedly made them "Zionist agents", and they were accused of being "...the principal carriers of the deadly bacilli of economic revisionism",¹ and of being anti-Marxist dogmatists. It is thus not at all surprising to hear one of the key victims of this political counter-offensive against reforms write that

The explanation of the speed with which reforms have been introduced in the course of the last decade lies in a whole series of circumstances far beyond the formula that the Socialist economies are in a transition from an extensive to an intensive stage in their development.²

Let us now turn to the process of reform in Czechoslovakia, on which by now there is a sizeable literature written, for the most part, by some of the leading figures of the Czech reform movement.³ Up to the point of this writing it is only Czechoslovakia, of all the Warsaw Pact nations that has attempted however briefly to "cross-over" from command economic planning to market Socialism together with a reform of the political and social components of the mechanism is economic control. While during the mid 1950's it was the ideas of the Polish economic reformers that attracted the greatest attention among Hungary's reformers, during the mid 1960's it was Czechoslovakia that was watched most closely, not only by Hungary, but indeed by most of the other Socialist states as well. As far as Hungary's attraction was concerned, the emulation of the Czech reformers 'peaked' sometime around 1966. While up to then, and even afterwards, there was close working relationship between the Czech and Hungarian reformers, the Hungarians were becoming increasingly leary of the direction of reform in Czechoslovakia after 1967.

We can again bypass the description of the Czechoslovak NEM, which was adopted at the end of 1964 and was to have been implemented in two stages

1. Ibid., p. 99.

2. Włodzimierz Brus, The Economics and Politics of Socialism, op. cit., p. 32.

3. Ota Sik, Plan and Market under Socialism (Prague: Academia, 1967); "The Economic Impact of Stalinism", Problems of Communism, Vol. XX, No. 3, 1971; "Prohibitive Odds", Reforms in the Soviet and East European Economies, op. cit., ed. L.A.D. Bellin and Hermann Gross, pp. 59-78; Radoslav Selucky, Czechoslovakia: The Plan that Failed (London: T. Nelson, 1970), and his chapter on Czechoslovakia in his Economic Reforms in Eastern Europe, op. cit. pp. 79-112. For an "outside" view see George Felwel, New Economic Patterns in Czechoslovakia (New York: Praeger, 1968).

(from January 1966, and from January 1967 onwards). One can certainly debate the "dubious economic wisdom" of some of the Czech reform blueprints, the strongly inflationary aspects of the new price reform, etc., and our passing over these questions should not be interpreted as indicating that we feel that the Czechoslovak economic reforms, "if only they had not been sabotaged politically", would have singlehandedly solved Czechoslovakia's serious economic problems. The focussing of our attention purely on the economic aspects of the Czech NEM would tend to lead us to conclude that the Czech economic reformers were a rather confused, naive, and careless lot. Such a focus is, of course, out of place, for it ignores the severe political and social constraints on the reformers, and the complex dynamics of the process of the re-emergence of market Socialism in Czechoslovakia.

Conversely, to focus purely on the political constraints, on the "vicious bureaucratic sabotage of the economic reform", tends to lead us to forget that, had the Czech reforms been fully implemented without any a priori "political sabotage" just as they existed on paper, Czechoslovakia would have been in much more serious economic difficulty after the reform than before. We ought therefore always to be careful with our microscopes!

Having established these guidelines, we can now safely say that the process of economic reform in Czechoslovakia had turned into a fully fledged political war by 1968. The Czech NEM, its political path paved first by none other than Novotny himself, rapidly collected lead weights around its feet during 1967. By 1968, the reformers, including Ota Sik, had clearly altered their priorities and had come to the conclusion that a radical economic reform could not be implemented without a thorough political change. As Sik pointed out in an interview in September 1968, "Certain ruling groups felt threatened by the events in Czechoslovakia. Had our efforts been successful, this would have been the end of them. Here lies the reason for the reaction".¹

The chief worry of the "reaction" and the outcome of this political war over economic reform is, of course, well known. As in 1956 in Budapest, so too in Prague in 1968: a Soviet military exercise was needed to prevent the Czechoslovak people from taking responsibility into their own hands for

1. Interview with Alberto Moravia, Espresso, September 1968.

the type of Socialism they wanted to see enacted in their country. "Crossing the rapids" to a new multi-dimensional mechanism of Socialist economic control was subverted by a massive show of domestic and external political force.

Having surveyed the social, political and economic impetus for reform in the region and having examined, however briefly, the political-economic patterns of reform in the Socialist commonwealth, let us now turn to Hungary and examine in more detail her own "unique" socio-economic demands for change and see how the regional renaissance of economic reform after 1962 affected the political foundations we have outlined in section I of this Chapter.

III THE CASE FOR REFORM REVIVAL IN HUNGARY

1. The Economic Strategy of the HSWP between 1957-1965

Let us look briefly at the measures taken by the Hungarian Communist Party, once it had decided to take a firm political stand against the principle of a large scale, comprehensive new economic mechanism.

Instead of a new guided market model coupled with a new developmental or reconstruction policy, the Party opted for a reform posture that was a mix of large scale policy reform and small scale or piecemeal reform of the mechanism of economic control.

One of the most important external economic pillars of the new economic policy was the massive Soviet and other foreign financial aid and material credit that was placed at the disposal of the Hungarian planners.¹

In earlier chapters we have shown the interaction between the excessive rate of extraction of financial and material resources from Hungary by the USSR between 1945-1956, the grandiose and almost "vertical ascent" (as opposed to "steep ascent") economic policy of the Rakosi regime, the socio-political and economic mechanisms that were seen to be needed to sustain such a platform, and the political and social costs of the overall strategy.

October 1956 was definitely a watershed in the conventional forms of

1. See Népszabadság, January 1, 1957, January 15, 1957, and January 22, 1957, and March 29, 1957; also L. Kovári, and Gy. Lázár, "A Szovjet-magyar gazdasági kapcsolatok új tényei", Közgazdasági Szemle, loc. cit.

Soviet imperialism in Eastern Europe. While subsequent years did not witness any diminution of the pervasive reality of Soviet imperialistic dominance in Eastern Europe (and the Czechoslovak events of 1968 demonstrated in a concrete manner that little had changed in the framework of Soviet-East-European relations since 1956), there were significant, piecemeal (if we may say so) transformations in the mechanism of Soviet dominance. As Paul Marer points out in this regard:

Until 1955 resources flowed primarily from Eastern Europe to the USSR. In the second half of the 1960's there were a reverse flow which can be viewed as partial compensation for earlier extractions... During the second post-war decade (approximately 1956-65), the USSR must have realised that the political costs of economic extraction probably exceeded the economic benefits gained, hence extraction was discontinued in most cases.¹

Hungary was certainly the first and greatest beneficiary of this "reversal" during the first post-1956 years, and the Soviet and other foreign financial credits accruing to Hungary were a source of much welcome capital greatly needed in the battle against economic disequilibrium, and to speed on economic reconstruction following the October uprising. Without such foreign financial aids, the Party would most probably have been forced to squeeze out the greatly needed capital from the consumption column and thereby seriously undermine its efforts to build up a modicum of diffuse support for itself within Hungarian society.

The most significant post-October changes were in economic policy, first laid down in the One Year Plan for 1957 and then in the second Three Year Plan for 1958-1960. These plans constituted both in theory and in subsequent practice, a realistic programme of economic reconstruction. They were based on a recognition of situational constraints, they did not strive to weave a blanket for a giant, they significantly restricted the pace and also varied the profile of industrialisation, they did not aim to strangle the agricultural sector, and they were cognizant of the need to maintain a more modest rate of accumulation than in the past and to allow a parallel increase in the

1. Paul Marer, "The Political Economy of Soviet Relations with Eastern Europe", Testing Theories of Imperialism, ed. S.J. Rosen and J.R. Kurth, op. cit. p. 210.

sphere of consumption.¹

As Tables VI.9 and 10 show, the investment policy was sharply readjusted as compared to the earlier period, and, although by 1960 we once more find a tendency towards the grandiose and taut planning of the early 1950's re-emerging, this reversal was by no means as strong and as one-sided as that which had existed in Hungary during the heyday of the Stalinist developmental strategy.

What about the changes that were made to the mechanism of economic control? Since these have been frequently discussed elsewhere,² it will suffice to list them here. The key measures were:

1. See D. József Szabó, "A három éves terv néhány főbb vonása" (Certain Key Elements of the Three Year Plan), *Közgazdasági Szemle*, Vol. V, No. 7, 1958, pp. 673-687; Imre Farkas, "Beruházási politikánk új vonásai" (New Features of our Investment Policy), *Közgazdasági Szemle*, Vol. V, No. 11, 1958, pp. 1149-1155; István Dobos, "Az életszínvonal alakulása a három éves terv időszakában" (The Development of Living Standards During the Three Year Plan), *Közgazdasági Szemle*, Vol. VIII, No. 3, 1961; Imre Vajda, *Külkereskedelmünk a második három éves terv időszakában* (Our Foreign Trade During the Second Three Year Plan), (Budapest: Kossuth Könyvkiadó, 1961); István Friss, "Gazdaságpolitikai problémáink és az 1957. évi terv" (Our Economic Policy Problems and the 1957 Economic Plan), *Közgazdasági Szemle*, Vol. IV, No. 7, 1957, pp. 697-705; József Bogár, "Észrevételek az 1957. évi tervvel kapcsolatban" (Observations in Connection with the 1957 Economic Plan), *Közgazdasági Szemle*, Vol. IV, No. 7, 1957, pp. 706-712; Antal Stark, *Terv és Valóság*, op. cit., pp. 187-200; and Gyula Somogyi, "A népgazdaság 1957. évi tervének fő arányai" (The Main Proportions of the 1957 Economic Plan), *Közgazdasági Szemle*, Vol. IV, No. 6, 1957, pp. 585-592.
2. See for example Mátyás Timár's previously mentioned studies; Iván T. Berend, *A Szocialista gazdaság fejlődése magyarországon: 1945-1968* (The Development of the Socialist Economy in Hungary: 1945-1968), (Budapest: Kossuth Könyvkiadó, 1974), pp. 93-98; Béla Csikos-Nagy, "Az ipari termelői árak újrendelése" (The Rearrangement of Industrial Producer Prices), *Közgazdasági Szemle*, Vol. IV, Nos. 8-9, 1957, pp. 815-834; Károly Szigethy, "Termelővállalatok közvetlen exporttevékenységének tapasztalataiból" (From the Immediate Experience of the Export Behaviour of Producer Enterprises), *Közgazdasági Szemle*, Vol. V, No. 5, 1958; Imre Vincze, "Az új termelői árak és az értéken kifejezett népgazdasági mutatók" (The New Producer Prices and the Value Indicators), *Közgazdasági Szemle*, Vol. VI, No. 7, 1959; Gyula Karádi, "Új vonások a külkereskedelemben" (New Features in Foreign Trade), *Közgazdasági Szemle*, Vol. VI, No. 11, 1959, pp. 1141-1158; László Ozsváld, "A műszaki dolgozók anyagi ösztönzési rendszeréről" (On the System of Material Incentives for Technical Workers), *Közgazdasági Szemle*, Vol. VII, No. 10, 1960, pp. 1133-1148; András Hegedűs, "A munkabérezés jelenlegi rendszere és az anyagi ösztönzés" (The Current System of Wages and Material Incentives), *Közgazdasági Szemle*, Vol. VIII, No. 4, 1960, pp. 452-468; Tamás Morva, "A tervezési módszerek tökéletesítéséről" (On the Perfecting of Planning Methods), *Közgazdasági Szemle*, Vol. X, No. 2, 1963, pp. 185-199; Otto Gado, "Az iparvállalatok összevonása és a vállalati önálló

Table VI.9.

Selective Targets of the Second Three Year Plan and their Realisation

1960 as a % of 1957

| Description | Unit | Plan | Achievement |
|---|--------------------|------|-------------|
| National income | % | 113 | 123 |
| Share of accumulation | % | 17 | 26 |
| Active wage earners | % | 102 | 101.5 |
| Total investments in constant prices | billion forints | 32 | 46 |
| Share of industry | % | 48 | 41 |
| Share of agriculture | % | 16 | 17 |
| Real wage of workers and employees | % | 106 | 112 |
| Peasant real consumption | % | 105 | 118 |
| Total dwelling unit construction | thousands | 110 | 180 |
| Industrial production | % | 122 | 139 |
| Construction industry | % | 120 | 151 |
| Agricultural industry | % | - | 103 |
| Transportation | % | 115 | 142 |

Source: Antal Stark, Terv és Valóság, op. cit., p. 192.

Table VI. 10

The Distribution of National Income During the Second Three Year Plan

| | 1958 | 1959 | 1960 | 1960 (planned) |
|--------------|---------|------|------|----------------|
| | percent | | | |
| Consumption | 80.5 | 79.2 | 75.3 | 83.0 |
| Accumulation | 19.5 | 20.8 | 24.7 | 17.0 |

Source: Antal Stark, Terv és Valóság, op. cit., p. 197.

Table VI. 11

The Distribution of Investments Between Economic Branches 1958-1960

| Branch | 1958 | 1959 | 1960 | 1958-1960 (actual) | 1958-1960 (planned) |
|-------------|-------|-------|-------|-----------------------|------------------------|
| Industry | 44.3 | 35.5 | 38.8 | 39.2 | 47.5 |
| Agriculture | 13.3 | 20.2 | 21.5 | 18.8 | 15.9 |
| Others | 42.4 | 44.3 | 39.7 | 42.0 | 36.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Antal Stark, Terv és Valóság, op. cit., p. 198.

Table VI. 12

Real Wages and Real Incomes of Workers and Employees 1958-1960

| 1957 = 100 | | | | |
|----------------------------|------|------|------|----------------|
| | 1958 | 1959 | 1960 | 1960 (planned) |
| Real Wages | 104 | 109 | 112 | 106 |
| Real Incomes | 106 | 113 | 116 | - |
| Consumption of Peasants | 101 | 112 | 118 | 104 |

Source: Antal Stark, Terv és Valóság, op. cit., p. 199.

1. The abolition of compulsory agricultural deliveries in 1957.
2. A reduction in the number of compulsory plan index numbers handed down to enterprises by the branch ministries.
3. The command function of the monthly production plan was restricted, while the operative control of the one-year plan was upgraded.
4. Plan now included quality norms and technological coefficients.
5. The number of centrally distributed commodities was reduced.
6. Wage and bonus regulations were changed in 1957. Global wage regulation was replaced by "absolute average wage" control, and to cushion the effect of the "wage ceiling" on incentives, a profit sharing system was introduced. Management's bonuses, controlled by the branch ministry, were to be linked up more than before to the enterprise's ability to reduce costs and to increase profit. Management was also empowered to regulate independent of the ministries, specific wages within those categories of jobs for which only the maximum-minimum wage levels were prescribed by the ministry.
7. Nine large industrial concerns were given direct exporting rights, i.e., the right to by-pass the foreign trade enterprise monopolies.
8. In 1962-63 a large scale concentration or horizontal merger of industrial enterprises was introduced, and the decisional autonomy of these large enterprises and newly formed "trusts" was significantly increased. (At the level of production, i.e. on the shop floor, this 'decentralisation' was experienced as a centralisation: the authority of the new enterprises vis-a-vis the plants under their 'umbrella' was much more direct and immediate than that of the industrial ministry prior to this reform.)
9. In early 1959 an administrative adjustment was introduced in the level of producer prices -- the first such adjustment since 1952.
10. As of January 1, 1964, enterprises were required to pay a charge of 5% on the gross value of their fixed assets, and 5% on the average value of their circulating assets.

2. (cont. from overleaf) *elszámolás*" (The Concentration of Industrial Enterprises and Khozraschot), *Közgazdasági Szemle*, Vol. X, No. 2, 1963, pp. 156-168; Tamás Daniel, "Az iparirányítás átszervezésével kapcsolatos első tapasztalatok" (The First Experiences Arising from the Reorganisation of Industrial Control), *Közgazdasági Szemle*, Vol. X, No. 6, 1963, pp. 637-643; István Gergely "Eszközgazdálkodás és használati díj" (The Economy of Assets and the Charge on Assets), *Közgazdasági Szemle*, Vol. X, No. 8, 1963, pp. 889-904.

Many of these model changes were very sensible, and indeed contributed positively to Hungary's economic performance during the early 1960's. As far as "within-system" reforms are concerned, it is perhaps no exaggeration to say that Hungary implemented probably the most far ranging "piece-meal" reforms in the region, and that indeed, by the mid 1960's her model was probably the most decentralised and least like the traditional command model in all of Eastern Europe.

Still, however, the Central Committee of the HSWP was unhappy and in its 1966 decree it condemned these piece-meal changes as sensible but not sufficient to alleviate Hungary's economic problems. Instead of calling for more "piece-meal tinkering" the Central Committee ordained that a comprehensive economic reform, affecting the whole framework of national economic planning and control be implemented as of January 1st, 1968.¹ In other words the Central Committee had now fully endorsed that suggestion which was at the center of the economic reform proposals of the mid 1950's and which, only nine years earlier, it had rejected as politically unacceptable. That position, just to remind ourselves, was lucidly expressed by Janos Kornai as follows:

... A solution can be found only by taking a comprehensive view of both centralisation and decentralisation and by renouncing the idea of piece-meal tinkering with the economic mechanism in the course of efforts to change it... The reforms we need are of a kind which will improve all the major methods and institutions of our economic mechanism in a systematic, parallel, and harmonious manner. In other words, the job of transforming the system of plan index numbers should be matched by an overhaul of the systems of incentives and of prices, as well as of the functioning of the monetary and credit systems, etc.²

How and why did it come about that the Party leadership began to champion the same idea for economic reform that it had so clearly rejected on political grounds ten year earlier? What curious force transformed the guided market model from a "threat" to the Party's leading role in 1957, to the "best means for strengthening the leading role of the Party" in 1966?

1. A gazdasági mechanizmus reformja: Az MSZMP Központi Bizottsága 1966. május 25-27-i ülésének anyaga (The Reform of the Economic Mechanism: The Material of the Central Committee Plenum of the HSWP of May 25-27, 1966), A Magyar Szocialista Munkáspárt Központi Bizottságának Agitációs és Propaganda Osztálya (Published by the Agit-Prop Department of the Central Committee of the HSWP), Budapest 1966.

2. Janos Kornai, Overcentralisation in Economic Administration, *op. cit.*, pp. 225-226.

One of the key reasons was the significantly different political foundation that existed in Hungary during the mid 1960's and which we have described in Section I of this Chapter. The second key reason was the influence of those general social, political and economic pressures that we have outlined in Section II. A third, necessary but even still insufficient reason was the experience, the lessons and constraints drawn from the 1957-65 period.

2. The Lessons and Constraints of 1957-1965

Writing in 1971, Julia Zala, Director of the Hungarian Economic Research Institute, gave the following capsule version of why it was necessary to introduce a guided market model in Hungary in 1968:

The question of 'why', that is, why did the reform in economic control and management become necessary, has hardly been dealt with at all in recent times. This is quite understandable since this issue was in essence cleared up in the years preceding the reform. I do not want to repeat the many-sided arguments which have been heard earlier regarding the 'why', but would only return to one of them which, in my opinion, is the most important of them all. This can be summarised as follows: the former method of economic control did not sufficiently ensure the operation of central will (or intentions). In other words, with the former method it was not possible to achieve that, in certain highly essential issues, the goals defined by supreme level resolutions should be realised and, therefore, the new methods must better ensure the assertion of central will.¹

A comparative survey of economic reforms in Eastern Europe will show that this was the argument of all the East European reformers; even the straggling Romanians used the same justification, as they went busily about tightening the central elements of their command economic mechanism and outpacing Hungary (at least according to their statistics) in the increase of productivity² (see Table VI.13, on the following page).

If we compare the targets and achievement of Hungary's Second Five Year Plan 1961-65, we find, initially, that they simply do not appear to reflect

1. Julia Zala, "Central Intention and Planning", *Acta Oeconomica*, Vol. VII, Nos. 3-4, 1971, p. 289. (Italics added).

2. See Zoltán Ercsey and András Kádár, *Műszaki fejlesztés és gazdaságosság* (Technological Development and Efficiency), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1973), pp. 18-19; and Clause-D. Rohleder, "Rumania: The Laggard", *Reforms in the Soviet and Eastern European Economies*, ed. L.A.D. Dellin and Hermann Gross (Lexington, Mass.: Lexington Books, D.C. Heath & Co., 1972), pp. 115-122.

Table VI. 13

The Level of Productivity in Manufacturing Industry (Hungary = 100)

| Country | 1964 | 1968 |
|----------------|------|------|
| U.S.A. | 591 | 556 |
| Britain | 221 | 216 |
| Austria | 190 | 198 |
| West Germany | 190 | 198 |
| East Germany | 170 | 183 |
| Japan | 132 | 168 |
| USSR | 160 | 167 |
| Czechoslovakia | 160 | 167 |
| Poland | 125 | 127 |
| Spain | 117 | 124 |
| Romania | 100 | 120 |
| Bulgaria | 100 | 105 |
| Yugoslavia | 100 | 101 |
| Hungary | 100 | 100 |

Source: Zoltan Ercsey and Andras Kadar, Műszaki fejlesztés és gazdaságosság, op. cit., p. 18.

Zala's earlier claims. For example, with respect to industrial structuring, Antal Stark writes that

Compared to all our previous plans, the closest coincidence between internal structuring of industry and plan targets occurred during the Second Five Year Plan... Similar close resemblance took place between aims and results in the production of other important goods.¹

As was noted in Chapter I, it is the shorter one-year plans that contain the real teeth or cogs of the command mechanism. As Tables VI.14 and VI. 15 show, there was a remarkably close coincidence between central intention and results during each one-year plan period between 1961 and 1965.

When we rank all of the centrally designed plans produced in Hungary between 1947 and 1970 according to their ability to elicit the closest correspondence between targets and achievements, "we come to an interesting con-

1. Antal Stark, Terv és Valóság, op. cit. p. 205.

Table VII.14

Some Main Targets of the Second Five Year Plan and their Actualisation
in 1965
(1960 = 100)

| Description | Unit | Plan | Achievement |
|--|--------------------|---------|-------------|
| National Income | % | 136 | 124 |
| Personal consumption | % | 66 | 71 |
| Number of active wage earners | % | 106.5 | 102.8 |
| Total investment: | billion forints | 180 | 210 |
| - industry & construction as a % of total invest- ment | % | 46-48 | 45 |
| - agriculture as a % of total investment | % | 17-19 | 17 |
| Real incomes: | | | |
| - workers & employees | % | 116-117 | 118 |
| - peasants | % | 116 | 117 |
| Apartment construction | thousands | 250 | 282 |
| Industrial production | % | 148-150 | 147 |
| Agricultural production | % | 122-123 | 109 |
| Construction | % | 140 | 125 |
| Export | % | 161 | 173 |
| Import | % | 133 | 156 |

Source: Antal Stark, *Terv és Valóság, op. cit.*, p. 204.

Table VII.15

A Few Selective Targets and Achievements of the One-Year Plans during
1961-1965

| Year | National Income | | Consumption | | Investments (billions forints) | |
|------|--------------------|-------------|-------------|-------------|-----------------------------------|-------------|
| | Yearly growth in % | | | | plan | achievement |
| | plan | achievement | plan | achievement | | |
| 1961 | 4 | 6 | 2 | 2 | 30.2 | 34.4 |
| 1962 | 5 | 5 | 5 | 4 | 34.8 | 39.7 |
| 1963 | 6 | 6 | 5 | 6 | 40.3 | 45.1 |
| 1964 | 5 | 5 | 5 | 6 | 46.0 | 47.3 |
| 1965 | 3 | 1 | 3 | 3 | 42.2 | 43.7 |

Source: Antal Stark, *Terv és Valóság, op. cit.*, p. 207.

clusion...it is heartening to see that of the three best plans, two have occurred during the past decade"¹(see Table VII.16).

Table VI.16

The Ranking of Plans According to Greatest Coincidence Between Central Targets and Achievements

| | |
|---|-----------|
| 1. Second Five Year Plan | 1961-1965 |
| 2. Third Five Year Plan | 1966-1970 |
| 3. Second Five Year Plan (proposed) | 1956-1960 |
| 4. First Three Year Plan | 1947-1949 |
| 5. First Five Year Plan (original) | 1950-1954 |
| 6. First Five Year Plan (augmented in 1951) | 1950-1954 |
| 7. Second Three Year Plan | 1958-1960 |

Source: Antal Stark, Terv és Valóság, op. cit., p. 290.

Another frequent argument for the necessity of economic reform is the slowing down of economic growth, so let us see what is the case in this respect in Hungary.

Between 1951 and 1955 Hungary's national income increased at an average rate of 5-5.7%.² During 1961-1964, the growth rate exceeded the 1951-1954 figure slightly, and only the unusually low increase of 1% during 1965 brought the overall 1961-65 figure below that of the 1951-1955 era. During the two years prior to the introduction of the NEM, i.e., between 1966 and 1968, when supposedly the old mechanism had thoroughly outlived its usefulness, the rate of increase of the national income was once more higher than between 1951 and 1955.³

Surely, these growth levels are not really that bad that they should compell a government to reject its mechanism of economic control and to

1. Ibid., p. 290.

2. Magyar Statisztikai Zsebkönyv. 1973. (Hungarian Statistical Pocketbook. 1973) Statisztikai Kiadó Vállalat, Budapest 1973, p. 76.

3. Ibid. p. 76

institute such a radical and far ranging comprehensive reform as the NEM.

Let us also briefly look at Hungary's "acute foreign trade dependency" between 1955 and 1965, for, as shown by our earlier typology of the "necessity of reform", Hungary's open economy is frequently put forth as an "objective determinant" of the NEM.

We will recall that 1955 was the year when the modest beginnings of economic reform were nipped in the bud by Stalinist reassertion of tight, binding central commands. At that time, foreign trade contributed around 35-40% of Hungary's national income -- that is, approximately the same percentage as in 1966-68.¹ Already by 1955, Hungary's economy was more "open" to the forces of foreign trade than that of any other Socialist country. This dependency caused far more serious problems for the Hungarian planners during the mid 1950's than during the mid 1960's. According to official Hungarian sources, losses to the treasury from foreign trade had increased at an alarming rate between 1951 and 1955 (see Table VI. 17). These losses, and the need to react to them by way of concrete and comprehensive reforms, did not escape the attention of the Hungarian economists at the time. As Ivan Tatar wrote in 1957:

| Table VI. 17 Financial Losses from Foreign Trade (in millions of domestic forints) | | |
|---|-------------|-------------|
| Year | 1949 Prices | 1954 Prices |
| 1949 | 524 | . |
| 1950 | 740 | . |
| 1951 | 1,180 | . |
| 1952 | 2,266 | . |
| 1953 | 3,358 | . |
| 1954 | 3,602 | 7,453 |
| 1955 | . | 8,522 |
| Source: Statisztikai Évkönyv, 1949-1955, p. 39. | | |

1. Tibor Kiss, "A nemzeti jövedelem és a külkereskedelem főbb összefüggései hazánkban" (The Interrelationship of National Income and Foreign Trade in our Country), Közgazdasági Szemle, Vol. IV, No. 6, 1957, p. 645.

As is well known among our economists and other specialists, the economic situation in our country was already severely critical prior to the October 1956 events. Apart from all else, our foreign trade problems and our chronic foreign trade deficit also argued strongly against putting off the reorganisation of our economic life and the placing of economic policy on a new basis.¹

Even the "great wise father of the Hungarian people", Mátyás Rákosi, was aware of the situation, and gave an analysis of the problem in 1952 that would do credit to many of the rationalisations put forth by radical decentralisers in the mid 1960's:

Frequent references have been made to quality. Many comrades have complained that it has become a widespread habit in the course of implementing the plans, that enterprises simply overfulfill their targets in those products which are heavy, easily manufactured, and which take a shorter time to complete. Then they underfulfill their targets in the case of smaller, finer items that require careful and detailed work. Globally the plan is fulfilled, but when we look closer it turns out that serious mistakes are being committed... We are having enormous problems with quality because of this... At times, the length of labour time spent on correcting the faults of shoddily produced goods is longer than the time spent on actually manufacturing them. In general, there are frequent complaints and many of our managers are unwilling to accept the production of quality goods. Naturally it is bad enough if we receive many complaints from our domestic market about poor quality, and the comrades know how frequent these complaints are. But it is even a bigger problem if we receive complaints from foreign countries about the quality of our exports. The comrades, as leaders of our economic life, know that these complaints are becoming more and more frequent. During the course of investigating the complaints we naturally make the managers responsible. Because of this, many comrades have begun to shrink back from the production of goods for the foreign market, or lag behind in their production for exports, excusing themselves by saying that this work requires more detailed and time consuming work. The situation is such that it has severely affected our foreign trade. We are falling behind in the exports of some crucial goods -- especially in those goods which require precise, careful work, e.g. precision engineering products.²

What about the problem of productivity, efficiency and technological development? As I have indicated in earlier chapters, a large number of influential economists, Hungary's premier, and various official studies by the Central Statistical Office have argued that performance along these dimensions

1. Iván Tatar, "Külkereskedelmünk időszerű kérdései" (Some Timely Questions on our Foreign Trade), Közgazdasági Szemle, Vol. IV, No. 2, 1957, p. 181.
2. Szabad Nép, January 15, 1952 (*Italics added*)

29

was woefully inadequate during the early and mid 1950's. These were not new problems of the 1960's but were very much evident and known to Hungarian politicians and economists alike.¹

In summing up, we can say that the most frequently cited "new" economic problems that supposedly began to assert themselves severely during the 1960's -- poor quality, lagging technical innovation, lagging productivity, increasing inventories, poor investment planning, the pressures of foreign trade, excessive bureaucratization and centralisation of decision-making etc., -- were also present during the 1950's. Producers in Hungary did not as such become "lazy" only in the 1960's, they did not start only then to become lethargic and start advancing with increasing frequency along points of least resistance so as to circumvent the central intentions of planners. As many studies showed during 1953-1957, the overwhelming majority of Hungarian producers were behaving in that manner well before 1956. The logic of economic determinism should compel us to say, in short, that Hungary should have adopted a guided market model in 1955. However, as we have shown, instead of that type of reform, the Stalinist type command control was reasserted in full vigour during that year.

Even Rezső Nyers, whose words surely must carry some weight in the context of this discussion pointed out in reference to the economic need of the reform that

In spite of everything, it would be out of place to say that our existing system of planning and management is in a crisis. It would be out of place to say that, with this method we cannot continue to operate normally and continuously... I would like to emphasise that the house is not on fire.²

And with reference to the problems and mistakes of economic strategy during the 1950's and the consequent need for reform then, Nyers' comments are equally revealing.

1. Adatok és aralékok..., op. cit., pp. 43-47, 125, 362. See also the various articles by György Péter (the President of the Central Statistical Office, who presumably had access to a fairly good data base between 1953 and 1956). For example, on the rapid increase of unsellable or faulty products, see his "A gazdaságosság és a jövedelmezőség jelentősége a tervgazdálkodásban", op. cit., p. 97.

2. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., pp. 125, 131.

Just like the other Socialist states, we too had to stand eyeball to eyeball on occasion with the crisis of economic growth. First during 1953-1956, and this was the most severe case of our problems, because the prevalence of dogmatic attitudes had resulted in an erroneous diagnosis of the problems.¹

In short, the performance of the Hungarian economic system during the mid 1960's can neither be termed as critical, nor even worse than prior to the 1960's. As Richard Portes so rightly points out,

Neither we nor the Hungarian planners would judge the performance of the system worse after 1956 -- just the reverse.²

W. Brus has also drawn attention to the fallacy of the argument which suggests that "the old model" was right for its time, and the "new economic needs" of the 1960's in reverse make "new models" right for their time.

...transition from an extensive to an intensive stage in their development... cannot automatically be accepted as the explanation of the changes in the way in which socialist economies function. For it would follow that any system of planning and management was 'right for its time', even though it had been applied to countries with different economic structures and at different levels of economic development. Today it is clear that at least some of the elements of the centralised system (as, for example, the practice of taking the index of gross output as the basic success indicator of an enterprise) are the cause of waste which cannot be justified at any stage of development.³

Consequently we would fully support as would most Hungarian reformers the following observation of Peter Wiles

Arbitrary waste (the disregard that resources are scarce and have important alternative uses) reduces national income both in the consumption and the investment sectors... Rationality is not less important because an economy is poorer. On the contrary it is much more important. A correct allocation between bread and potatoes or between railway and road-building clearly has a greater and not smaller effect on human happiness than a correct allocation between yachts and champagne. It is only the rich who can afford to waste things and it is really an amazing reversal on common sense to suggest that the marginal rules can be safely neglected in say China or India while they have some kind of validity for the United States. Obviously the opposite is true.⁴

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1. Rezső Nyers, Népgazdaságunk a szocializmus építésének útján (Our Economy on the Path of Socialist Construction), (Budapest: Kossuth Könyvkiadó, 1973), p. 43.
 2. R. Portes, "The Strategy and Tactics of Economic Decentralisation" op.cit., pp. 639-640.
 3. W. Brus, "The Economics and Politics of Socialism", op. cit., p. 32.
 4. P.J.D. Wiles, "Rationality, the Market, Decentralisation and the Territorial Principle", Value and Plan, ed. G. Grossman, op. cit., p. 184.

As this dissertation has shown up to now, the problem of rationality had been vividly on the minds of the Hungarian reformers for many years before 1960. They advanced similar solutions to the problem in the mid 1960's as they did in the mid 1950's. The reason why they were rejected in the mid 1950's was not that the problem of rationality and galloping cost-output ratios was less severe at that time than in the mid 1960's, but rather that the same economic solution -- i.e., the guided market model -- seemed to be far more of a political threat to the Party's leading role in the mid 1950's than during the mid 1960's. Or, as Wiles remarked, "Rationality may be held to threaten the structure of Communist society itself."¹

The danger with the previous few pages of rationalisations, however, must clearly be confronted. By downplaying the economic problems of the 1960's as compared to those of the 1950's, by emphasizing the de facto role of political variables (dogmatism, fear, etc.) that have stood in the way of comprehensive economic reforms, we could almost end up suggesting that the old economic model, incorrect in the 1950's is or ought to be correct in the 1960's. In other words, arguing as we have above, could almost be interpreted as suggesting that economically at least there was no need for reform, and that the changes instituted in Hungary between 1957-1965, sensible, harmonious as they were, should have sufficed.

Such conclusions, however, are clearly misleading. While economic problems and their socio-political concomitants set off a revolution in 1956, the 1960's were certainly not problem free. All of the general problems that we have presented on pp.311-325 above were present in Hungary as well, and some of them were particularly acute compared to the other socialist states.

We need not provide an extensive review of these economic problems for they have been widely documented by others and, as such, pointing to the more glaring problem areas will suffice for our purposes.

For one, it was recognised during the mid 1960's by the Party leadership (the economic reformers had warned that this would happen already in 1954) that piece-meal reforms of individual components of the mechanism of

1. Ibid., p. 185.

economic control, without reference to the linkages between these components and the rest of the mechanism, could create contradictions in a number of instances.

For example, the producer price reform of 1959, designed to lead to more rational allocation of resources and a restructuring of industry, did not meet its objective. It did not meet its objectives because the new price levels were not reflective of the law of value and comparative advantage with respect to foreign producers, but of the existing cost structure of Hungarian industry. Thus the new prices did not "push" for a more "rational" industrial structure but simply reinforced the existing one.

The administrative merger of many industrial enterprises in the early 1960's had also not met its intended effects. While economies of scale might have argued for such moves, the elimination of even the modicum of competition internally, coupled to disequilibrium foreign exchange rates, once again reduced the rate of rapid advance of technology, innovation, efficiency at the enterprise level.

The reforms in foreign trade were also found to be insufficient, although we should be careful not to term them useless. As Brown and Marer point out, "Partial reforms, though less than successful, have been important in preparing the ground for comprehensive reforms... [however, as a consequence of disequilibrium exchange rates] substantially more than half of the exports to both areas [East and West] had to be subsidized... the effectiveness of the foreign trade reforms is greatly reduced by the fact that central authorities have to subsidize the majority of the enterprises."¹

The reduction in the number of compulsory indexes, is again a step in the right direction, but because the system was still essentially one of commands and not of market relations, increased enterprise independence as far as the enterprises were concerned meant hardly anything more than increased uncertainty, bottlenecks and disruption. Perhaps no other group was more opposed to this kind of "decentralisation" in Hungary, than enterprise managers,

1. Alan A. Brown and Paul Marer, Foreign Trade in the East European Reforms, op. cit., pp. 35, 36, 51.

for whom this kind of economic reform and economic decentralisation implied not greater freedom and maneuverability as such, but simply increased headaches, and problems. As a number of Hungarian studies have shown

In the new situation, the firms found they had to resist the reforms out of pure self-defense. Even the foreign trade enterprises, always most interested in a more elastic system, now strove for a completely detailed export plan. Otherwise they could not have been sure of being adequately supplied by the producing firms. Cutting the directives in the plans, therefore, became a passing phenomenon, and explicit orders were reintroduced.¹

The new measures introduced to cut waste and increase productivity — quality norms, profit sharing, charges on fixed assets — were also disappointing. The source of the disappointment, it would seem, was the fact that long term central price fixing was retained (instead of scarcity prices) and managers and workers were still essentially rewarded on the basis of quantitative output. In short, inspite of the numerous post-1957 changes,

Central physical allocation still governed the distribution and use of important commodities. Producers were still effectively divorced from foreign markets. Thus there was no real attempt to introduce market relations and with plan targets and fixed prices still integral parts of the system, the new incentive rules made little difference.²

The Second Five Year Plan isolated "increased productivity, a considerable raise in the technical level of industry, and improving quality of production... [together with] international specialisation in industrial and agricultural production so as to accelerate technical progress and to raise efficiency" as the "decisive link of industrial development."³ As J. Zala and many others have shown, the partial reforms leading up to 1965 were particularly insufficient in grasping this "decisive link in development".⁴

During the early 1960's — with a short brake in 1963-64 — a definite recentralisation began to take place. The global output index began to be stressed with increasing intensity by 1960, the number of plan indices and of

1. Iván T. Berend, "The Historical Background of the Recent Economic Reforms in Eastern Europe" East Europe Quarterly, Vol. II, No. 1, 1968, p. 87.

2. R. Portes "The Strategy and Tactics of Economic Decentralisation" op. cit., p. 638.

3. J. Zala, "Central Intention and Planning" op. cit., p. 294.

4. Ibid., p. 295.

centrally allocated goods began to increase, there was a marked drop in the amounts paid out in the profit-sharing scheme, the share of enterprise investments in total industrial investments was sharply reduced, a number of new and detailed central wage and salary regulations were also introduced. In short, a number of the post 1957 reform measures had begun to wither away noticeably during the early and mid 1960's, and there was a growing realization in Hungarian Party circles that something more purposeful, more enduring, more effective would have to be done to enable the Hungarian economy to make the kind of gains they felt were needed during the transition to Socialism.

In the final analysis, the new trend towards "centralisation", the continuation of many of the old economic problems, and the failure of the new initiatives to decisively reduce waste, inefficiency, and to speed up technological innovation, productivity, industrial restructuring and trade competitiveness, all of these were highly influential in compelling Hungary's decision-makers to reach even deeper into the "reform bag" for new model solutions.

We may draw a number of conclusions from Hungary's experience with economic reforms between 1957-1965. One of the conclusions drawn by Hungarians was that, those reformers that have argued for the necessity of comprehensive economic reform as far back as 1954, were right after all. Or as J. Bognár pointed out

Experience has taught us that the system of decision-making is an entity whose elements are in close interaction with each other and hence changes in some of these elements -- leaving the others unchanged -- cannot bring the desired results.¹

The same point was re-asserted by R. Nyers as well and it became the "central core" of the reformist philosophy during the 1960's.

The assumption that prominent faults of the planning machinery could be corrected by changing its cogwheels...proved wrong. This led to the recognition that instead of partial modifications, complete and far reaching reforms were needed.²

1. J. Bognár, Vita a magyar gazdasági mechanizmus reformjáról, op. cit. p. 41. (Emphasis added).

2. I. Berend, "The Historical Background..." op. cit., pp. 87 - 88. (Emphasis added).

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In other words, for the first time, and clearly in opposition to the stand taken by it during late 1957 and 1958, even leading Party spokesmen were beginning to think now that the real source of the country's continuing economic problems resides within the actual "essentials" of the traditional model (i.e. binding plan targets, physical allocation, fixed prices).

It should be repeated, that while coming to this conclusion, the Hungarian reform "philosophy" did not rule out the possibility of merging some old components with a new framework of economic control, and it did not unilaterally discuss all of the piece-meal reforms as useless or unworkable. Indeed some of the piece-meal changes were seen by them to be quite harmonious with a new framework (profit sharing, average wage control, capital charge, being the most obvious ones) and these were retained after 1968.

Why only in Hungary this official recognition? As we have stated many times by now, the continuation of economic problems was an important reason -- but most certainly not a sufficient reason. Myers himself had pointed out that the situation was far from critical, and that the partial-reforms could have sufficed for some time. There were, however, certain 'unique' economic conditions in Hungary that seem to have increased the urgency and awareness of the Party leadership to begin preparing for a more comprehensive round of reforms. Possibly the three most important of these unique conditions during the early 1960's were these: 1) The rapid decline in labour reserves; 2) the severe difficulties encountered in substituting capital for labour (according to A.A. Brown "we have extensive econometric evidence for Hungary, which shows that the elasticity of substitution in the early 1960's, the crucial period for reforms, approached zero"¹); 3) and the very high ratio of foreign trade in Hungary's GNP (it's the highest in all of Eastern Europe²). All three of these forces or conditions may significantly increase the "demand" for rapid gains in productivity, efficiency and technological development and they would, as such, motivate for new reforms that at least promise to deliver such desirable effects.

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1. A.A. Brown, "CES Production Function Estimated in Postwar Hungary" (unpublished, mimeographed paper) and A.A. Brown, P. Marer, op. cit., p. 7.
 2. J. File, "A külkereskedelem hozzájárulása a nemzeti jövedelemhez" (The Contribution of Foreign Trade to National Income), Statisztikai Szemle, No. 2, 1967.

But in the case of Hungary there were also a number of socio-political conditions that made the demand for reform even more imperative on the one hand, while, restricting the number of reform alternatives on the other. Or in other words, there were certain basic socio-political conditions that magnified by the aforementioned economic demands and which pushed market socialism into the forefront of reform alternatives. First of all, the general socio-political implications of the traditional model (or of its partially reformed descendants) which we have discussed earlier, were also present in Hungary. There was a growing awareness among Party officials that indeed, social and individual necessities were continuously at loggerheads in Hungary. While this should not be so surprising, at least we should find better tools with which to diminish these contradictions.¹ Consequently, there was a more open or receptive political attitude towards new ideas, or reform alternatives that promised to make a contribution in this area.

However, the decisive socio-political imperatives for the guided market model, indeed, the key imperatives, which in effect compelled the regime in the final analysis to seek changes in the direction of greater decentralisation were these:

1. The socio-political implications of the old model had on one occasion, confronted the Communist Party of Hungary with a massive popular insurrection. While immediately after the 1956 uprising the Party admitted that the "roots" of the October crisis were in the Party's traditional economic strategy, for tactical-political reasons it quickly erased such public arguments from its vocabulary. However, while publicly not repeating the arguments it made immediately after October (see pp. 140 above) the Kádár regime was deeply convinced that its political security, indeed the very foundation of Communist rule was a derivative of its economic strategy.

"1956" demonstrated to most Hungarian economists -- indeed, the revolt acted as a cement for a so-called "Budapest School" of economics -- that politically and socially, the command model was utterly bankrupt! While short term Soviet foreign aid, a series of within-system reforms, a more realistic economic policy, a period of short-term terror and external political

1. See K. Nagy, "The Impact of Communism in Hungary" East Europe Magazine, Vol. 18, No. 3. 1959.

variables were able to defeat the calls for major reforms after 1957, the 1960's again renewed the need to eliminate the source of this bankruptcy. This "socio-political" need received a particularly sharp impetus during 1964-1966 when not only was there a severe decline in the GNP growth rate (1% increase from 1964 to 1965) but there was also a sharp parallel increase in political unrest and consumer dissatisfaction.¹

The Hungarian regime, more than any other regime in Eastern Europe, had experienced that it can not buy its long term survival by the traditional command tools devised in the USSR. It also realized that it was in a situation whereby, economic growth rates were becoming increasingly difficult to maintain, that its extensive sources of growth (capital, labour, land) were less and less conducive to maintaining future, long term economic growth. As most of the other Socialist states, the Hungarian regime also isolated productivity and technological development as "key links" in its future development. It recognized that its future growth could be maintained either by perfecting the traditional tools of goal achievement or by devising new mechanisms. It's catastrophic political experience with the traditional model was, without a doubt, the single most important factor causing the regime to look for help in the opposite direction, i.e. in the direction of markets rather than commands.

In short, the traditional, neo-Stalinist methods of goal achievement were found to be politically counterproductive in Hungary, and the negative socio-political implications of the old system became perhaps most obvious in that country. The experience of October, the increasing structural complexity of the economy, the continuation of economic problems, all of these were influential in prompting the regime to recognize that rather than strengthening its own direct grip on sub-systems with command measures, it must provide sub-systems with a life of their own and devise new incentives with which to rally these subsystems to support the party's goal-culture of Full Communism. In short, as Kádár pointed out on pp. 324 above, and as it was reasserted by other spokesmen, the Party quite simply recognized on the basis of its own experience with the construction of Socialism that,

It is impossible to solve economic tasks effectively without conscious and intensive cooperation and increased activity on the part of society.²

1. P. Lendvai, "Hungary: Change vs Immobilism" Problems of Communism, Vol. 16. No. 2. 1967.

2. Népszabadság, June 21, 1969.

2. Of course, the history of the Communist movement in Hungary and Eastern Europe has seen evidence of such a recognition by individual Communists going right back to the first moments of Socialist construction. The failure of such recognition to materialize or percolate out on a wider basis, the absence of such a widespread recognition and such a practice at the opening stages of Socialist construction, cannot be explained by the expendability of intensive cooperation on the part of the masses during the lower stages of development, for indeed, extensive popular cooperation would surely be one of the most urgent needs of the new Communist regimes. As the evidence of Yugoslavia's changing economic systems shows, as Hungary's and Eastern Europe's various economic models show, the application of various model solutions in various historical phases in Eastern Europe was hardly the product of stages of economic development. Soviet imperialistic domination and great power influence, the official Soviet attitudes towards economic reforms, these were the really decisive factors behind the timing of reform alternatives.

While in a way this is a simplistic explanation, at the same time it is an accurate one: the idea of comprehensive economic reform in Hungary was vetoed by the USSR on two occasions (1955, 1957) as "the belching of right-wing deviation". The third time around -- during the mid 1960's -- first Khrushchev's ambivalent attitude, then the vacuum created by his fall, were both enough to create a much more favourable "external political climate" for the revival of reform ideas that go back to the early 1950's.

Thus not only the internal socio-political implications but also powerful external political forces, have made economic decentralisation particularly opportune in Hungary during the 1960's.

3. A third political factor of great significance as far as the direction and shape of Hungarian economic reform was concerned was the makeup of the post 1960 Party leadership in Hungary, and the relative strength and influence of the advocates of market socialism within the Hungarian political system.

First of all, it is known that although he is not such a strong anti-Stalinist that he is willing to resign and give up political office rather than bloody his hands with Stalinist techniques, Kádár is nevertheless not favourably disposed to such techniques. As François Fejtő writes for example

Kádár -- according to information we have received from a private source -- at the beginning of 1955 witnessed without pleasure the fall of Nagy, caused by intrigues of what Kádár later was to call the "Rákosi-Gerő clique", and insisted on the need to continue the New Course of 1953 in spite of the removal of Nagy.¹

By all indications, Kádár was personally in favour of a comprehensive economic reform in 1955-57 and it was in the final analysis domestic and external political circumstances that prevented him from pushing through those ideas.

As we have shown in section one of this chapter, Hungary's political superstructure, and specifically the Politburo, became far more receptive and personally favourable to large scale economic reform during the early 1960' than before. Unlike during earlier attempts, and unlike the other East European states, the Hungarian Politburo and Central Committee contained a number of powerful and dedicated champions of economic decentralisation (Nyers, Fock, Fehér). A united political leadership, the purging of key dogmatic Stalinists from positions of power, the transformation of the Party's cadre policy and the entry of dedicated reformers into the inner sanctums of political power were without a doubt also decisive in determining the direction of future reform.

To these factors, we should also add the relatively increased influence and cohesion during the 1960's of Hungarian economists who advocated comprehensive economic reform. In Poland, in the GDR, and elsewhere, the struggle for economic reform frequently resulted in a severe career or power demotion of economists advocating market socialism. In Hungary, while they were administratively silenced after 1958, the reformers were not as such banished and indeed were able to strongly regroup themselves by the early 1960's. Many of the advocates of reform are indeed, by the early 1960's, much more influential within the Hungarian political system than their colleagues elsewhere. (e.g. T. Nagy, J. Wilczek, J. Bognár, I. Vajda, P. Erdős, B. Csikós-Nagy, O. Gado, Gy. Péter).

1. François Fejtő, "Hungarian Communism", *Communism in Europe*, ed. William E. Griffith (Massachusetts: M.I.T. Press, 1964), Vol. I. p. 201.

In sum, therefore, the impulse towards economic decentralisation in Hungary can be explained by reference to the same general economic, social and political demands for change as were present in many of the other Socialist states. The unusually strong impulse towards comprehensive reforms during the mid 1960's can in turn be discovered in the interplay of certain unique economic conditions in Hungary with a number of unique internal and external socio-political variables. But the actual position arrived at by the Party in 1968, i.e. the full answer to the question of "why Hungary", still needs to be filled in by reference to another dimension.

Economic reform is a process. The emergence of a specific model solution can not be explained solely by social, political and economic needs. A model solution adopted by the Party is also very largely the product of the manner in which the process of reform unfolds. In other words, the political marketing of the idea of comprehensive reform, the style, the arguments, the concessions and compromises, offered by the reformers is also tremendously important in determining the final position arrived at, i.e. in providing us with a full explanation of the causes of the NEM.

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CHAPTER VII

THE WINNING POLITICAL STRATEGY AND TACTICS OF ECONOMIC DECENTRALISATION

Give me good politics and I shall give you good economics

Talleyrand

What did the Hungarian Socialist Workers' Party and politically well situated sympathisers of market Socialism do when the so called "economic reform tide" overran Eastern Europe in the early 1960's? How did they react to the waves that started out from their epicentre in the USSR as a consequence of Professor Liberman's casting his stone on to the relatively calm waters of politically contained conventional economic wisdom?

Like most of their neighbours, the Hungarian reformers began to swim along with the "new currents" rather than against them. How did they manage to come to rest at a relatively isolated and unique position by the late 1960's? This was due not only to the existence of various economic problems, or simply to those personnel and power political changes by which the political superstructure in Hungary became attitudinally more receptive to reforms. Equally important in deciding the final outcome of the Hungarian reform process was the political strategy and tactics pursued by the leading advocates of the guided market model.

While it was in Hungary, of all the Socialist states that the advocates of market socialism were situated the closest to the centre of political power, and while the Hungarian reformers had two powerful political leaders in the person of Rezső Nyers and Jenő Fock we ought not to think that the only task left for the reformers was to clean up some of their mathematics, rewrite the dates in their earlier speeches and articles, and then expect to be greeted with instant political applause rather than, as in earlier years, with political jeers. As events showed, and as we shall demonstrate, the reformers had learned some very important political lessons

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from their unsuccessful attempts at reform during the mid 1950's. It was these lessons that enabled the reform to emerge from the policy-making process relatively intact rather than without its legs, arms, lungs or whatever, as was the case earlier on with the other comprehensive reform attempts in Eastern Europe. It was in other words the combination of economic needs, a changed political environment coupled to the political strategy of the reformers that enabled them to go as far away from the pole of "command" as they did in 1960.

I. THE STRATEGY

The critical boundaries of the economic reform in Hungary, the strategy to be pursued and permitted by the Party, were laid down right at the start of the regional renaissance of reform by the two principal economic spokesmen of the Politburo: Rezső Nyers and Premier János Fock. It was these two politicians and leading Party members who opened the curtain for economic reform in Hungary during the 1960's and it was they more than anyone else who guided the economists along the path of reform.

First to issue a call for the reform of the mechanism of economic control was János Fock. In a major article published in Közgazdasági Szemle at the end of 1962¹ he argued that improved techniques of economic planning and management were to be the keys to Hungary's future economic progress. While stating that a number of important positive steps had been implemented during the previous years to help improve the workings of the Hungarian mechanism of economic control, he asserted that "overall, the situation is still far from satisfactory", adding that the "plethora of binding commands" must be restricted and the role of material incentives increased. In his words

The prerequisite of modern management is that the autonomy and responsibility of lower bodies should be increased... With fewer index numbers and fewer administrative decrees, and with a better utilisation of material

1. János Fock, "Gazdasági feladatainkról" (On Our Economic Tasks) Közgazdasági Szemle, Vol. IX, No. 12, 1962.

incentives, we can get around the managerial errors that stem from the plethora of binding central commands... We must increase the quality of management and at the same time we must also increase the participation of workers in management.¹

Fock ended his article by asking all the responsible Party, state and local officials and the country's economists to place this question, and the problem of how best to proceed in this direction at the centre of their attention.

This strategic direction was reasserted by Rezső Nyers in a keynote address to the Central Committee Plenum on May 24th, 1963. Nyers told the Central Committee members that he had been "instructed to deliver his report on behalf of the Politburo", and he asked the members to fully support the economic guidelines that he was presenting "on behalf of the Politburo".² The essence of his address was that Hungary was at a stage of its development when the process of manufacturing and marketing of products can no longer be administratively separated from one another. "The problem of demand and consumer preference can no longer be ignored...the planned economic control of enterprises and our monetary system must be re-examined and must be re-formed in that direction which will provide a greater autonomy, manoeuvrability to our enterprises, and that will improve in the most important areas the efficiency of central regulation".³

The option of "perfect computation", an electronic market, the installation of an economy wide "nodal computer system", was politically shut off very early on.⁴ Hungary's would be reformers were explicitly instructed to ignore the challenge of working out even more detailed, pervasive binding commands, and to focus instead on the opposite end of the continuum, i.e., on ways to improve the system of planning and management by a limitation of binding central commands and by increasing the use of indirect, financial stimulation.

In which direction do we think it necessary to develop our system of planning and management? Should we transmit the central intention to the

1. Ibid., p. 1414.

2. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit. p. 17.

3. Ibid., p. 16.

4. Ibid., p. 123.

enterprises with even more compulsory plan indicators, or proceed in the directly opposite way, by narrowing down the field of commands and by widening the use of incentives? With us, the first path cannot be followed, only the second. In order to approach optimal development, the direct control over economic processes must become restricted, and we must widen the use of Socialist commodity-money relations and commercial methods.¹

This strategic thrust, ~~was~~ quite the reverse of the position taken by I. Szürdi and the Central Committee in 1958^(was) gradually reinforced during 1963-65 by a series of unambiguous, keynote speeches by Nyers. While, during the earlier attempts at reform, the debates had raged far and wide on where to actually start out the reform (with a change in economic policy, or a change in the mechanism, or both simultaneously), this time around the Politburo's economic chief allowed no time to be lost on this question. He stated that Socialist economic policy and mechanism are inseparable,² and that it is not a question of whether one or another aspect needs to be reformed, but simply that the Party's economic policy cannot be optimally pursued and an optimal policy cannot be worked out while the country's planning and management is based on the old system.

As we can recall, the above was central to the arguments of the Hungarian reformers during the New Course as well as immediately after the uprising (see J. Bognár's comments above on page 184). But it was not only this argument -- discussed by the Party in 1955 and 1958 -- that Nyers now legitimised. He also resurrected from the past the idea of "comprehensive economic reform versus piece-meal tinkering" and stated unequivocally that the Politburo favoured the first kind of reform and not the later.

We must clearly see that we cannot isolate one or another element of the mechanism and apply a fundamental reform to it, for example, to reform only commerce and trade, or investments. We are confronted by very complex and interdependent economic matters which demand in essence that we place under critical scrutiny the entire control mechanism and designate in unison the changes that must be implemented.³

Like Imre Nagy in 1953, Rezső Nyers also isolated technological development as the key to Hungary's economic progress. In a lengthy speech to the Central Committee's Party Academy, he elaborated the central columns of the

1. Ibid., p. 98.

2. Ibid., p. 116.

3. Ibid., p. 131.

new strategy, the relationship between technological development, productivity, efficiency, and profitability. It is noteworthy to quote at length from his speech, for Nyers, unlike so many other writers, clearly does not accept the conventional wisdom which suggests that efficiency, productivity, technological innovation, i.e. intensive techniques, can be neglected at the initial phase of Socialist economic construction. More importantly, he argues that such a neglect was not due to old economic laws, but to sheer political dogmatism. We ought perhaps also to reflect that a scant six years earlier, Hungarian economists had to engage in self-criticism for saying virtually the same words as those we are about to quote from Nyers, and that thirteen years prior to that, men like Vozneshensky in the USSR and others elsewhere were executed from saying far less.

It is indisputable that during the first stages of the development of Socialism in our country, the pace of technical development was relatively slow. It was less than optimal, slower than conditions would have permitted. Why?... Objective conditions can hardly explain everything... one of the main reasons was that for six to eight years, technical development was not even given as much place in our economic policy as objective conditions would permit. Economic dogmatism has left a deep, negative mark on the level of our technical development... There is a relative 'lag' between technical development and economic effects — at least on the national level. The effects of our earlier efforts with technical development are largely just now becoming fully felt, and the effects of our current efforts will be realised in the future. If we have neglected technical development in the past, then it is today that we suffer its consequences, if we neglect our tasks today, then we must face the consequences in the future... The fate of obsolete theories is the same as obsolete machines: we must discard them from our theoretical arsenal. The political economy of Socialism is a young, robust, lively science, and consequently we should not consider it surprising or damaging if from time to time we alter some of our earlier theories... During the past and in some cases even today the prospects for fully secure domestic markets and the belief that everything and anything can be passed along to the foreign sector have induced a 'drowsiness' in our Socialist firms... Under our conditions the demands of technical development express themselves along two planes: at the national and at the enterprise level... It would be incorrect to treat Socialist enterprises simply as the location for the execution of central divisions... For the sake of progress we must work simultaneously along both planes. From the centre must come the most encompassing global measures, from the enterprises we need as great a degree of initiative and mobility as possible... Enterprise productivity and efficiency are the mainsprings of technical development. How have we utilised these mainsprings in the past? Not sufficiently! ...Our enterprises must spend more and more concentrated effort on the question of increasing productivity and efficiency. The best indicator of this activity is enterprise profits...and these profits will be used to the last forint for the cause of the people. Therefore this is the conclusion:

we must pay greater attention to the growth of efficiency and profitability in order to provide a wider basis of support for the expansion of technological development.¹

And as the economic reforms of the 1950's Nyers also argued that:

We consider it necessary and correct to increase the role and importance of enterprise profits...for this indicator expresses most comprehensively the productive and efficiency achievements of the enterprise... The realisation of this theory in practice demands, of course, the a priori reform of our price system.²

There were two additional strategic considerations that needed to be clearly spelled out by the Party leadership, for in the past they had constituted important battle fronts along which the debates for economic reform frequently capsized. These were the question of Workers' Councils and the state ownership of the means of production.

On both of these questions, the Party gave a clear warning to the reformers: workers' self management and social ownership was utterly out of the picture.³ There was to be no attempt at including the principle of workers' self-management in the new economic model. To have included this in the formula of economic reform would clearly have taken Hungary very far off

1. This speech was delivered in March 1964 at the Central Committee's Party Academy. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., pp. 38-41. This was in fact the only public speech of Nyers' in which he actually linked up current economic problems with past political mistakes. Afterwards he laid virtually all of his emphasis on the standard "developmental" argument -- i.e. the shift from extensive to intensive growth. There are basically two reasons why the Hungarian reformers must push this extensive to intensive line, even when they recognise its shortcomings. First, most of their neighbours, especially the USSR, still cling to the traditional framework. To discard the economic deterministic theory would imply automatically either that all of the neighbouring "clingers" are politically unwise, or, in reverse, that the Hungarian Party leadership is politically unwise. Secondly, to discard the economic argument is to sever the Party's political continuity with the past, to drive one more nail into the principle of the Party's "divine right". One destalinisation process was bad enough; to publicly argue that the Party had also enforced an erroneous economic model for over a decade and a half would, needless to say, have been highly disturbing and ideologically discomforting.

2. Ibid., p. 105.

3. Ibid., p. 141.

the "general path". It would have prompted comparison with Yugoslavia's "revisionist" practices, and this the regime was determined to avoid for the important reason that it wished to maintain its impeccable internationalist record with the USSR. Furthermore, the experience with Workers' Councils during and after the October 1956 uprising had convinced the leadership that its conventional leading role would most probably be undermined. Kádár on more than one occasion criticised the advocates of workers' self-management as "simple romantic Utopians who cherish the idea that the masses would directly make all decisions". For example, in a speech to the Central Committee:

The nature of the economy's management is such that except for 200,000 to 300,000 leaders, the millions of working people will not be able to realise their influence in it. This does not depend on them. We can and should say that the working people must take care in their enterprises that this or that thing be carried out in the spirit of the reforms; they should express their opinions and raise their voices against any contradictory trends. However, in connection with the practical implementation and influence of the reforms...the workers working at machines, or peasants tilling their land, or masses of intellectuals executing some minor functions, cannot exert their influence in an operational way because of their positions. This can be done only by those 200,000 or 300,000 leaders.¹

A review of this Party defined strategy towards reform shows that it did not, as such, constitute a "tendency" that was in contradiction to the "general path" being pursued in the Soviet Union. The borderlines of the strategy were still safely within the acceptable limits of Socialist internationalism during the mid 1960's. While it is certainly true that none of the Soviet leaders engaged in such explicit mapping exercises of the playing field of economic reform, and that in the USSR there was as yet no clear conception of economic reform, one could find nothing in the speeches of the Soviet leaders that would suggest that they were deeply committed against any elements of the Hungarian strategy. The strategy was also "made safe" strangely enough, by Khrushchev's removal from office. Just as in 1953-1955, so in the mid 1960's, the political power struggle in Moscow considerably increased the "freedom" of local Hungarian communists to experiment with new ideas.

1. János Kádár, Válogatott Beszéddek és Cikkek (Selected Speeches and Articles), (Budapest: Kossuth Könyvkiadó, 1974), pp. 243-244.

The seizing of the handle of reform in such a specific and determined fashion by top ranking members of the Politburo had an extremely important effect on the process of economic reform in Hungary. For one, it shut off the possibility of starting up a campaign of innuendoes and hysterical accusations against the advocates of market socialism as was the case in 1957-58. It would have been politically suicidal for the critics of comprehensive economic reform to argue that the reformers were "un-Marxist" and were "intent on undermining the leading rôle of the Party" for this time around the "philosophy" of economic reform came straight out of the Politburo and to blacken these ideas as "un-Marxist" would have implied that the leading core of the Party itself was un-Marxist.

Establishing the "playing field" by the Party leadership within which the Hungarian reformers could unfurl their ideas, was undoubtedly of tremendous significance for the future direction of reform.¹ The reform strategy, laid down by the Politburo provided a genuinely "warm atmosphere" for the re-emergence of the idea of market socialism and it clearly signalled the end of that political moratorium which was clamped on the advocacy of comprehensive economic reform by the Party after 1957-58.²

And now we must turn to the analysis of the political tactics of economic decentralisation, for a clearly marked out playing field, though a tremendously important prerequisite for success, is not sufficient by itself to bring about the adoption of the guided market model.

II. THE TACTICS

The political tactics of economic decentralisation express themselves at different, though highly interdependent, levels. They involve, put very simply, the harmonisation of the new economic cogs with the sacred tenets of Marxism-Leninism, with the leading role of the Party and with other diverse and vested interests (domestic and external) that have grown up around the trunk of the command model during the previous decades.

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1. I can well recall the comments of Ota Sik at a graduate seminar at the London School of Economics, "If only I could have been in the Politburo like Nyers in Hungary, things would have been different in Czechoslovakia".
 2. See the comments of Tamás Nagy on page 262 above.

One of the crucially important tactical levels, the tactics of harmonising the new economic cogs with one another and with the overall new economic strategy, has been ably described by others.¹ We now turn to the analysis of the other, equally decisive tactical levels without which the reform most probably would have turned out quite differently than it did.

1. The Pursuit of Precision: Language, Timing, Publicity, Codification.

The necessity for precision and reasonable dialogue, supported by a widespread cushion of favourable propaganda and agitation was perhaps one of the most important tactical strands pulling along the idea of market Socialism from the pages of specialised journals and seminar rooms into the everyday practice of Hungarian political economy. Imprecise formulations could be very easily distorted by the various opponents of market Socialism, and could be used to "blacken" the image of the reformers. This in turn would deter many of the hesitant or up to now politically frightened theoretical supporters of market Socialism from applying their talents vigorously and fearlessly to the task of reform. The reformers recognised quite simply that they themselves could be the first and key obstacles to reform. The message was clearly put to the economists by Nyers: "Let us argue in a constructive way, without hedging, without shying away from so called 'sensitive questions', but first of all let us argue with discipline".²

The publications of a state of grandiose schemes and conceptualisations for a new comprehensive mechanism, the emergence of hasty "blueprints for reform" full of dark zones of uncertainty, had to be administratively curtailed. The necessity of resisting the temptation to jump the gun -- we can clearly see the lessons of the 1957 reform process -- was one of the cornerstones of the movement towards reform.

The drafting and introduction of the reform cannot be hasty. This was also emphasised by comrade Kádár during the last session of Parliament. We must keep ourselves to the dictum -- rather do it well, than hastily.³

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1. For example by Richard D. Portes in his "The Strategy and Tactics of Economic Decentralisation" (or is it "The Tactics and Strategy of Economic Decentralisation"? -- there is a clash between the title in the table of contents and at the head of his article), Soviet Studies, op. cit.
 2. In a speech to Communist Party "economic activists" on December 13, 1963. Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., p. 19.
 3. Ibid., p. 112.

In order to "do it well", the Party's Central Committee, at its November 1964 Plenum, set up a task force on economic reform. This task force, just like its predecessor in 1957, was given eleven months to prepare its report, and was again subdivided into eleven committees that together encompassed all areas of the economic control mechanism. Initially about 150 people were formally appointed to these committees (most of these individuals had served on various committees of the 1957 task force). The overall work of the task force this time around (unlike that in 1957) was under the personal direction of a Politburo member — Rezső Nyers.

The committee members this time were specifically forbidden to publish advance previews of their deliberations either in the form of a "minority report" or in that of "a personal reflection of the majority view". This restriction on the public activities of the commissioners ought not to be mistaken for a restriction on public debate on economic reform. On the contrary, "outside" public debates were actively encouraged and solicited by the Party, "as long as they are conducted in a spirit of responsibility". The point to grasp is that the reform committees were not to take the lead in these public debates, but were rather to use the debates and the ideas coming out from these other groups in the process of their own, Party led, internal deliberations. In other words, the debates in the specialised journals were to serve as an important data bank¹ for the committees and not as a forum for the committees' preliminary position papers.

The rationale behind these tactics was very simply, to limit the ability of the opponents of reform to attack certain preliminary ideas of the reformers while those ideas were still in an imperfect state and thus vulnerable.

On top of this tactic of carefully covering and nursing the "young shoots" of the reform from potentially hostile "cold winds", was a widespread blanket of publicity and propaganda in support of the strategy of reform and of its necessity. The need for such widespread "public education" (as the reformers termed it) was manifold. It was quite clear, subsequent to the November 1964 Central Committee Plenum which set up the task force on reform, that the Party apparatus was reacting rather sluggishly to the whole idea of radical decentralisation. Instead of disseminating quickly and accurately the latest information on the reform, its aims, its strategy, and its rationale,

1. Ibid., p. 97.

the central organs were feeding the lower Party organs with conflicting views, and a series of unsubstantiated and destabilising rumours were percolating through the apparat (e.g. "there will be a massive cadre shakeup", "there will be a massive personnel change in management", "there will be increasing unemployment", "rising consumer prices", etc.).

This anxiety about the tendency of future events transcended, of course, the immediate confines of the Party apparat, and reached into the ranks of numerous other strata and groups (managers, workers, housewives, peasants, etc.). The existence of this "hidden opposition" and this anxiety were of very great concern to the leading spokesmen of the reform and its elimination became one of the principal targets of the reformers constituting a vivid feature of the reform process right up until 1968. The comments of Nyers are gain apposite:

It is undeniable that during the first weeks (after the November 1964 Central Committee meeting) there was a certain degree of ignorance and confusion about the nature of the resolution...The primary Party units only received detailed information on the deliberations 4-6 weeks after the plenum...It is essential for the success of the resolution that the membership should fully support it, that they should fight for its implementation...It is extremely important that from day to day people should be given quick and correct answers to all of the unavoidable questions and doubts. This is the task of agitation... The success of the reform demands that we not only work out the specific elements of the programme, but also engage in a gigantic attitude forming exercise. We must prepare ourselves for a widespread informational campaign, for the multifaceted demonstration of the interrelationship of the various reform elements with each other and with our goals. We must engage in such an exercise in order to dispel the doubts and to be able to reject our enemy's accusations against us... There are very few people who want our present mechanisms to be left untouched, but we continue to run into plenty of differing, illinformed interpretations and doubts about the type of reform we are proposing.

A final element in this overall tactic of the "primacy of precision" was demonstrated in the elaborate, detailed, precise and legal codification of the new elements of the mechanism during 1966-68. The importance of this codification exercise, this legalistic fastidiousness, ought not to be underestimated. While it could be argued that such codification of enterprise behaviour after certain point undermines the principle of flexibility, the reformers thought it absolutely essential that the elements of the reform be "fixed" into the statute books. They did not want the reform to be left open to conflicting interpretations² or to the vicissitudes of jurisdictional disputes, for they considered that such conflicts and the surrounding confusion would undoubtedly undermine the reform's long term chances of success. As Michael Gamarnikow points out:

1. Ibid., p. 97. (Italics added)
2. Ibid., p. 137.

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Hungarian economic reform is not only more comprehensive, but was definitely better prepared, at least in the administrative and legal sense, than the Czechoslovak. All throughout 1967 the government in Budapest had been issuing literally dozens of decrees, creating the legal and administrative framework for a smooth operation of the new economic model. This legislative process, although in itself arbitrary and autocratic, has decisively weakened the grip of the bureaucratic infrastructure over the Hungarian economy... The Hungarian decree on state enterprises, the first of its kind in the Moscow bloc, has filled one of the biggest gaps in most reform blueprints... It is a legal measure which is a sort of Magna Carta.¹

2. Ideology

It is very misleading to argue, as far too many Western Sovietologists are wont to do, that ideology no longer plays a dynamic role in the Communist decisional process. The widespread Kremlinological assumption that only the crass personal or group struggle for political power motivates shifts in policy, and that ideology is but an ex post facto rationalisation, a smokescreen used to shore up and justify one's power manoeuvres, is manifestly false. While on occasion, and over some issues, this does in fact happen, it certainly is not the norm in Communist politics. Power and ideology are very closely interwoven in Communist political practice — neither is secondary. Many a well-intentioned economic reformer has found himself defeated by his own carelessness towards the ideological aspects of his proposal. And in a movement towards reform, reformers who shoot ahead of the development of ideology will find that the best weapon of the orthodox school is their utilisation of the sanctums of ideology. In short, ideology must be vigorously developed and taken into the centre of the decisional calculation over the direction and specifics of the new mechanism.

We would be taken very far from our basic focus if we were to follow through the twists and turns of the ideological debates prior to the NEM's adoption on the role of profits, market, the law of value, material incentives, marginal rules, etc. On the question of profits, the reformers reasserted their earlier arguments, namely that profit will be a means and not an end of Socialist economic goal attainment, and that profits depend not only on what the firms do but equally on what the central authorities do. Profits will, in other words, be under the strict control of the dictatorship of the proletariat. The reformers argued that Marx's opposition was not to profit in the abstract sense, but to the separation, through the private ownership of the means of production, of profit makers from profit takers. Under Socialist modes of production, the two categories are fused because the makers of profit are identical to the

1. Michael Gamarnikow, Economic Reforms in Eastern Europe, op. cit., pp. 170-180.

takers. Profit, in short, is social profit, for it is not based on the private ownership of the means of production and because, as such, it can be regulated and utilised in pursuit of the "social good".

The reformers were also able to prove that the "market principle" is not inherently evil and anti-Socialist. They pointed out that the Socialist application of the market principle is qualitatively different from the capitalist application. The capitalist market is a spontaneous, chaotic, and inhuman market which actually takes over and dominates the lives of those participating. On the capitalist market, individuals and privately owned firms jockey for their own personal aggrandisement and material well-being, often against the interests of the firm's own workers, and mostly against the interest of the "social good". Compared to this 'anarchy', the Socialist market is a regulated market dominated by the "people's power", i.e., by the Socialist state. The participants of the Socialist market place are state owned firms. These conditions are all decisive in ensuring that the vicissitudes of divergent individual and group interests will not become dominant and will not overrule the general domination of social interests.

Of course, all of this is a pretty radical revision of conventional Socialist political-economic wisdom, and it does place a significantly different perspective on the old concept of the "solidary society".¹ It does not, however, undermine any of the fundamental tenets of Leninism, namely the exercise of the political primacy principle and the leading role of the Party. It does not replace the Party with the profit motive as the motor of social change. Rather, it places the profit motive into the hands of the Party to help it in furthering its politically determined aims.

1. See, for example, András Hegedüs and Tamás Rozgonyi's article, "Társadalmi konfliktusok vállalati szintű döntésekben", Közgazdasági Szemle, op. cit., p. 3/4 where they write that "It cannot be stated that the conflicts and contradictions between various social strata and groups are always negative phenomena, which it is absolutely necessary to eliminate. The conflicts necessarily linked with progress -- not those due to errors in social management or politics, etc. -- are important motive forces and sources of power in promoting progress, provided they take a suitable form". Hegedüs has since been kicked out of his post in the Academy of Sciences, and (later) from the Party. It should be pointed out that he was the chairman of one of the eleven reform committees set up in 1964 -- the one dealing with the monitoring and evaluating of enterprise behaviour.

3. The Soviet Union and Socialist Internationalism

As has been noted, one of the fundamental pillars of "Kádárism" is the maintenance of very close harmony between Hungary and the Soviet Union, and the cultivation of the fullest possible trust of the Soviet leadership. Kádár, and most of the Hungarian economic reformers, were extremely concerned not to appear to be going off the general path being pursued by the USSR. Khrushchev's 1957 statement that the Soviet Union recognises different roads to Socialism but likes most of all the general road -- i.e., the one followed by the USSR itself -- has deeply ingrained itself on the minds of the Hungarian reformers. While in 1957 the reformers openly called for a "radically different, new Hungarian road" to Socialism (see e.g. the editorial in *Közgazdasági Szemle*, p. 216 above), there were no such bombastic expressions used in print during the mid 1960's. The reformers frequently asserted that the NEM had been designed with a view to alleviating local problems, and local conditions. The reform was never publicly advanced as a new, more superior general transfer path that ought to be pursued by all of the other Socialist states. This point, however, does need some strong clarification. Most of the reformers thought it absolutely essential, from the point of CMEA trade and integration, to externalise the principles of the NEM. This was due to the fact that there was a permanent contradiction between the domestic application of the new economic mechanism and the mechanism of foreign trade used within CMEA. As two-thirds of Hungary's foreign trade was with CMEA, this did pose a severe constraint on the long run viability of the reform. Even Kádár was aware of this and during the early days of the reform, before the Soviet invasion of Czechoslovakia, he cautiously permitted Hungary's delegates to CMEA to try to advance the ideas of the NEM into the practice of Socialist inter-bloc trade.

In more than one Socialist state similar reform principles to ours are on the agenda. I seem to think that the men of the Socialist world system are also thinking about these types of economic control principles both for their domestic economy and in connection with the coordination of trade and cooperation between the Socialist states. I seem to think this is an international necessity that economic development has now placed on the agenda. I would think that our Central Committee might also interpret its present decision to mean that it compels our comrades working within CMEA, and in general all those comrades of ours who are engaged in economic relations with other Socialist states, that they ought to represent the fundamental principles of our reform, and should work in that spirit within their spheres of responsibility so as to achieve an even more efficient level of Socialist integration and cooperation.¹

1. Speech at the November 1967 Central Committee Plenum. In *Válogatott beszédek és cikkek*, op. cit., p. 248.

This pressure for externalising the NEM was, however, a very low key, cautious and private affair. The extreme judiciousness of the process becomes especially striking if we recognise that on the other hand a Socialist market type form of CMEA integration was an absolute necessity for the long run domestic viability of the NEM. To all this we must add that even as such, there was very little attempt to publicly externalise the NEM prior to 1968. It is thus safe to say that at least during the stage of "selling an untried product" the dictum was closely followed according to which the reform must not upset the conventional economic wisdom of the neighbouring Communist parties.

Indeed, the degree of external altruism and modesty about the reform during its preparatory stages bordered at times on the comical, and it is sometimes forgotten that this comedy was but a manifest expression of the country's colonial status. In frequent cases during the endless series of "study sessions in the USSR", the reformers openly and loudly gave praise to the latest developments of Soviet economic science, and credited the "superior economic wisdom of the Soviet comrades" for the latest concrete economic changes in Hungary.

A very common theme running through the reform community both in private and in public pronouncements was, "We should not be bedevilled by nationalist and anti-Soviet elements, we should not feel as if we had placed the Hungarian tricolour on the hat of Socialism". (This is an allusion to an old Hungarian saying, originally from the poet Petöfi -- "If the earth is God's hat, then our country is a bouquet on it"--and one that Imre Nagy was accused of having harboured.)

Briefly jumping ahead of ourselves to the time of the Soviet-led invasion of Czechoslovakia, we should mention the virtual "mass psychosis" experienced in Hungary after that invasion.¹ Quite apart from the sympathy for the Czech reformers, it was very widely felt in Hungary that the Hungarian economic reforms would also have to be aborted, but never once was this feeling of dejection and fear allowed to lead to the utterance of even one anti-Soviet statement by the key reformers.² On the contrary, after August 1968 an even

1. See E. Sándor, "Hope and Caution", Problems of Communism, Vol. XIX, No. 1, 1970.

2. Hecsey sent a private note of protest to Kádár and as a consequence lost his job in the Academy of Sciences.

greater public emphasis was placed on the "virtually identical nature of the Soviet and Hungarian economic reforms" -- and this at a time when it was hardly possible any longer to substantiate such an identity in practice. A quotation from Nyers is indicative:

As regards their line, targets and idea, the Soviet reforms and the Hungarian reforms are identical... We have found that our views are either identical or that the Soviet comrades are searching in a direction that is similar to ours, to utilise the possibilities and regularities arising from Socialist integration as well as to accelerate development.¹

The economic reform was, as has been noted, to apply to the sphere of foreign trade also, and enterprises could with time freely decide (based on commercial criteria and expected profits) which foreign markets to contract on. During the height of the Prague Spring, Kádár explicitly pledged that far from shifting her trade away from the Soviet Union, Hungary would expand trade with the USSR during the following five years by 100%. This figure was the highest projected by any of the East European states for their expected trade turnover with the Soviet Union, and no doubt it diminished possible Soviet fears about Hungary's 'dependability'.

Premier Jenő Fock also reinforced on many occasions the point that the application of the NEM to the area of foreign trade would not be allowed to interfere with Hungary's global pattern of trade:

Numerically -- during the coming Five Year Plan period and even during the coming fifteen year plan period -- the breakdown of our foreign trade will essentially remain the same as at present. In other words, one third of our foreign trade will take place with the Soviet Union, one third with the other Socialist countries, and one third with the non-Socialist countries.²

A number of Czechoslovak reformers that had at one time or another worked with the Hungarian reformers prior to the Warsaw Pact invasion of Czechoslovakia in 1968 have mentioned how deeply concerned their Hungarian colleagues became with the tendency of reform in Czechoslovakia. The most frequent warning given by the Hungarians apparently was that the Czechs should "be careful lest you commit the same mistakes we did in 1956". In some cases one can even sense a critical attitude towards the Hungarians' seeming paranoia about treading on Soviet political toes, and the Czechs sometimes chided the Hungarians for their cautious and compromising behaviour. For example, Radoslav Selucky, who personally knew many of the leading reformers in Hungary,

1. *Népszabadság*, September 11, 1969.

2. Jenő Fock, *A Szocializmus építésének gazdaságpolitikája*, op. cit., p. 176.

has written that:

The /Hungarian/ reformers were extremely careful; they were afraid of any major steps which might jeopardise their efforts... During 1968, when Czechoslovakia tried to cross the Rubicon, the Hungarians were being very cautious. In Poland, students were calling for a 'Polish Dubcek' and even the otherwise conservative Romanians saw in the Czechoslovak reform a promise for the whole of Eastern Europe. But the Hungarians were concerned that because of Czechoslovakia they might lose a chance at improving their everyday lot in the neo-Stalinist order... Kádárism disarms the reformers and separates them from their natural allies in other East European countries. One might hazard a conjecture that Kádárism disarms a nation to such an extent that it may continue to behave in the Kádárist spirit even when external circumstances no longer make it necessary, that it may for the sake of an improvement of the immediate situation, give up a chance of achieving a fundamental change in the long run. In this sense, successful Kádárism corrupts the nation, breaks its political morale, and disrupts its character, regardless of the country in which it is applied.¹

This is an interesting assessment of the Hungarian attitude towards the politics of economic decentralisation, and it underlines the deep difference between the Hungarian and Czechoslovak tactical positions vis-à-vis the external marketing of the reform under the existing geopolitical constraints. The Czech reformers, many of whom (including Ota Sik) had only divorced themselves publicly from the ideas of command planning and management during the latter years of the 1950's and the early 1960's, were seized by a kind of morally righteous and innocent reformist fervour (this is not intended as a criticism) that was virtually identical to the behaviour of the Hungarian reformers during the months prior to the 1956 uprising. During the mid 1950's the Hungarian economic reformers used words about the then "Svejkian" attitude of the Czech economists that were identical to the words the Czechs used for the Hungarians in 1968. It is too early to tell what type of effects "Prague 1968" has had on the consciousness of the future generation of Czech reformers, but it is clear from the tactical manoeuvres of the Hungarians that they were deeply influenced by their earlier failures.

Perhaps the most forthright and lucid official statement on the absolute necessity of harmonising internal reforms with external reality, and on the Hungarian reformers' dedicated concern with the tactics of "selling" the reform on two markets, was made by Premier Fock shortly after the invasion of Czechoslovakia:

1. Radoslav Selucky, Economic Reforms in Eastern Europe, op. cit., p. 139.

In the success of our economic reform to date /sic/ an important role has been played by our awareness that we do not live in a vacuum. We made sure that international public opinion -- and primarily the Socialist community of which we are a member -- understood more or less correctly what is happening here, and if possible agreed with it. If we had noticed this necessity too late, we could have caused incalculable damage to ourselves and to the whole Socialist community. For this very reason we frequently stated that we would meet the obligations which we had previously undertaken in any circumstances, and that we would stick to this view point in the future as well.¹

In sum, the view is confirmed that up to a point the political trustworthiness of the Hungarian economic reformers is much more important to the USSR than the contents of their economic reforms. As long as Kádár and the Hungarian political leadership could maintain the full political confidence of the Kremlin, their novel and indeed unique economic reforms were not going to gather any Soviet arrows, and would be permitted to exist in relative safety from external interference. (This certainly ought not to be interpreted to mean that in the event of a reversal of the reform, the only or necessary source of this reversal would be the USSR.) During the mid 1960's the Hungarian reformers were thoroughly convinced, and rightly so, of the existence of this dynamic interaction between domestic change and external constraints, and it was around this central axis that the whole economic reform movement unfolded with apparently little external resistance, as the following comments illustrate:

From the very beginning the Hungarian Communists had both feet planted firmly in the ground of reality. Giving due recognition to the extremely valuable experience in building Socialism accumulated by the Soviet Union, they worked out an economic, social and cultural policy with its own distinctly expressed creative Marxist character.²

4. The Party Apparatus

As we have mentioned on various occasions in this dissertation, local Party organisations are an integral element of the traditional command mech-

1. Magyar Távirati Iroda (Domestic Service), September 20, 1968.

2. Izvestia, January 9, 1969. This of course does not mean that there was a wholesale enthusiasm about the principles of Hungary's economic reform in the USSR. For example, Harry G. Shaffer quotes a remark made to him by Nikolai Drozhishinsky, the head of GOSPLAN's department of "The Introduction of New Methods of Planning and Economic Stimulation": "We do not like to criticise our Hungarian comrades, but we think their approach to central planning is totally incorrect, and we should know because we here in the Soviet Union have had fifty years of experience with central planning". "Progress in Hungary", Problems of Communism, Vol. XIX, No. 1, 1970, p. 59.

anism of economic control. A movement towards a qualitatively different guided market mechanism of economic control cannot but deeply affect the traditional structures, functions, procedures and norms of local Party organisations. All Communist Party apparatchikis sense this -- this is one of the main reasons why they fear and therefore resist where possible the onslaught of the guided market model.

Their resistance can take one of two basic forms: active, factional organisation against the principles of the reform; or open, verbal statements of support for the reform coupled with covert misapplication of its principles in practice. This latter type of behaviour can eventually result in the discrediting of the reform due to its apparent inability to improve performance: the Party member is safe, for he has "clearly done his best". A good example of this second kind of resistance is Rakosi's sabotage of Imre Nagy's economic reforms during the mid 1950's. The reformers clearly knew of the potential threat of the first type during the mid 1960's, and were also aware of the second. Let us see how they tried to circumvent both of these.

We must remember first of all that for twenty years in Hungary, and for twice that length of time in the Soviet Union, Communist Party members have laboured under the conviction that without commands there will be spontaneity and chaos, and that without commands the ship of Socialism will be blown off course by hostile elements. The reformers, led by Nyers, were proposing a type of control mechanism that had never been tried before in any Warsaw Pact Socialist state (at least not since the birth of Stalinist type command planning). The socio-political and economic effects of the reform were known only on paper. The parting with economic commands and their replacement with synthetic economic regulators was a major concession by the Party to uncertainty. To simultaneously part with the Party's traditional discretionary roles in economic management would have been truly a giant leap into the world of a new mechanism of economic control, and one that the leadership was unable to bring itself to contemplate. But besides this uncertainty principle there were some additional reasons why the alteration of the Party's traditional rôle had to be resisted.

A reform of the Communist Party's traditional Leninist structures,

functions, procedures and norms would, in the first place, have invited a severe critical scrutiny from the USSR. Such a move would have smacked too openly of the "dreaded germ of revisionism" and, as such, it would have been externally defeated along with the economic components of the NEM.

Secondly, it is doubtful whether a radical new economic reform (market Socialism or perfect electronic computation) can even be brought to the stage of introduction in a traditional Communist environment unless it is directly pushed along by the traditional methods of the Party. To divest the Party of its traditional functions at that stage of the reform process when it needed to overcome the resistance of tradition, widespread personal vested interests, and ignorance would most probably have decreased greatly the reform's chances of survival.

These considerations, together with the known overt or covert Party resistance to economic decentralisation resulted in the decision that the Party must not be touched by the reform. This decision, as it turned out, greatly improved the chances of the reform's being accepted on the short run, but on the long run -- which this dissertation cannot examine -- it most probably was a major source of the reform's eventual demise during the mid 1970's.

Let us not think, however, that the issue was as clear as all that. We know that in the case of Nyers, the question of the Party's traditional leading role was an agonising and highly problematical issue. This was even more so in the case of the leading academic proponents of market Socialism. It was, however, an issue that no one could agonise over publicly. Consequently the subject is largely ignored in the literature on the NEM. But the leading reformers were perfectly well aware of the multi-dimensional nature of the mechanism of economic control. They were however equally well "tempered" by the laws of geopolitics, conventional ideology, and domestic Realpolitik. There were some incipient, highly confidential stabs during 1964-65 at the idea of going for a "home run", but it was decided that such a tactic would end in defeat and so, rather than lose all, the reformers went for second best. Once that decision was made, the cadres had to be fully reassured and rallied around the second best, i.e., reform of the

economic mechanism without reform of any of the old political component. Nonetheless, the suggestion that "perhaps we can do something with this problem after the reform has gone into effect" did occasionally filter into even the reformers' public statement.

While some of the leading "value-oriented ideologues" within the Politburo had apparently made it a sine qua non of their support for the NEM that the reform should leave the local Party apparatus' traditional prerogatives intact, and while at the crucial May 1966 Central Committee Plenum the NEM received a majority vote of confidence purely on Kádár's and Nyers' guarantee that the reform would not impinge on the Party's traditional roles, Nyers' keynote address is worth examining carefully:

Finally, I would like to refer to the direct political concomitants of the reform. The question is asked: How does the reform of the economic mechanism affect our society's political institutions, and within them the work of the Party? We can be certain that the effect will be positive and significant. It is, however, also true that as yet we cannot evaluate as fully and as precisely the political effects. The Party's next congress may concern itself in more detail with the concrete questions of the mutual effects of politics and economics. The fact is, however, that the reform of the mechanism is the subject of our current politics, it demands from us an immediate decision and immediate action. The reform will in no way infringe upon the validity of Marxist-Leninist tenets, upon which the functions of our Party are based. On the other hand, it will necessitate numerous changes in the style of our political work. Many of our comrades are concerned with the question of how will the leading role of the Party express itself after the introduction of the new economic mechanism. In my opinion, we must before anything else concern ourselves simply with the full realisation of the Party's leading role during the introduction of the reform. If we succeed in implementing this significant initiative of the Party's, then we can really say that we have actualised the leading role of the Party.¹

By the IX Party Congress in October 1966, over a year before the NEM was to go into effect, one of the leading "value-oriented ideologues", and the current economic boss of the country, Károly Németh, had significantly tightened up the argument and realigned the aims and workings of the NEM even more clearly with the traditional Party prerogatives:

During the course of the closed Party meetings prior to the Congress, at the factory and district Party meetings, it was invariably asked, how must we develop our Party work taking into consideration the reform of the system of economic control. A certain degree of guesswork, searching

1. Rezső Nyers, Gazdaságpolitikánk és a gazdasági mechanizmus reformja, op. cit., p. 201.

for different paths, even uncertainty, is characteristic of our Party organs over this question... The tasks of the Party organisations and of the Communists under the new system of management remain unchanged and are to continue unchanged on the same foundations as before... During the earlier years the Party organisations have executed the Party's decisions well, they have protected the people's economy from harmful and hostile interests and practices. When at certain times political persuasion did not prove sufficient they had to intervene directly. This will be the way in the future as well.¹

5. The State Administrative Bureaucracy

The term "state administrative bureaucracy" covers a wide assortment of people, including the National Planning Office, the functional and branch ministries, banks, Office of Prices and Materials, local councils, etc.

Common sense ought to tell us that the personnel of these bodies would not, on the whole, look very favourably on a guided market model and on the abandonment of the plan breakdown system -- the reason being that such measures entail a radical reduction in the number of traditional central command functions, i.e. a reduction in staff.

A more thorough analysis of the situation in Hungary has convinced me that this common sense view of the bureaucracy's "inherent" opposition to decentralisation needs some qualification. In Hungary the major impetus for a guided market model did not simply emanate from university lecture rooms or from the head of a few strategic Party leaders who had close connections with university lecture rooms. There was a very strong impetus for reform from within the body of the planning and administrative bureaucracy itself (Gado', Wilcsek, Ganczer, etc.). We might recall that already in 1957 at the debate within the Planners' Circle of the National Planning Office it was evident that a fairly strong movement for economic decentralisation existed within the NPO. True enough, there were also many opponents of reform within the NPO and the ministries, but the bureaucracy was certainly not homogeneously committed against decentralisation.

During the era of the "new cadre policy", and especially from 1962 onwards, these bodies received a very heavy infusion of new administrative

1. Károly Németh, Tettekkel, felelősséggel, op. cit., p. 94.

talent and of skilled economic specialists. The ratio of the so called Party hacks or "narrow-minded dogmatists" was significantly reduced, and that of well-trained technocrats, managerial specialists, etc., increased. As Gamarnikow points out, perhaps Hungary's central bureaucracy was the best prepared for the onslaught of economic pragmatism among all the East European states:

...in one respect the economy was well prepared for the reform. For several years, the Kádár regime had been removing incompetent Party hacks from leading positions in the economic apparatus and replacing them by qualified managerial personnel, more often than not by non-Party specialists. Since the calibre of the people who will be putting the reforms into effect is at least as important as the economic content of these reforms, one can say that in this respect Hungary was well prepared the ground.¹

But just as the entrenched bureaucratic opposition to decentralisation can at times be overstated, so can the "pragmatism" of the bureaucrats in Hungary. Pragmatic technocrats long for the job security just as much as entrenched dogmatists. Both are threatened by the prospect of a global decrease in the size of the central administrative bureaucracy. And so, regardless of the qualitatively different composition of the Hungarian planning bureaucracy, the issue of economic decentralisation needed to be put to them very carefully lest they sabotage or undermine the principles of the reform as their colleagues did in neighbouring countries.

What were the tactical measures taken to "sell" the idea of market Socialism to the bureaucracy and to diffuse its institutional hostility to economic decentralisation? The first step, necessarily, was to reassure the Party members and Party committees within the state administration.

Party committees within the state apparatus were given specific and unilateral guarantees two years before the introduction of the NEM that the reforms would not touch their membership and structures in any way. The ministries were to be streamlined, and a radical personnel reshuffling was to be implemented, and the Party cells were told of this in internal memoranda, but they were also informed simultaneously that under no circumstances were these changes to affect the structures of the Party apparatus within the ministries. In short, the reform was not to threaten Party members' job security, location of work, status, or salaries. No one was to be shipped

1. Michael Gamarnikow, Economic Reforms in Eastern Europe, op. cit., p. 53.

out into the countryside; no one was to lose his Budapest apartment.

This was, from all reports, a tremendously important manoeuvre which greatly enhanced the leadership's ability to push the idea of decentralisation through to the stage of implementation between 1966 and 1968.

What about the other "state bureaucrats"? In their case too, specific guarantees were given by high Party sources years prior to the reform that, while there would be an internal streamlining of staff, this would not result in loss of job, status or salary for the people affected. Altogether, the personnel rationalisation within the state bureaucracy was to affect about 30-35% of the overall, non-clerical staff. This is a high percentage, and in some ministries -- e.g. heavy industry and domestic trade -- it went as high as 50%. In actual numbers of people, however, it was not excessive. All in all, according to István Friss, the 30% reduction in staff involved about 2,000 people.¹

Virtually all of these people however were relocated in different segments of the economy without any decrease of status or income. A standard practice was to set up new "management training centres" by the various branch ministries, and many of the people affected by rationalisation were shifted into these centres. In some cases these new consulting firms, as they were called, were even housed in the same building as the ministry, and the staff realignment merely meant that some people were moved into a different office at the other end of the hall.

Other people affected by the changes, and for whom there was no place within the new management training centres or within any of the other new consulting bodies that were formed at the time, were found jobs within the management of enterprises falling under the ministry's jurisdiction -- preferably within Budapest. All in all, it would appear that the lessons of the highly destabilising "personnel rationalisations" of 1954 were well ingrained in the minds of the reform leaders. They took great care not to jeopardise the reform on the rocks of bureaucratic vested interests, and their tactics paid handsome dividends during the early stages of the reform's implementation.

1. István Friss, Economic Laws, Policy, Planning, op. cit., p. 60.

6. The Managers

We have as yet no comprehensive surveys of entrepreneurial attitudes in Eastern Europe. The literature was tended to present Socialist "managers" as reified interest groups possessing more or less the same general values in all of the Socialist states, and as attitudinally not being much different from managers in the West. It is by and large a fairly standard Sovietological assumption that "Eastern" managers, just like their Western brothers, abhor excessive central interference with enterprise behaviour and as such, that "management as a class" in Eastern Europe is one of the strongest advocates of economic decentralization.

Paradoxically, during the late 1950's Hungary's "managerial class" acted in exactly the opposite fashion.¹ It in fact constituted one of the leading forces of economic re-centralization, and its members, during 1959-1961 actively "lobbied" for numerically more, and comprehensively detailed central commands. In other words, one of the least sympathetic group of individuals towards the idea of market socialism in Hungary during the late 1950's was none other than the very group that the economic reform was to "liberate" -- i.e. the managers -- and this was not missed by the reformers as a source of potential trouble.

There are a number of reasons for this inherent managerial opposition to economic decentralization. First, we must recognize, and the 1947 nationalization and management shakeup that we described in Chapter II page 127 is a good example of it, that managerial appointments have been traditionally and primarily, political appointments in Eastern Europe. In the staffing of management posts, good political connections, political reliability, and unquestioning conformism were the most consistently rewarded attributes. The "real" entrepreneurs, if we may be permitted to call them that, were situated not within the ranks of enterprise management, but in the planning directorates of the various ministries or trusts. The managers at the enterprise level were more like "foremen" acting on behalf of the central authorities.

As one of the leading advocates of the NEM Imre Vajda pointed out,

1. See Géza Péter Lauter. The Manager and Economic Reform in Hungary, op. cit., p. 26.

the task of turning enterprise directors into efficient entrepreneurs was not going to be an easy one.

It is evident that one of the important factors for the reform's success is the manager's initiative, impetus, resourcefulness and readiness to take risks -- that is subject to market orientations. We cannot deny that those qualities have not played a decisive role in selecting managers in the past. Moreover, -- and to admit such a thing is particularly painful for the writer, a university educator -- nor have they played a decisive role in our education at the university level.¹

But even this comment about the "political primacy" principle in the selection of managers and about the practice of staffing managerial posts with political friends needs further clarification. As Michael Gamarnikow points out, managers were a "residual" in the Party's search for political talent.

Since communists give politics priority over economics, the best Party brains were always drafted for political and ideological work. Security and the state apparatus skimmed off the second-best human material, leaving mainly third rates for the managerial positions in industry and trade... If alternative jobs are not found for them the old style managers may well become the "pieds noir" of the communist regime which sacks them. In a Party ridden by factionalism, this could be a real political danger.²

The behaviour of Hungarian enterprise directors during the late 1950's strongly supports Gamarnikow's conclusion. They found themselves, subsequent to the 1957-58 so called "piece-meal decentralisation" to be in a highly unfamiliar and uncertain terrain, buffeted by conflicting economic forces. As political appointees who were politically responsible for the success or failure of their enterprise, naturally enough, they pulled back towards the "certainty" and relative security of the traditional detailed command system. Economic decentralisation to them signified a high degree of uncertainty and consequently a less than secure career pattern.

Basically two methods were used during the mid 1960's to reverse this managerial "pull". The first was to eliminate "positional insecurity". Managers were given explicit guarantees from very high Party sources on numerous occasions that the NEM would neither be preceded nor followed by a shakeup

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1. Imre Vajda quoted in East Europe, Vol. XVII. No. 4, p. 32.
 2. Michael Gamarnikow, Economic Reforms in Eastern Europe, op. cit., p. 119.

of managerial personnel. Entrepreneurial skills were to become more important under the new system of economic control, but managers lacking such skills were not to be removed from their jobs, i.e. were not to be penalised, on that account. Instead of demotion, the "old school" managers were to be first of all put through a series of new management training courses provided by the new centres in the ministries and secondly to be provided with additional administrative support staff consisting of people that were in possession of the newly needed entrepreneurial skills.

The existence of this conscious tactical consideration vis-a-vis enterprise managers has been brought home to the author on numerous occasions during trips to Hungary between 1971 and 1973. It has also been substantiated by a well known student of Socialist managerial behaviour, David Granick, who writes of being informed, while in Hungary, that a conscious political decision was made not to permit the NEM to upset the standard pace of managerial turnover:

...there may be no rapid change of management in the enterprises; the new system must be operated by the same enterprise directors who have worked so long under the traditional centralised directives. Clearly the objective of this restraint is to avoid the creation of any powerful political group which would have a strong interest in reversing the reform... Security is the name of the game.¹

The second key tactical measure relied upon to elicit managerial support for the objectives of the reform was purely financial. A new profit sharing scheme was worked out by the reformers,² and approved by the Party

1. David Granick, The Hungarian Economic Reform, op. cit., p. 6. (Italics added)

2. On the question of material incentives, profit sharing, and the new system of wage and income regulation, see István Buda and László Pongrácz, Személyes jövedelmek, anyagi érdekelttség, munkaerő gazdálkodás (Personal Incomes, Material Incentives, Manpower Policy), (Budapest: Közgazdasági és Jogi Könyvkiadó, 1968); Edit Jávorka, Jövedelemszabályozás és anyagi érdekelttség (Income Regulation and Material Incentives), (Budapest: Kossuth Könyvkiadó, 1968); István Buda and László Pongrácz, "A munkadijazás és az anyagi ösztönzés rendszere" (The System of Wages and Material Incentives), Közgazdasági Szemle, Vol. XIII, No. 1, 1966; Jánosné Deák, "Néhány gondolat a vállalatok anyagi érdekelttségének kialakuló rendszeréről" (A Few Thoughts on the Shaping of Enterprises' Material Incentives System), Pénzügyi Szemle, No. 1, 1966; Gábor Révész, "Vállalati nyereségszabályozás" (Enterprise Profit Regulation), Közgazdasági Szemle, Vol. XIV, No. 5, 1967.

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leaders, promising massive financial benefits to management after the implementation of the reform. Top management was to be able to receive bonuses totalling 80% of their basic pay in the event of net enterprise gains or profit at the end of their financial year.¹ These financial benefits in the events of profitable production, coupled with a strong guarantee that unprofitable production would not be permitted to jeopardise job security, were extremely important concessions and placed Hungary's managerial class into a singularly privileged position within Hungarian society (see for example Table VII.1.). As Géza Lauter pointed out:

The acceptance by the central authorities of management as a critical factor in the long range success of the NEM led to a widespread social recognition of managers as an important and influential group. The most tangible part of this recognition was an increase in their total income. Although basic managerial salaries were not increased to any significant degree, managers were more than compensated for this through the extra income that they received from the profit-sharing plan and special bonus payments... By the end of 1970 most top managers already owned private cars, weekend homes, or a piece of property along the shores of the fashionable Lake Balaton... Consequently, soon after the implementation of the NEM, it became apparent that managers as a group started to emerge as a new technocratic elite of Hungarian society.²

In sum, the promises of job security, the prospect of being retrained and re-tooled in new managerial skills at the state's expense, the promises of increased transfusion of new managerial consulting staffs and, finally, very substantial financial incentives, all these together combined to provide a rather "warm managerial atmosphere" for the NEM which greatly increased the chances that the reform blueprints would be implemented, rather than resisted.

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1. The three tier profit sharing scheme had to be abandoned in 1969 because it created a political furor among industrial workers as well as white collar administrative personnel. However, this did not result in decreased managerial bonuses. Managers began to receive bonus payments out of the ministry's own funds, rather than from the enterprises' profit sharing fund, and their financial status therefore did not suffer. Since the new ministry bonuses were not actually tied into profits, it is highly questionable whether their function is to underpin the managers' profit maximand — which reinforces our "theory" that their function is essentially one of "buying" managerial tranquility during the politics of reform.
 2. Géza Lauter, The Manager and Economic Reform in Hungary, *op. cit.*, pp. 81-82; see also David Granick, The Hungarian Economic Reform, *op. cit.*, p. 9.

Table VII.1.

Relationship between Total Income of Managers, Workers, and Supporting Personnel, 1968-1969

(Workers and supporting personnel - 1.00)

| Position | 1968 | 1969 |
|----------------------------------|------|------|
| Directors | 2.65 | 2.94 |
| Middle Managers | 1.71 | 1.83 |
| Workers and supporting personnel | 1.00 | 1.00 |

Source: Figyelő, May 26, 1971. p. 3.

7. Industrial Workers and the Trade Unions

Let us turn finally to that stratum of Hungarian society for whom above all, it is claimed, Socialism is being constructed -- the industrial proletariat.

The utilisation of latent worker dissatisfaction with Hungary's socio-economic status quo by political groups seeking power and influence has been a standard feature of the political process in Hungary at least since 1945. Between 1945 and 1948 Rakosi and his Muscovite wing utilised in a truly brilliant fashion the pent-up rage of Hungary's working classes to help smash the power of the various anti-Communist political parties. We know what happened after 1948. While during the 1960's the reformers were able to devise a series of tactics with which to diffuse possible working class suspicion of economic reform, today opponents of the reform are steadily dismantling many of the key reform principles, once more in the name and with the apparent support, of the workers. (In a society in which the workers have hardly any say in the formation of socio-economic change it is not at all surprising that very frequently they become gullible to the promises made to them by opposing political factions and grasp on to strands of hope ex-

tended to them by the "technocrats" one day and by the "technocrats'" opponents the next).

But with the exception of a massive, physical revolutionary upheaval as in 1956, or scattered open mass demonstrations, the industrial proletariat in the Socialist countries can rarely bring about a radical change in the existing socio-economic environment on its own (this of course is symptomatic of the degeneration of Socialism in the USSR and Eastern Europe). The workers do not dominate the process of production in Eastern Europe -- the Party does! Nevertheless, if there is a certain amount of pent up workers' dissatisfaction with current socio-economic practices simultaneously with Party factionalism, this working class dissatisfaction can become an important factor in the process of change.

We do know that as in all of the Socialist states, the talks in Hungary about impending large scale economic reforms also began to arouse a not inconsiderable working class anxiety during 1965-66. (This anxiety was reinforced by a rather sharp and unexpected upward adjustment of some consumer and producer prices at the end of 1965 which the authorities argued was necessary to prepare the way for the reform.)

There were three areas of advance working class anxiety about the NEM. Firstly, as a consequence of vastly increased managerial prerogatives and the designation of profit as management's maximand, the workers feared that their own burdens would increase (e.g. a stricter wage regulation, tighter norms, etc.). Secondly, they were concerned that the new economic control mechanism and the proposed "flexible" price system would ultimately lead to a rapid increase in prices and thus to stagnating real wages. (This fear was particularly sharply reinforced by the 1965 price changes.) Thirdly, workers were concerned that the reform, which would place a high premium on efficient and profitable production, would result in the shutting down of numerous unprofitable plants and premises and, as such, would result in "massive unemployment".

These fears about the prospect of increased sacrifices of inflation, stagnating wages and unemployment were increasingly evident during 1965-66, when there was a steep increase in the number of political trials and in the

number of arrests being made under the category of "incitement towards unrest".¹ At the delicate stage preceding the introduction of the reforms, these social pressures could hardly have been ignored by the reformers. To their credit, the reformers again reacted quickly, flexibly and above all with clarity, to diffuse the anxiety of the working classes at least temporarily. How did they do this?

The first step was the initiation of a truly massive propaganda and mass media exercise geared towards the workers and designed to allay their fears. In short, an unusually well produced theatrical programme was offered to the workers. The central message of the mass media was this: the state will simply not permit the emergence of unemployment under any circumstances whatsoever; the reform will not be allowed to lead to the stagnation of real wages or to inflation; all of these areas will be placed under specific, firm central control, and the workers can rest assured that the state will not be lax with its powers, and that it will definitely step in if these areas get out of hand.

But propaganda promises alone would not have sufficed, especially not for those high ranking Party people (e.g. Biszku, Németh, Gáspár) who, from the outset, were somewhat distrustful of the reform, and who shared the three anxieties outlined above. These leading Party men were genuinely concerned lest the lessening of direct central economic control would result in new economic "distortions" which then would certainly manifest themselves on the political plane as increasing socio-political instability. And so specific, legal "economic brakes" had to be built into the new economic model in order to concretely dispel the anxiety of all concerned.

These "brakes" have been described by others² and here we need only to list the most obvious ones: subsidies were maintained in the case of many enterprises, a strict policy of average wage control was retained, turnover tax rates were not all unified, many prices were left under strict central control, the organizational concentration of industry was not broken up, raw materials prices were sheltered from world market prices, many exemptions

1. See Paul Iendvai, "Hungary: Change vs. Immobilism", Problems of Communism, Vol. XVI, No. 2, 1967, p. 13.

2. See for example Richard D. Portes, "The Strategy and Tactics of Economic Decentralisation", op. cit., or David Granick, The Hungarian Economic Reform, op. cit.

were permitted on an individual basis to capital charges and payroll taxes.

The main function of most these "brakes" was to guard against both unemployment and inflation and to forestall any consequent socio-political instability which might have accompanied the insertion of the new economic mechanism in full force into the traditional social, political and economic culture of command economic control. Or as Granick so aptly put it, "Security is the name of the game".¹

There was a final element to this overall tactical approach towards the neutralisation of hostile social forces. As has been mentioned, the idea of Workers' Councils as a countervailing force to increased managerial prerogatives was unambiguously rejected by the Party leadership right at the outset of the strategic movement towards reform. Rather than institute a reform of that type, the Party decided to reform and widen the prerogatives of traditional Trade Union structures. This widening, it is important to grasp, did not include participation in the management of enterprises or the right to bargain collectively for the unions' membership with management. It was, nevertheless, significant in that it provided Trade Unions, for the first time since 1945, with the formal right to veto, if need be, any transgressions committed by management against any principles of the new Labour Code or against any principles of the collective contract drawn up between management and the local union representatives.²

Under the terms of the new Labour Code, the collective contract signed between the enterprise management and the local Trade Union committee was raised to an important new height. Unlike the situation prevailing in the other Socialist states, the contract had to define clearly all of the rights and duties of management and workers with respect to each other under the new principles of economic control, and, once approved, the terms of the contract could not be overstepped either by management or by the ministries.

We must point out, for this is sometimes overlooked, that the new Trade Union prerogatives did not in fact constitute a decline in the Party's leading role within the Trade Union movement. If anything, both at the centre (in the general secretariat of the National Trade Union Council) and at the

1. D. Granick. ibid., p. 6.

2. Law No. 2 and Decree No. 34. Published in Magyar Közlöny, October 8, 1967.

At this level, the influence of Party apparatus within the Union was more active than before. The general secretary of the Trade Union Council, Sándor Gáspár, was a full Politburo member already before the introduction of the NEM. He is a long time and dedicated Party apparatchik a close friend of János Kádár, Béla Biszku, and Károly Németh, and one of the strongest "value oriented ideologues" within the Party. His promotion to this post was clearly designed to ensure that this body should remain firmly in the hands of the MSWP, and not turn into a weapon directed against the Party leadership, as had happened in 1956.

All together, the widespread propaganda drive, the specific and unambiguous official statements on the guaranteeing of "no inflation, no unemployment, no decline in real wages", the publicising and concrete legal insertion of economic brakes, and the granting of new Trade Union prerogatives greatly defused and dampened the workers' hostility prior to the introduction of the NEM.

In summing up this section, we may refer to a comment of Tamás Zala who, at the height of the political battles in Czechoslovakia during 1968 over the forms and contents of the Czech NEM, said that "In Hungary things are going rather well because of the previous political adjustments".¹

The focus that we have selected, might have created the incorrect impression that all of these strategic and tactical moves were the product of some secret, united reformist blueprint on "how to successfully sell an untried product". This is very far from the truth. There were, from all reports, sharp and heated arguments within the Party leadership and among the economists advising the Party, on virtually all of these moves. Virtually all of the tactics described were the product of a giant exercise in compromise and concession to the forces of tradition, dogmatism, and suspicion.

In this chapter on the strategy and tactics of marketing the NEM we have intentionally ignored the systematic analysis of one question, viz: Granted that these moves were decisive in bringing about a smooth transition, did they not constitute a long term threat to the viability of the model? This question is certainly crucial, and it is essential to direct a close and systematic gaze at it if we are ever to work out the full political,

1. Magyar Nemzet, June 30, 1968.

social and economic requisites of a viable Socialist guided market model. This question is, however, clearly at a 'higher' stage of analysis than that being used in this dissertation. At our level, we have intentionally restricted our focus to the analysis of the forces of change, to the understanding of why such a mechanism as the NEM was thrown up on to the surface of the political-economic stage in Hungary, to the short run strategy and tactics of inserting a new economic mechanism into the traditional setting, and to the process that contained these traditional manoeuvres within the bounds of relative political stability.

We can, however, say that for many of the leading and long time economic advocates of market Socialism, some of the tactical concession to socio-political stability were considered so great as to severely jeopardize the long run viability of the NEM. In many cases, however, their doubts were outweighed by the hope that perhaps, over time, the first steps into the realm of a new economic mechanism might be reinforced by further steps (rather than, as is the case today, detracted from), and by the hope that the pre-1968 forces of conservatism, suspicion, fear and compromise would diminish so as to permit the full unfolding of a genuine Socialist market mechanism: "Thus we never live, but only hope to live".

CONCLUSION

The adoption of a uniform command mechanism of economic control by the Socialist states shortly after WW II was not the product of "objective economic necessity" but of subjective political choice, mysticism, and Soviet imperialism.

As we have shown, Hungary began the construction of Socialism against tremendous economic constraints (massive war damages, no favourable territorial settlements or UNRRA aid to speak of, massive Soviet economic exploitation, industrial backwardness, a shallow raw materials base, excessive military expenditures, etc.).

While all of these constraints had demanded that Hungary institute some form of economic planning they certainly did not demand that type of economic control and those economic policies that were pursued so relentlessly by the Hungarian Communist leadership; especially after 1947.

The experience of 1947-1953 suggests that the command system was extremely wasteful with Hungary's scarce resources. The "inevitable errors" coupled to the massive Soviet extraction of capital and to the excessively ambitious policy objectives of the HWP could only be sustained by an unusually ruthless overlay of the political and social components of the mechanism of economic control. The social and political costs of the coveted prize of "steep ascent" were truly staggering in Hungary, and it was the inability to continue meeting those socio-political costs that led to the system's first genuine crisis in 1953.

With Stalin's death a growing number of economists and some politicians began to point out in Hungary as elsewhere that the command model could not harmonize social and individual interests and in fact did little more than press down, as forcefully as possible, the subjective and frequently erroneous political preferences of the ruling political elite. In other words there was a growing consensus of opinion in Hungary, that it was the absence of a "self-correcting mechanism" from the body of the old model that was responsible for the stream of policy mistakes of the previous years. These policy mistakes, and the obvious micro-economic waste created by the

command model could only be kept in check by a reduction of living standards and by the most severe political ruthlessness.

This conviction about the cause and effect relationship between the command economic model and the political ruthlessness and rigidity of the Rakosi regime was clearly expressed by a growing number of economists in Hungary during the mid 1950's. For example, one of the first and most systematic analysis of the command model, written during the mid-1950's in Hungary, concludes that

I have so far discussed excessive centralisation as an economic issue and have tried to analyse its influence on the working of the economy. In fact, however, a close connexion exists between the phenomenon of excessive centralisation and various problems in the field of political administration. These in turn are ultimately bound up with our social arrangements as a whole...]

For other statements in this direction the comments of J. Bognár, F. Donáth, I. Nagy on pp 184-187 above are also apposite.

Attempts to work out a new mechanism of economic control, initiated by the administration of Imre Nagy in 1953, were politically sabotaged by the Rakosiite faction of the HWP. The reforms were sabotaged not because they were economically unsound but simply because they put into question the subjective essence of Stalinist type Socialism in Hungary. By 1955, the movement towards reform was openly reversed by the Party, and the construction of Socialism continued on its supposedly inevitable course, until suddenly it ran head on into a massive and desperate proletarian fist in October 1956.

At this moment guidelines for a new economic mechanism began to rain down on the central political decisional area. All of these without exception rejected the traditional framework and the old plan-breakdown system. All of them argued for the necessity of a comprehensive (as opposed to piecemeal) new economic mechanism that was to rely on indirect economic guidance rather than on detailed physical commands. Most of these guidelines emphasized that the need for a comprehensive reform is not purely a technical-economic one but a much wider socio-political one as well. This was the argument, for example of the Gado, Wilcsek, et al proposals, (see pp. 233 above) of the editorial board of Közgazdasági Szemle (see pp. 216 above)

I. J. Kornai, Overcentralisation in Economic Administration, op. cit., pp. 129, 233.

and even of the Party's Central Committee (see pp. 140, 212-3 above) meeting for the first time after October.

Between 1957 and 1958 all of these demands for comprehensive reform were ground into the dust by the Party not on the basis of economic arguments but by the combined forces of Soviet imperialism, factional strife, political tradition and ideological dogmatism. In rejecting the idea of the guided market model in 1958, the Hungarian Communist Party made no use whatsoever of its later, favorite argument which justifies the need to switch from the command model to the guided market model by the growing maturity of the Socialist economy. The Party did not reject the guided market model in 1958 because it was premature, and it did not go on to assure the reformers that later on, once the economy is more developed, their ideas could be raised anew. It simply asserted, categorically, that the command system is a permanent, immutable feature of the transition to Socialism, that it is an essential prerequisite for maintaining the leading role of the Communist Party, and as such can never be put into question.

In the final analysis, therefore, the guided market model was rejected prior to 1960 purely because of a fear that the model would increase the rights of producers at the expense of Party functionaries. While recognising the need for reform, neither the Soviet, nor the Hungarian Party establishment was ready to allow an alternative such as market socialism to interfere with the traditional pattern of its political-economic rule.

What has changed in the 1960's? For one, many of the old economic problems did not go away, and some of them (e.g. lagging technological development, the poor quality of production, inefficiency of investments, low productivity gains, inefficiency of foreign trade) became particularly noticeable to political decision-makers as further gains in extensive inputs of economic growth began to be more difficult to come by in the 1960's.

After a series of partial economic reforms, between 1957 and 1965, had failed to bring about a substantial improvement in these areas, the Party finally decided that the main source of its continuing economic problems must reside within the actual essentials of the old model, namely in the binding plan targets, physical allocation, and fixed non-scarcity prices.

While economic factors -- such as Hungary's acute foreign trade

dependency, and the growing difficulty of fuelling economic growth by additional inputs of labour, capital and land -- would also strongly argue against the use of commands, it was, in the final analysis the socio-political implications of the old model that caused it to be rejected.

In Hungary, the full utilisation of resources, in order to overcome micro-economic waste created by command economic control, was particularly disruptive in a socio-political sense. The severe restrictions it placed on consumption, the strict curtailment of sub-system autonomy, the prevalence of binding commands and taut-planning, all of which required the strictest of political regimentation, not only were seen to be responsible for the October uprising, but also were identified as the principal sources of Hungary's continuing social backwardness in the 1960's.

Moreover, the Party leadership also recognised that there was an intimate relationship between the command system and the absence of widespread creative participation in the construction of Socialism by individuals and social groups. The economic problems that we have outlined earlier, coupled to the growing structural complexity of the economy had demanded a sharing of responsibility and participation. It was the growing burden of a monopoly over the management of all aspects of economic life in an increasingly complex economy that compelled the Party among others to share out or decentralise some of its once sacred functions.

This decision, to opt for a guided market model rather than a more perfect command system was also greatly facilitated by a series of personnel and attitudinal changes that took place at apex of the Party during the early 1960's. By the mid 1960's Hungary was equipped with a political superstructure that was far more tolerant of economic decentralisation than ever before. Undoubtedly the so-called "technocratic revolution", the placing of some notable champions of comprehensive economic reform into the Politburo, and the relatively widespread political influence, cohesiveness and resourcefulness of the economic reformers were also instrumental in gaining official acceptability for an idea that after all went back to the early 1950's.

A factor of exceptional significance in these developments was the relatively favourable external political climate towards economic reform

during the early and mid 1960's. Not only had "Kádárism" won the trust of the Kremlin leadership by the early 1960's, but the Soviet leadership itself took a much less hostile and rigid view to economic reforms than before. This more favourable external political climate, the growing reformist tendencies in the region coupled to the temporary vacuum or power deflation in authority in the Kremlin subsequent to Khrushchev's removal from office were also highly significant in enabling Hungary's political decision-makers to move as far away from command as they did.

And finally the radically different strategy and tactics of the reformers during the 1960's, these were also instrumental in permitting Hungary to move into a rather unique reform position by 1968. Suffering two previous defeats, on political grounds, the reformers were extremely cautious and politically supremely astute the third time around. While their post 1960 objectives were identical to those which they so vociferously articulated during the 1950's, their earlier experiences taught them that, for the sake of survival, they must downplay the political concomitants of the NEM. Only with a few exceptions (e.g. p. 324 above) and in very narrow circles, did they argue in the 1960's that economic decentralisation is a means towards political democratisation and increasing workers' rights. While deeply longing for a more open society, one that "...will allow for the most unhampered unfolding of human abilities", they were very circumspect indeed (unlike in the 1950's) about arguing this line. They had in fact learned that the leading constraint on the kind of reform they wanted was the Communist Party and that the Party was capable of vetoing anything that might suggest a change in its traditional neo-Stalinist role in the transition to Socialism.

In a way, we may say, that the failure of the reformers during the 1950's was an important prerequisite for their success in the 1960's. While the Hungarians were frequently chastized by their Czechoslovak colleagues during the mid 1960's for being "too cautious", "too conservative", they knew on the basis of their earlier experiences (which the Czechs did not have) that caution and political tactfulness is a paradigm prerequisite for success. While one may ostensibly argue that their political tactfulness, the political compromises they made in order to be accepted had seriously undermined the future viability of the NEM, it can not be denied that the original political acceptance of the model by the Party leadership was a condition of this cautious, political strategy.

Our analysis of the movement towards reform in Hungary suggests that there were not only a multiplicity of causes (economic, social, political) but also a multiplicity of purposes of the new comprehensive economic mechanism. Consequently attempts at criticising or justifying the totality of the model solution worked out by the Hungarians by reference to only one set of causes or purposes, is bound to be misleading. Indeed, our analysis sharply underlines the necessity to approach "model feasibility" under Socialism in a multidimensional sense rather than from a purely technical-economic angle. Generally speaking, it is the failure, both in the East and the West, to pursue such a multidimensional approach that created problems, first in the functioning of Socialist economic models, and secondly in our understanding of the problems and feasibility of alternatives.

What forces, what type of commitment brought the political leadership to the point of actually leaping into the 'traffic' of economic change? If the decision to wade into the turbulent waters of economic reform was purely economically necessitated, then one might as well give up the battle and rejoin the rest of the Socialist neighbours who are sitting perplexed on the shores of reform. They are not faring that badly with their traditional economic framework and, more importantly, they are not having to battle the many political uncertainties and unknowns thrown up by a NEM. In short, we have been obsessed with the idea that, until we come to full grips with the principle of "necessity" in an integrated, socio-political sense, we are forever going to be vacillating between the two sides, and if we embark on a course of reform as such, we are forever going to be capsized by new unexpected forces (e.g. a sudden increase of foreign trade import prices, a deterioration of the terms of trade, etc.).¹

We do not have, nor did we intend to provide, a precise, all-inclusive causal explanation of why a particular society came to rest in a certain position at one moment of its development. Such stations are the products of the fluid interplay of a wide assortment of "forces of change". What this research tried to bring out and establish first of all was the immense necessity of focusing vigorously on the generative nature of politics in Socialist

1. Paradoxically, just as in 1965 Hungary's "open economy" was advanced by many as the reason for the NEM and for economic decentralisation in general, so too today recentralisation is reduced to the same dynamics.

economic development; that the strategy for economic change must at one and the same time be a strategy for political change; that the design of political models of market Socialism and the design of the political and social components of a new mechanism of economic control cannot under any circumstances be treated as incidental.

The lack of a political theory of Socialist economic reform has continuously distracted the attention of commentators and students from examining this side of the question of Socialist economic change in a systematic way. This theoretical poverty continues to objectively turn the attention of scholars in the direction of conventional, one-dimensional analyses of change.

Our own evaluation of the movement towards reform in Hungary suggests that Socialist economic reforms, and Socialist economic models are, indeed products of "stages in political development". (We understand political development as incremental change, and not as a value laden ethnocentric concept signifying more or less "modernity" -- whatever that may mean. We also do not look at political development as a unidirectional movement but as one that is frequently reversible.). The whole history of reform in Hungary, the timing of new ideas, the rejection of new proposals and then their later acceptance by the political superstructure refutes the conclusions of I.M. Kaser and J.G. Zielinski.

The reform in Czechoslovakia in 1958 or in Hungary a decade later... were not stages in political development... [there is an] absence of an unequivocal relationship either way between the forms of political and economic administration.¹

We tried to show in this dissertation that, political variables played a primary rôle in deciding the final outcome of economic reforms. We have consistently tried to demonstrate, however, that this conclusion should not lead us to think that therefore, economic variables and economic problems are of secondary importance. On the contrary, we have tried to demonstrate the close interconnection between politics and economics and rather than denigrating economic problems we have chosen to examine economic problems from the perspective of their social and political effects, that is, from

1. I.M. Kaser and J.G. Zielinski, Planning in East Europe (London: The Bodley Head, 1970), pp. 15-16.

the perspective of their interaction with the political superstructures of the Socialist economics.

The emergence of market-socialism in Eastern Europe has excited considerable optimism in some circles about the demise of Communism. Simultaneously, among Western Marxists, this tendency has excited a good deal of anxiety about the future of Socialism in that part of the world.

Some of the Western optimism expresses itself roughly in the following manner. The need for economic reform, the current economic problems are a testament to the monumental failure of central planning. The only way to rationalize those economies is to decentralize decision-making, to replace the planners with the price mechanism, to reverse the primacy of politics over economics and to designate the forces of supply and demand as the principle agents of economic development. Only in this way will they be able to bring about a sharp technological upswing in their economies; only in this way will they overcome their present economic deficiencies. We are then told that such necessary economic reforms will undermine the political systems of those societies and will sweep Communism away as a political system. To these Western critics, the logic of what they see as an objectively necessary Western economic mechanism will undoubtedly bring with it the logic of a Western type political mechanism.

On serious examination, this Western interpretation is very similar in its methodology to dogmatic or mechanistic Marxist determinism. In effect it argues that the economic base alone determines a society's political superstructure, that the objective necessity of the new pluralistic economy automatically brings along the necessity of a new pluralistic polity. It is often these same people who condemn Marx and Marxists for their 'crude and unverifiable economic determinism'.

The Western 'Leftist' opposition to the socialist guided market model, oddly enough, merely parrots this, shall we say 'Rightist', rationalization. The only difference really between the two positions is that while the 'Rightists' are pleased and are optimistic that history is finally on their side, the 'Leftists' are profoundly disturbed about this tendency towards subjectivism.

Paul Sweezy, probably the leading Marxist political-economist in North

Applying Sweezy's 'logic' to Lenin's introduction of the NEP in 1921 -- a reform which widened the scope for market allocation -- would tell us that by this move, Lenin, "whether he knows it or not, whether he likes it or not", placed the USSR into a one way street towards an essentially capitalistic society, and as such, the USSR was building capitalism and not socialism between 1921 and 1928. The restriction of free-market resource allocation by certain capitalist governments in the West, the enactment of price and wage controls and the establishment of governmental planning agencies such as in France, all must, by Sweezy's logic, be seen as steps in the direction of Socialism. So who is confusing whom?

No, we can not judge the movement towards or away from socialism by 'essentially' these categories. The direction of reform towards or away from socialism should be judged essentially by the increased or decreased domination as Bettelheim this time rightly argues, "...of the immediate producers over their conditions of existence and therefore, in the first instance, over their means of production and their products".¹

We need to formulate matters in another way than in terms of 'plan' and 'market'. More precisely, we need to recognize that if 'plan' in general is not the 'pole' of a principal contradiction the other pole of which is 'market' it is because the real contradiction...concerns the domination or non-domination by the producers over the conditions and results of their activity... To identify 'plan' with socialism and 'market' with capitalism (which is true tendentially) aids the bourgeoisie (and notably the Soviet bourgeoisie) to exercise its domination under the cover of a 'plan' in the name of which it withdraws all rights of expression from the exploited classes and by the aid of which the exploitation of the masses can be still further increased... Thus, if one recognizes the domination by the producers over their conditions of existence -- consequently over the means of production and the products of their work -- constitutes the essence of socialist relations of production, one must conclude that advance on the road to socialism requires the transformation of the forms of this domination, so that it becomes more and more complete.

The thrust of market-socialism in Czechoslovakia, Poland and Hungary was not in the direction of replacing 'planning' with the 'market'. The reformers aim was to restrict 'commands', which had hindered the fullest unfolding of the essence of socialism, and to perfect the system of planning. The reformers did not call for the elimination of the primacy of politics and of planning by allowing enterprises the freedom to do whatever they wanted

1. C. Bettelheim, "More on the Society of Transition", Ibid., p. 40.

2. Ibid., pp. 40-43.

as long as they made a financial profit. What they wanted instead was to alter, in a comprehensive fashion, the overall mechanism of economic control so that it would radically increase the decisional jurisdiction of workers in the shaping of the economy, but still under the strategic domination of national economic planning. In short they wanted a qualitative change in the traditional exercise of political primacy and economic control and not the abolition of political primacy and socialist economic control. The Hungarian, Czech, Polish and other advocates of the guided market model argued on the basis of first hand experience, that

if it is only the detailed command plan which constitutes or prescribes all of the specific forms of mutual interaction between producers, then the huge superiority residing within the essence of socialist productive relations cannot emerge fully...it stifles the creative power of the working masses...the complete dominance of central commands contradicts the essence of socialist productive relations...in this form we cannot realize the essence of socialist productive relations.¹

They argued as surely all socialists should argue that:

What is essential is that the leading cadres, apparats, and all of the workers and employees should learn how to think, how to act responsibly, how to take risks, to be creative, to learn to make decisions and be accountable for their decisions, to take on responsibilities, to analyze their environments and their abilities and capacities. In the past, because of the existence of direct commands, these basic human activities simply atrophied in our country.²

Regardless of the country, the major pillar in all of these reform conceptions — which, because of tactical, political reasons, received different degrees of emphasis — was to be the radically increased participation of workers in the decision-making and management of the enterprise as well as in the overall national economy. The increasing use of profits and material incentives during the transition towards socialism demands that the direct managerial or decisional role of the proletariat be also increased lest these incentives are turned against the workers by the bureaucracy and by the bureaucracy's managerial-technocratic elites. In short, the new socialist guided market model, as seen by its original architects, was to be kept within socialist parameters by the creation of new structural supports, by radically

1. Zs. Esze, "A Szocialista termelési viszonyok lényege és a gazdaságpolitika társadalmunkban" (The Essence of Socialist Relations of Production and Economic Policy in Our Society) Közgazdasági Szemle, Vol. IV, No. 4. 1957. pp. 414-416.

2. O. Gado, J. Wilcsek, et al., op. cit., pp. 373-374.

increasing the participatory rights of the workers in management, by sharply increasing the direct political-economic role of the workers in the transformation of their material environment.

It was precisely this central element of the model that was vetoed by the ruling party elites in Czechoslovakia, Poland and Hungary. It was, the official party leadership and not the architects of the guided market model, who undermined the essence of socialism and the domination of producers over their environment. The party leadership accomplished this by insisting that the model could only go into force if it were purged of this key participatory element, if it did not touch the traditional prerogatives of the party bureaucracy, and if it did not impinge on the traditional relationship between management and employees at the shop-floor level. It is worth while to illustrate these points with references to the party leadership's own statements on these. Karoly Nemeth, who replaced Rezso Nyers in 1974 as Hungary's top Party economic boss, clearly spelled out at the HSWP's IXth Congress in 1966, the impact of the Hungarian New Economic Mechanism on the party bureaucracy:

During the course of the closed party meetings prior to the Congress, at the factory and district party meetings, it was invariably asked, 'How must we develop our party work taking into consideration the reform of the system of economic control... The tasks of the party organisations and of the communists under the new system of management remain unchanged and are to continue unchanged on the same foundations as before.'¹

János Kádár, the Hungarian party leader, vetoed workers self-management on a number of occasions, as we have shown on pg. 366 above.

It was, in other words, the party leaders who undermined socialism, by preventing the workers from exercising any direct role in managerial decision making at the shopfloor level. They strengthened the power of the technocratic managerial elite and in effect did reinforce the domination of commodity relations over the working class. When the socio-political pressures of this distortion became acute in Hungary during the early 1970's, the party leadership blamed not its own distorted implementation of the guided model, but the architects of the model.

The Western 'Leftist' critique of these reforms (and Bettelheim, in spite of his wise comments on the need to distinguish between "forms" and

¹ I. K. Nemeth, Tettekkel, felelősséggel (With Actions, With Responsibility) (Budapest: Kossuth könyvkiado, 1974). p. 94.

"essence", also dismisses the Czech reformers as "essentially" capitalistic) stems, to a very large extent, from an imprecise reading of the dynamics of political-economic change in Eastern Europe and from insensitivity to the political or tactical difficulties encountered by the reformers.

These difficulties have, indeed, often prevented the reformers not only from implementing but also from explicitly communicating their socio-political solutions. For fear of arousing the suspicions of the ruling bureaucracy and their Soviet guardians, the Hungarian reformers, for example, tended, during the 1960's, to downplay the political ramifications of their new economic mechanism. Learning from their first failures at reform during the mid 1950's, recognizing that economic reform is the child of political conflict, and fearing outright rejection by the strategically superior bureaucracy, they had no choice but to go along with an incomplete implementation of their model in 1968. They did so in the hope that, over time, the distortions and contradictions would be eliminated, and that on the long run the model would unfold so as to increase the domination of the producers. They believed, or hoped, that their tactical compromises would not undermine the essence of the reform. We may thus argue that they followed very closely the Leninist dictum that: "To tie one's hands beforehand, openly to tell the enemy, who is now better armed than we are, whether and when we shall fight him, is being stupid, not revolutionary. To accept battle at a time when it is obviously advantageous to the enemy and not to us is a crime".

It is, in the final analysis, the inability to recognize the tremendous political constraints on the East-European advocates of the socialist guided market model, the unjustified and unfair demand of Western Marxists that their Eastern colleagues should "all die a beautiful death", which is responsible for the prevalent misconceptions about the systemic tendency of the model.

Fighting a half-century long battle at the front lines of socialist construction, tested by the most difficult conditions of the transition, East European socialist reformers surely deserve more from the Western contingent than superficiality and grandstanding. During the heyday of Stalinism Western Marxists more often than not simply repeated the apologetics of Paul Baran, which to East European socialists smacked of support for the birthright of the Stalinist mechanism of economic control rather than support for the birth-

right of the struggle to eliminate such gross distortions of Marxism. To quote Baran:

Indeed, for a considerable time, both irrationality and error will mar also the socialist order. Crime will be committed, abuse will be perpetuated, cruelty and injustice will be inevitable... Plans will be wrongly drawn up, resources will be wasted, bridges will be built where none are needed, factories constructed where more wheat should have been planted... Errors are, however, unavoidable in all human endeavours... As the socialist society matures... it will progressively free itself of the legacies of the capitalist past... It is the usual strategem of opportunists to seize upon errors committed in the advancement of the cause of reason.¹

For the East European socialists what is at issue is nothing less than the total demolition of the notion that the "cause of reason", rationality, can be advanced without a continuous, open and vigorous challenge being directed at its professed reasonableness. What is at issue for them, if not for Baran, is the total rejection of the idea that communists are "special people made of special material", that their mistakes are somehow more noble than the mistakes of the working classes. What is at issue is the birthright of a mechanism of economic control which served to perpetuate the waste of resources and the perpetuation of abuses: a mechanism which, as a result of its inadequacies, required the parallel enslavement of millions of workers so as to attain its targets, a mechanism which, also as a result of its inadequacies, continuously spawned newer economic targets which could only be attained at the expense of the abolition of basic human rights.

What is at issue is that after the passage of a considerable length of time, economic conditions that are the products of erroneous choice do have a tendency to fix themselves in the collective social consciousness as objective determinants, and to reflect themselves in the political superstructure, where they then become not the motors of social progress but rather its fetters.

The experience of socialist construction in Eastern Europe suggests that the toleration of abuses and "errors" committed in the name of the "cause of reason" leads not towards the ever fuller unfolding of socialism, but to the creeping alienation of ever increasing numbers of people from socialist ideals.

The mechanism of socialist economic control is at the centre of the problem of transition — it is the eye of the storm. Indeed, with the issue

1. Paul Baran, The Political Economy of Growth (Harmondsworth: Penguin Books, 1973), pp. 461-62.

of the mechanism of socialist economic control we are grasping the most critical link in the chain of socialism's potential: How to bring about an authentic fusion of social and individual interests, how to breathe life into the union of social and individual necessity.

The Hungarian road towards reform has shown us only the tip of the iceberg of a generation's struggle to pick up the pieces after the hurricane of Stalinism had passed over their domain. It is the story of a generation of social scientists trying somehow to rebuild the severely tattered ideals of democratic Socialism. As the first post-October editorial of Közgazdasági Szemle so clearly expressed it, (see pg. 246 above) their intention was "to build new economic structures...that will place on a new footing the relations of men to one another in the process of production and which will pull out once and for all the basis from all arbitrary and high-handed bureaucratism".

The road to the May 1966 Central Committee plenum was not an easy one for these social scientists -- nor has it been easy since then. Perhaps if we find that they have made oversights in their blueprints we can now understand the process of their economic calculations more fully than before. They were part of a movement that was set into motion by the political effects of the traditional command economic mechanism, and they were part of a movement that aimed at the creation of a new "social structural ideology" with which to attain a transformation of those traditional political effects. Hence the slowness of the reform's arrival, and hence the uncertainty about its survival.

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