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*Economic Modernization and Political
Commitment in Eastern Europe;
The Case of Hungary's New Economic Mechanism.*

by Andrew Gollner.

*A thesis submitted to Carleton University
in partial fulfilment of the requirements for
the degree of Master of Arts in Political
Science.*

*Department of Political Science
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September, 1970.*

The undersigned recommend to the Faculty
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Submitted by Andrew Gollner, B.A., in partial
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of Master of Arts.

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I would also like to thank Miss A. Knox for doing such a superb job of typing this paper.

OUTLINE

1/ Introduction

2/ Chapter I.

Socialist Administrative Planning, The Emergence of the Marketing Concept, and the Politics of Economic Modernization.

- USSR
- Poland
- East Germany
- Czechoslovakia

3/ Chapter II.

The Impetus for Political and Economic Change.

- The Legacy of 'November 4' and the Need for Legitimation.
- The Economic Factor: A Multiplier Effect in the Process of Legitimation.
- The Creation of a New-Look Team.
- The Three Pillars of the Party's Policy.

4/ Chapter III.

The New Economic Mechanism and Its Effects.

1/ The Main Features and Scope of the Economic Reforms.

- The New Pricing Policy.
- Wages and Trade Unions.
- Agriculture

2/ The Impact of the New Economic Mechanism.

- The Power Elite.
- Local Party Leaders, and State Bureaucrats.
- Workers and Managers.

OUTLINE (cont'd)

5/ Conclusions.

"You see, our talks began with economic problems, living standards, prices and with things which aroused the greatest concern among the people. But along this chain we came to the question of how to understand the guiding role of the Party. I believe, that it is from here that we must proceed in dealing with the state of affairs."

- Ota Sik.-

Introduction

*The past sixteen years have witnessed the gradual erosion of the Stalinist methods of rigid, centralized command planning in the economies of the 'Communist Bloc.'*¹ There are many reasons for this erosion, but ultimately they can all be reduced to one common denominator; the fact that the previous period of economic mobilization -- the 'drive to modernity' -- had more or less reached its limits. From the mid 50's on, most of the Communist bloc countries have entered a different and higher stage of economic development -- the 'post-mobilization' stage² -- where the old methods of planning and organization were becoming increasingly dysfunctional.

Holt and Turner define the post-mobilization stage -- or the 'modern stage' -- of economic development as requiring,

¹ By no means are we trying to create the impression that the 'Communist bloc', is a cohesive, homogeneous, monolithic, and rigid entity. By using the term, 'bloc', we are simply referring to the following countries in this paper, -- USSR, East Germany, Poland, Czechoslovakia, Hungary, Roumania and Bulgaria.

² The expression is borrowed from Richard Burks', Technological Innovation and Political Change in Communist Eastern Europe. Rand Corporation, (RM-6051-PR.) August, 1969.

or being characterized by, " ... a high degree of inter-industry interdependence."¹ In such a system, administrative-type, centralized economic decision making, and forced atomization of individual enterprises is not only the source of unnecessary complexity, but is also counter-productive, and thus demonstrates an urgent need for fundamental alterations. For one, the amount of 'input-output information' which the center needs in order to cope with the 'integrative functional requisites' of a modern economy becomes staggering. (To illustrate, the Soviet economist Yevsei Liberman, forecast in 1962 that if the Soviet Union maintains her present planning system every single Soviet citizen will be an employee of the central planning bureau by 1980!) Secondly, miscalculations in any one sector of the economy may cause serious dislocations throughout the economy as a whole.²

It is not unrealistic to say that by 1960 the USSR, as well as the other communist countries, were suffering from

¹ R. Holt and J. Turner, The Political Basis of Economic Development. Van Nostrand Ltd., Princeton, N.J. 1966. p. 373.

² See Fritz Ermath's, The Economic Burden of the Soviet Defense Effort. M.I.T. Center for International Studies, Cambridge, Mass. November 2, 1964.

an acute 'clogging-up' of their central planning bureaus. Complaints about 'drowning in a sea of paper' were frequently heard. One could compare the planners' predicament to that of a puppeteer who, having spent his entire life performing with a five-strings' marionette, is suddenly given a new puppet operated by five hundred strings. Starting on his old routine, he uses many of the new strings, yet inevitably many of them remain idle. In the end his whole act looks sluggish and distorted, with many in the audience demanding their money back.

As Holt and Turner point out "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."¹

According to Marx, the essential pre-requisite for revolution is that contradiction arises between the relations of production and forces of production. Under Capitalism, this contradiction, or antagonism, can be solved only by a violent upheaval, since the antagonism expresses itself in terms of a class war, and because the bourgeoisie which

¹ Holt and Turner, op. cit., p. 375.

possesses a vested interest in the relations of production, will simply not relinquish their preferential positions peacefully. In a very stimulating article, however, J. Bandyopadhyaya points out that:-

*"Marx proved to be a false prophet for what he called the relations of production showed a remarkable degree of elasticity in capitalist societies and changed almost beyond recognition in all their manifestations, mainly owing to the growth of political democracy and of the countervailing power of trade unions--developments which Marx regarded as impossible. It is in the Soviet system on the other hand that the relations of production have proved rigid and have acted as a serious restraint on the productive forces."*¹

The economic stagnation, wastefulness, and declining productivity which by 1960 had begun to pose a serious problem, in the "Socialist Commonwealth", prompted most of the communist states to institute changes in their basic economic organization. Since direct controls have proven to be largely

¹ J. Bandyopadhyaya, "The Changes Ahead" from Brzezinski's Dilemmas of Change in Soviet Politics. Columbia University Press. New York 1969. p. 90.

ineffective, due to the objective changes which had taken place in the environment, the realization slowly began to crystallize that indirect methods may have to be relied on increasingly in order to redress the economic imbalance. More and more communist economists¹ began to emphasize that success of an individual enterprise should be measured not simply by its ability to fulfil or overfulfil the central plan, but that rather by a new criterion, - profit. With the elimination or curtailment of 'command planning', Keynesian methods--such as the use of credits, prices, wages, tariffs, money, and investment levers should be installed as means to supervise economic behaviour.

This changeover from direct to indirect economic controls, however, entails powerful and indeed unavoidable political consequences, and the thesis of this paper is that in the final analysis the economic problems of these countries are fundamentally rooted in politics.

¹For example, Brus, and Lange in Poland; Bogнар, Vajda, Csikos-Nagy, in Hungary; Sik in Czechoslovakia; Behrens, in East Germany; Liberman, Nemchinov, Kantorovich, Novozhilov, in the USSR.

Many observers have attempted to arbitrarily separate economics from politics, as if these economic reforms were taking place in a political vacuum: As M. Gamarnikow points out, however, this view is not valid:

"Pragmatic reforms may rightly be assessed by outside observers as the new suitable ideology--but to a Marxist-Leninist they mean primarily the reversal of the basic tenet--the supremacy of politics over economics."¹

Effective and meaningful economic reforms--provided they are implemented properly, --could seriously diminish and undermine the discipline and leading role of the Party. In most cases-- of course with varying intensity--decentralization and the greater reliance on profits and markets is the attempted solution, but this inevitably leads toward an elimination of a significant portion of the bureaucratic establishment from their present positions of prestige of command.

¹State M. Gamarinkow, Economic Reforms in Eastern Europe, Wayne/University Press, Detroit, 1968. p. 7.

In the short run, the new measures may increase rather than decrease economic and social tensions--such as unemployment, price increase, inflation, as their immediate and most visible results. This in turn may lead to a bitter conflict between those elements in the power structure which have vested interest in the 'old methods', and the 'pragmatists' who advocate changes as the necessary 'medicine' for inefficiency and poor productivity.¹

Using the criteria of decentralization as the main indicator, one may classify the 'Reformers' into two groups. Hungary and Czechoslovakia--as the 'major reformers' --may be placed in group one, while East Germany, Poland, USSR, and Rumania, can be allocated to group two.²

Since the Soviet invasion of Czechoslovakia, in August 1968 however, only Hungary is left in the 'major reformer'

¹*Paradoxically, in such a confrontation, the 'reformers' could find that a large segment of the workers, - as well as consumers - were allied with the 'conservatives', in their hostility towards changes.*

²*Yugoslavia is not included in this study since her economic system is quite unique, and is different in many respects from those of the other 'bloc' countries.*

category. In Czechoslovakia the reforms have been halted--in fact one could say they were reversed--as the following statement of Vaclav Hula, Planning Minister, so vividly demonstrates.

"The economic crisis can only be overcome by radical centralization. We shall have to re-establish party control over the upper echelons of industry." ¹

Interestingly enough, as I will try to demonstrate in this paper, the economic changes envisaged and instituted by the Hungarian communist party are in many ways more comprehensive and far reaching than those in Czechoslovakia, yet until now they have not affected the relative political stability.

The question, or rather one of the questions, which this paper will concern itself with, is the reason for this seeming stability and the evaluation of probabilities for its maintenance: Is the Marxist dictum, which states that a change in the economic base leads to a transformation of the political superstructure, inoperative in the case of Hungary? Since the relations of production in the economic base have shifted

¹Time Magazine. Vol. 95, No. 6. February 9, 1970. p.34.

somewhat towards an approximation of Western economic organization, (although its public ownership remains), is there to be no corresponding shift in the political super-structure? There is the need here to re-examine the notion of convergence. The paper will also analyse in detail the ways by which the Hungarian Socialist Workers' Party copes with the ideological and practical problems raised by the reforms. Needless to say, Soviet attitudes towards these changes, are also of crucial importance.

Other questions which will need to be examined are: What is the likelihood of an emergence of political pluralism? How strong are the groups which oppose the reforms? What are the characteristics of the political and bureaucratic elites in Hungary? How will the 'old guard' managers--who owe their positions for the most part to conformity, political patronage, and unquestioning obedience to the 'Plan' --be replaced?¹ While entrepreneurial skills are the necessary

¹ Gamarnikow points out that in the past, out of four areas of party appointments--ideological work, bureaucracy, party functionary, and management--the least amount of 'intellectual capacity' needed was for managerial work. In other words, the better qualified party members were appointed not to industrial management posts, but into other areas of party work.

characteristic of the new managers,¹ there were few opportunities for anyone in the past to acquire and perfect such talents in a socialist economy.

While one should try as much as possible to refrain from 'black and white' statements, in studying this topic, I have come rather reluctantly to the conclusion that in the final analysis, the Communist countries have only two options, both of which entail a certain amount of sacrifice. They can either forget about economic efficiency and productivity, for the sake of retaining intact their political system or, they may embark on a path of modernization which inevitably will undermine the existing political and bureaucratic establishment. Lenin was quite right in deducing that " ... the economy is the main field of battle for Communism." Recent developments in Hungary, as well as in the other Communist countries, will go a long way in telling us how this battle is likely to end.

¹ According to Rezso Nyers, under the Hungarian New Economic Mechanism, 'socialist managers' must have the same qualifications, and training as their counterparts in the capitalist countries. However, significantly, it is also added, that they must be able to get along with the local, party leaders, and with the factory's labour union leaders. (from Nepszabadsag, March 13, 1966).

To close off this introductory section, a few notes of caution are in order. One must pay a great deal of attention to the 'language' of the 'reformers.' It is essential not to misinterpret them, or to read things into their statements which were not intended or indeed, may not have been made at all.

It is also important not to confuse proclaimed intentions with actual implementations. Practical implementation does not axiomatically follow from theoretical formulations. (A simple but useful illustration of this phenomena is the 'theory and practice' of the Soviet constitution).

One should also refrain from repeating one of the most recurrent omissions, which is to disregard the possibility of the communist parties in these countries finally acquiring the kind of legitimacy, based in hitherto lacking popular support, which may result from economic prosperity.¹

¹Of course radical reforms by themselves do not automatically guarantee prosperity. One should also consider, that perhaps these countries are limited in certain requirements that are essential for dynamic economic growth. (Of course, the consideration of this question belongs to the realm of another paper). As R. Burks points out, "To assert that Stalinist central planning will not provide these countries with competitive efficiency under advanced industrialization does not necessarily argue that the Socialist market will. In the one case, we are discussing economic systems, in the other national endowment. Perhaps even with the greater efficiency of market Socialism, these countries, or some of them, would not develop competitive efficiency." op.cit., p. 39.

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It is far too simplistic to accept the idea that because of reforms, political systems will crumble, that Communism will disappear forever, and that capitalism will take its place, (Oddly enough, this idea, is supported by both the dogmatic Left and Right). Because, as L. Urbanek, very wisely cautions,

"The NEM's success could eventually serve to strengthen the Party. As the initiator of the new systems, the Party would be able to demonstrate its ability to play a leading role in society and its willingness to tackle problems 'creatively.' Concrete economic success would be far more effective in building up faith in the Party and its ideals than all the ideological slogans of the past eighteen years." ¹

It is not the purpose of this paper, however, to present a universalistic interpretation of the interplay of two forces. National characteristics or peculiarities are not simply the synthesis of economic and political inputs. Any attempt at 'forecasting' should also take into consideration the existence of those powerful cultural, ethnic, social and historical forces which have so vividly characterized the history of the states of Eastern Europe.

¹ L. Urbanek, "Some Difficulties in Implementing the Economic Reforms in Czechoslovakia." Soviet Studies, Vol. 19, No. 4. April 1968, p. 566.

The notion, that 'man does not live by bread alone' is perhaps the most apt way of stating, that in the search for new political models, the old nationalist values, political cultures, and forces of self-assertion will indeed play an important, and perhaps crucial, role.

Chapter 1

Socialist Administrative Planning, The Emergence of the Marketing Concept, and the Politics of Economic Modernization

While reading the literature of the present economic reforms, one is constantly reminded that what is being attempted is to make socialism 'economically more rational.' To an outside observer this seems to imply a tacit admission that there is some irrationality in the present system. As K. P. Obelenski, member of the Soviet All Union Research Institute in Agricultural Economics, had said "It must be admitted however, that the exceptionally favourable opportunities inherent in socialist planning, have not always been taken full advantage of in recent years. Sometimes purely administrative, economically unfounded measures were taken instead of applying economic stimuli to planning; principles of socialist planning were violated; and economically erroneous advice and recommendations were given."¹

To understand where one is heading, one must take a look back to where one had started from, and for this reason

¹ K. Obelenski, "Agricultural Planning in the USSR" in Economic Problems of Agriculture in Industrial Societies, Ugo Papi and Charles Nunn eds. Macmillan Company, London 1969. p. 450.

we shall now briefly examine the characteristics of socialist administrative planning. The Marxist economist O. Lange, gives perhaps the best description of what socialist planning is all about when he writes that;

*"The Soviet economy was planned not for the harmony of the different branches, but for one single purpose, namely the most rapid industrialization and preparation of effective national defense...the fact that overfulfilment of the production plan is regarded as a virtue instead of upsetting the general economic plan, shows clearly that Soviet economic planning did not serve the objectives of a harmonious socialist welfare economy, but served political and military objectives to which all other aspects of economic planning were sacrificed."*¹

To be more specific, according to the theory of "centrally planned socialist development", economic activity falls directly under the jurisdiction of the State, and of its Central Planning Bureau. The Communist Party looks at economic growth as a crucial and indeed central part of state power. (Power, or the requisites of power are, of course,

¹*Z. Fallenbuchl, "How Does the Soviet Economy Function Without a Free Market." From, Bornstein and Fusfeld (eds). The Soviet Economy. R. D. Irwin Company, Homewood, Illinois, 1966. p. 40.*

also centrally defined). Consequently, it is the state that controls the allocation of resources, investment priorities, the market mechanism, prices, wages, and the rate of industrial growth. It does all of this by issuing 'commands' and 'targets'--expressed in quantitative terms--which in essence are preferences or biases of the political leadership, and of the planning bureaucracy. Consumer sovereignty is replaced by planners' sovereignty, economic by political determinism.

Communist leaders since 1917 have publicly staked their reputation and their system--hence acquiring a vested interest--in showing that their command economies--which replaced the spontaneous, unpredictable and fluctuating market--can not only achieve impressive growth rates, but can also eliminate such wasteful, disruptive, and costly features of capitalism as the business cycle, or unemployment. Furthermore, they made a public claim that their economies will catch up and surpass the economies of the capitalist states. In the process of achieving all this, they continue, the people living under communist rule will experience a rapid improvement in their standards of living and in their levels of consumption. In short, they claim that their system is not only economically more efficient, but that it is more

humanitarian than capitalism.

But socialist planning had also another important function to fulfil, the social function. A unified, centrally controlled planning system was an integral part of the communist 'socialization process'; its purpose being nothing less than the elimination of centrifugal group interests, individualism, 'factionalism' and their replacement by one common homogeneous value system. Values and attitudes were to be centrally defined, and planning or the issuance of plans for all segments of society was supposedly necessary for inculcating a feeling of community, oneness, and help bring about the emergence of the 'New Communist Man.'

In this scheme there was little room left for individual experimentation or innovation. In fact technological innovation was indirectly discouraged by the system. The money and time spent on an unsuccessful experiment--were it not centrally planned--had to be viewed as damaging to state power, and individuals committing such 'crimes' were severely dealt with in the past.¹ Individual factory managers were

¹ Voznesensky, the head of GOSPLAN, was executed in 1949 for attempting to introduce--on his own initiative--certain reforms in the system of wholesale pricing.

Table 1

Inventions Registered Per 100,000 Inhabitants--1964.

Country	Number of Inventions
Belgium	164
Austria	147
Denmark	131
Norway	121
Czechoslovakia	52
Hungary	20
Poland	10
Roumania	7

Table 2

Patents Taken Out in 1965 and 1966.

	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

Sources: R. Burks. Technological Innovation and Political Change in Eastern Europe. RAND Corporation Memorandum, RM-6051-PR. August, 1969. Pg. 11.

scarcely more than 'errand boys' of the central bureaucracy, and in time they came to be more concerned with how to decrease their 'errands' than how to maximize profit for their enterprise. As R. Burks says;

*"The nature of the system is such that those who should be interested in innovating are deterred from doing so...the root difficulty is the inability of Stalinist central planning to provide automatic institutional reactions to new situations. On the contrary, a totalitarian command economy is specifically designed to prevent automatic, self-perpetuating sub-system processes, technological or otherwise."*¹

It is not the purpose of this paper to give a detailed analysis of the shortcomings of socialist planning. Suffice it to say that damages caused by it have been recognized and articulated by the Communist leaderships themselves. Unemployment disappeared only for a few years while the damages of World War II were repaired, and a heavy industrial base was constructed; after that it was simply 'disguised.' (A constant complaint of the economic reformers is that too many factories have a surplus of manpower which

¹R. Burks, op.cit., p. 33.

puts a drag on productivity and profit maximization).¹ The business cycle which socialist administrative planning was to do away with once and for all, had re-emerged by the mid fifties. (Again, this fact was admitted by communist economists themselves--although, rather neatly, one might add, they prefer to call it a 'quasi-cycle').² Most visible of all the rate of GNP growth was beginning to diminish, and rather than catching up with the capitalists they have been

¹ The Russian mathematician, Yefim Manevich, writing in the journal of the Institute of Economics (Moscow, July 1965), claimed that "At present, the share of the population capable of work but not engaged in the social economy amounts in Moscow and Leningrad to 6 or 7 percent, and in the USSR on the average, to 20 percent; in Siberia it reaches 26 percent, and in some towns of that area, even higher."

The quote appeared in an article by Michael Kaser, "Kosygin, Liberman, and the Pace of Soviet Industrial Reform" from Feiwel, G., New Currents in Soviet Type Economies. International Textbook Company, Scranton, Pennsylvania, 1968. p. 342.

² Bogdan Mieczkowski, "The Unstable Soviet-Bloc Economies." East Europe Magazine. Vol. 16, No. 10. October, 1967, page 5. (Mieczkowski takes the term 'quasi-cycle' from an article by the Czech economist, Josef Goldman, "Fluctuations and Trend in the Rate of Economic Growth in Some Socialist Countries.").

Table 3.

Comparative levels of personal consumption Per Capita.

	Prewar	1964
West Germany--1936	100	100
Czechoslovakia--1937	95	57
East Germany--1936	95	60
Hungary--1938	87	48
Poland--1937	45	40

(Note: Pre-World War 2 figures for Germany are arrived at by a breakdown of personal consumption figures of the two geographic areas)

Table 4.

Annual percentage increase in GNP; 1951-1964.

Area	1951-55	1956-60	1961-64
Unweighted average of six East European countries.	5.9	5.2	3.8
Unweighted average of nine West European countries.	5.3	4.7	5.2

Both tables are based on figures compiled by Maurice Ernst.. "Postwar Economic Growth in Eastern Europe." New Directions In the Soviet Economy. Table 3 was reprinted in East-Europe Magazine, Volume 17, No. 11. November 1968. pg. 11.

Table 4 was reprinted in R. Burks, Technological Innovation and Political Change in Eastern Europe. RAND Corporation Memorandum, RM-6051-PR. August, 1969. pg. 6.

falling behind. (Czechoslovakia had a decrease in her GNP from 1962 to 1963!!). From the consumer's point, the original disparity in the standard of living and consumption levels, which had existed with the West prior to World War II, had not been eliminated, but on the contrary had become wider and more pronounced. (See Tables 3 and 4)

As I have stated before, economic growth had become a highly political and personalized phenomenon. (Personalized in the sense that the production targets, growth rates and production preferences, reflected to a great extent nothing more than the arbitrary and subjective choices of political leaders). Because of this factor then the tensions and problems, which the system gave rise to, were not simply due to growing structural complexity, and hence the difficulty of collecting and 'digesting' adequate information for rational planning. Undeniably, this was an important factor, but ultimately the reason for the failures lay in the imperfect preferences and choices of the political and bureaucratic elite; to put it bluntly, in the fact that many of their choices and decisions were economically meaningful. As Jan Prybyla so correctly observes,

"The economic irrationality of the Stalinist model was not simply derived from the irrational execution of rational planners

choices. It came from a more fundamental source, namely the economic irrationality of the basic choices made by the planners themselves. Since these choices were the translation into economic magnitudes of party directives, the irrationality of Stalinist socialism is a highly political matter." ¹

Having said the above, it is now appropriate to look briefly at the other side of the economic coin--namely the marketing or consumer side. In the USSR after 1928, and in Eastern Europe after 1948, the 'coin', strangely enough, had no 'other side',--if anything, it only had 'side effects.'

In the West, or rather in free enterprise economies, market management and the 'marketing concept' began to attract increasing attention from the beginning of this century, with interest really picking up during and immediately after the catastrophe of the depression years. Attention had gradually shifted to the 'end-user' of products--i.e., to the consumer--largely as a means to eliminate the occurrence of periodic production surpluses. As a result of this shift in interest,

¹Jan Prybyla, "Patterns of Economic Reform in East Europe." East Europe Magazine. Vol. 17, No. 11, November 1968. p. 4.

a whole series of novel economic policies and managerial techniques were created.' Sophisticated design and product development, production schedules, credit facilities, packaging, storage and transportation systems, financial budgeting, capital investments, and the like were developed in accordance with the demands of the market.

Prior to the adoption of these new tools, managerial thinking in the West had been primarily focused on the improvement of manufacturing and production techniques. Today, however, it is generally conceded that the success and dynamism of capitalism, since the depression years, is chiefly due to these new departures, or to be specific, to the emergence of the 'marketing concept.' As J. Felker points out,

"Today it is a foregone conclusion that the free enterprise, if it is to survive the hyperdegree of both domestic and foreign competition, must adopt consumer oriented marketing methods, and adapt company policy in line with the fact that it can best serve itself by first meeting the needs and wants of its customers. The manufacturing and marketing of goods had become so interwoven that the two are recognized in practice by the West for what they have always been in theory--

complementary parts of the productive process." ¹

To sum up what we have said, it has been shown that Communist leaders in the past have opted for centralized administrative planning 'from above', rather than adapt the consumer demand pattern of Capitalism. In their system, economic and structural constraints were rarely if ever considered prior to the ordering of 'The Plan.' The 'targets' for industry were, for the most part, formulated independently of objective conditions.

According to the reformers, the 'rationalization' of the economy starts off with this given and proposes not the elimination of planning--as some have suggested--but rather, it proposes to gear planning according to the structural constraints, conditions, and demands of the economy. The starting point of rational economic planning is no longer political philosophy, but economic rationality, and reality;

¹ J. Felker, Soviet Economic Controversies. M.I.T. Press, Cambridge, Mass., 1966, p. 3.

'plan targets' are to be issued only after the consideration of these realities. In effect then, what is being advocated at the present time is the replacement of 'planning from above' by 'planning from below.'

A good number of commentators have been consistently missing the point as to just what 'rationalization' is all about. Many of them seem to feel that logically the word is synonymous only with decentralization. Yet oddly enough, some of the theoretical approaches advocated in the USSR aim at rationalization through an even greater degree of centralization. These 'ultra-centralizers'¹ envisage the setting up of a planning system which will draw on mathematical and computer technology, thereby greatly facilitating the task of central planners in dealing with structural constraints in advance. Through the use of these new technological methods, so say the advocates of this school, administrative planning can be perfectly rationalized.

All this, however, is not intended to convey that conversely, 'rationalization' and 'decentralization' are contradictory. Indeed, as we have indicated in the introduction

¹*The term is borrowed from Prybyla, op. cit., p. 6.*

to this paper, there are two broad national reform categories, where rationalization is attempted either by moderate decentralization or through a wholesale decentralization process. What must be kept in mind is simply that economic rationalization does not axiomatically involve the creation of political pluralism, nor does it necessarily mean the erection of democratic structures.

It is nevertheless our view, that the movement for 'rationalization' is inherently bound up with the notion of political legitimation. Ever since the first wave of de-Stalinization, and the consequent loosening of coercive and ruthless police methods, the regimes of the Communist bloc have been on the look-out for some kind of self-supporting mechanism by which they could rally popular domestic support. Berlin in 1953, Pilsen in 1953, Poland and Hungary in 1956, and Czechoslovakia in 1968 give ample evidence of popular hostility, and of the kind of political instability to which this can lead.

The elimination of such internal tensions, is without a doubt of paramount importance to the political elites, and until now basically three methods have been attempted: In Rumania, the Ceausescu government tries to forge an alliance with the people by playing on nationalist sentiments. Through

the policy of 'Roumanization', sharp curtailment of minority rights, (especially those of the Hungarian minority in Transylvania), and a visible 'stand-offish' attitude towards the USSR, the present leadership has succeeded in rallying popular support to a far greater degree than at any time in the past.

Another option is that which is presently being introduced in Yugoslavia. Legitimation here relies on granting greater democratic prerogatives to the populace--worker's councils, etc.,--and the government tries to placate hostility by opting a greater section of society into the political arena.

The third possible solution is by improving the economic lot of the population through the raising of their standards of living. (As the saying goes, 'the easiest way to a man's heart is through his stomach.').

These three solutions to the problem of legitimation, are inter-related. Their obvious significance is that they show how even the political elite recognizes that popular cooperation and popular support is much more in need in the post-mobilization period, than it was during the mobilization or Stalinist era. It indicates an effort on the part of the Communist leadership and points out that they are

slowly coming around to recognizing the necessity of finding ways and means to neutralize or defuse popular hostility which had accumulated in the past.

Gamarnikow, and others, are quite right in deducing that there is a difference in the overall orientation between the non-ideological, academic, economic reformers, and the Communist political leadership.

"The basic aim of the Party establishment is to introduce a greater degree of efficiency and rationality into the existing economic system, while retaining full scale control. The genuine protagonists of economic reforms have on the other hand a different ultimate objective. They want to change the system so that eventually it would operate on the basis of purely objective economic considerations." ¹

Gamarnikow sees this as a contradiction in ultimate aims--economic efficiency opposed by political expediency--and he feels that in the case of a conflict between the two, either one or the other will prevail at the expense of the other. We have nothing to quarrel about with on this issue:

¹ *M. Gamarnikow, op. cit., p. 33.*

We are simply asking for a bit more sophistication, and are saying that the two forces need not be looked at as being mutually exclusive. In other words, the possibility should not be dismissed first hand, that indeed one day it might be politically expedient to have economic efficiency.

Before going on to a comprehensive analysis of Hungary's NEM, we should now pause briefly, to take a comparative cross-country survey of the economic reforms that have been, or are being introduced in some of the other communist countries. The purpose of this is not so much to acquaint the reader with the different economic techniques and approaches used by the various countries--indeed this could not be carried out within the scope of this paper--but rather to illustrate the process of interaction between the forces of economic modernization and political commitment.

Popular belief traces the beginning of the reform movement back to an article of Y. Liberman, which appeared in Prauda, on September 9, 1962. Upon serious examination, one realizes that this labelling of Liberman as the 'father' of the reform movement is rather tenuous. A number of commentators have shown that his ideas were not really so original--i.e., they have been articulated by other socialist economists before him (Indeed Liberman himself had made more radical

suggestions in 1956, in an issue of Kommunist)--and that he was really only a 'front man', or a spokesman for a group of Soviet economists, (Nemchinov, Kantorovich, Novozhnikov and others) who had selected him as the least likely individual to arouse a political reaction.¹

Whatever the argument, Liberman's article was nevertheless a milestone in the evolution of socialist economic thought--though not primarily for what it had said, but more so for the fact that it had appeared in print and was given such wide publicity by the Soviet leadership. In a way, it was this which prompted the opening of the 'floodgates' for economic modernization in the 60's. Taking the cue, the GDR, and Poland, in quick succession instituted measures to improve their economic systems, and a great deal of debate began to be generated throughout the Soviet bloc as a whole. In short, coming when it did, the Liberman article "... gave economic pragmatism a more respectable status throughout the Soviet bloc."²

¹ This is an argument advanced by Vladimir Treml, in "The Politics of Libermanism." Soviet Studies. Vol. 19, No. 4, April 1968. p. 572

² M. Gamarnikow, op. cit., p. 50.

Liberman's primary motivation was to improve the situation of the individual enterprise within the framework of socialist planning. He advocated a reduction in the number of 'plan-indicators', which were to be sent down to the enterprise from 'above', and felt that these should be replaced by a single index--the 'profitability rate.'¹ In this new scheme, the enterprise was to be rewarded not for overfulfilment of the plan--as was the case in the past--but for the ability to achieve a higher profitability rate.

Liberman also seemed to favour direct linkage between suppliers and customers, and wanted an increasingly active market relationship, but on this he was rather vague.

A very puzzling aspect of Liberman's writing, was that it analysed very shrewdly and logically the structural weaknesses inherent in socialist planning, yet in the end seemed to ignore or gloss over the basic solutions to some of the most urgent problems of the Soviet economy.

¹ Eugene Zaleski defines the 'profitability rate' as "the ratio of profits to fixed and working capital." in Planning Problems in the USSR; 1962 - 1966. University of North Carolina Press, Chapel Hill, N.C., 1967. p. 79.

*The role of central authorities is never clearly spelled out. The remedy for an irrational price structure is never really announced. And his attempt to establish harmony of interest between plan and enterprise by the use of a mechanical index is extremely unrealistic to say the least. As Zaleski so rightly points out, "The success of reforms 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."*¹

Indeed, Libermanism produces its own irrationalities-- 'many small ones instead of one big one.' It foresees a shift in decision making away from the center, but says nothing about the basic parameters of choice. It talks about profit maximization, but fails to realize that this cannot be carried out meaningfully within an irrational price structure. Jan Prybyla, in a rather colourful, though accurate, fashion summarizes Libermanism by saying that,

"It is a manager's, and business economist's brain-child, and its major merit lies in its not giving nightmares to politicians ... because it is so easily grasped by the bureaucrats, the Liberman

¹ *Ibid.*, p. 85.

*reform ends up with all sorts of conservative caveats hanging around its neck, so that it becomes a half measure rather than basic reform."*¹

The economic reforms announced by the Soviet Union in 1965, derive a good deal of their substance from Liberman's ideas. The main feature of the reforms is a reduction in the number of 'plan indicators' handed down from above; 'Profit' has been given a greater role to play-- basically, however, only within the sphere of 'incentive funds' and 'wage funds.'

The reforms also hope to create greater co-operation and contact between buyers and sellers, and between enterprises as a whole. To achieve this end, a 'moderate decentralization' has been put into effect. The central planning bureau, however, has not been abolished, but instead, a good deal of its work and responsibility has been transferred over to new 'industrial ministries.' These will look after all enterprises within their field of jurisdiction. (This was clearly indicated by Kosygin when he said that, "The

¹ *J. Prybyla, op. cit., p. 9.*

ministries will plan and control production, decide questions of technical policy, material supplies, financing, labour and wages.")¹

The fundamental weakness of the program resides in its ambiguity on lines of jurisdiction, and in the fact that it only allows for administrative price reforms.

("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 years of NEP and to free price formation.")²

The decentralization, however, which was intended to lead to greater rationalization seems very much like a bureaucratic re-shuffling--the creation of new middle level bureaucracies. The extent of 'real' decentralization seems rather small and the role of the enterprise manager is pretty well restricted to the "... determination of the volume and

¹ Kosygin's statement appeared originally in *Pravda*, September 28, 1965. Here it is taken from an article by Alec Nove, "Economic Policy and Economic Trends" in *Soviet Politics Since Khrushchev*. Dallin, A., and Larson, T., (eds.) Prentice Hall Inc., Englewood Cliffs, N.J., 1968. p. 90.

² The statement by Seitnin, who is the Chairman of GOSPLAN'S committee on prices, appeared originally in *Kommunist*, No. 14, 1966. Here, it is taken from *ibid.*, p. 93.

*structure of employment within the limits of the target for the wage bill."*¹

All in all, the 'Kosygin Reforms' have led to some improvement of economic efficiency, but by the end of 1969 a slow-down has again re-emerged. Jurisdictional ambiguities, an irrational price structure, conflicts between political bureaucratic and managerial sectors, have not helped the USSR in achieving greater economic rationalization. A solution to the problem is thus still off in the future.

POLAND:

Of all the countries included in this survey, Poland is perhaps the one which illustrates most vividly the interaction of economic modernization and political commitment.

Poland today is on the verge of its third attempt at economic modernization; the previous two suffering swift and ruthless defeat due to subversive forms of bureaucratic sabotage.

Her first attempt at modernization came very early

¹*"Round Table Conference." -- appearing in G. Feiwel, op. cit., p. 359. (The comment was made by Harvard's economist Abram Bergson).*

in 1956-57, and in a way it was this which led to the collapse of those reforms; they were far too radical and ahead of their times. The 'Yugoslav pattern' appears to have had a good deal of influence on the Polish reformers at that time--e.g., Workers' Councils were to be instituted to function in the management of the individual enterprise. That reform also envisaged an increasingly freer market mechanism, as well as the 'setting free' of a number of prices to the forces of supply and demand.

By 1959, however, all of those who were in the forefront of this attempt at modernization were out of power: 'conservatives' and 'dogmatic' elements having gained control of three of the top economic positions in the country.

There were two sources for the massive pressure which was unleashed against the reforms. Significant external pressure was put on Gomulka to 'stop flirting with revisionism', but in the end the really decisive factor was the "... active resistance of the dogmatic forces within the party and state establishment."¹ The return to centralization,

¹ M. Gamarnikow, "Poland Returns to Economic Reform." East Europe Magazine. Vol. 18. No. 11-12. Nov. - Dec., 1969. p. 11.

however, brought no economic benefits and Poland's economic condition was rapidly deteriorating. It was this situation--as well as the 'legitimizing effect' of the Liberman debates--which prompted the second wave of economic reforms, in 1964.

The fate of the 1964 reforms was not much different from that which befell the one before it. It too fell prey to a massive mobilization of the dogmatic, centralist, conservative bureaucratic establishment, who quite obviously had no intention of parting with the old system of command planning. They grossly exaggerated the threat of the reforms to socialism, and depicted it as a political threat to the party's authority. "The 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."¹

The 'centralist counter-offensive' reached its high pitch in 1967--right after the Arab-Israeli War--when Brus and others were purged from the party. They were accused of advocating 'narrow economism', (i.e. favoring economic efficiency over political expediency) and of 'anti-Marxist

¹From Trybuna Ludu, March 29, 1968. (ibid., p. 13).

dogmatism.¹

During all of this infighting, however, the deterioration of the Polish economy did not come to a halt, and finally it was this factor more than anything else, which led to the third revival of 'economic modernization.' As a result of the 1967 purges and the dropping out of a number of conservatives who had reached 'retirement age', coupled with serious domestic pressure (workers and students' unrest) on Gomulka to finally do something about the 'economic knot', a number of new technical specialists were brought in to the center of power. The present economic reforms are under the sponsorship of this group. Whether they will have a greater success than their predecessors is still hard to tell, although if we may take the 2nd plenum of the party held on April 1969, as an indication of a new trend, then it would seem that Gomulka and the Poles have now come around to recognizing the fact that political changes will have to be initiated before any new economic reform can be

¹ See Bogdan Mieczkowski's "Poland: Politics vs. the Economy." in East Europe Magazine. Vol. 17, No. 12, December 1968. pages 16-19.

effectively installed.

The new economic mechanism is presently in its draft stage, with projected introduction to come on January 1st, 1971. We do not know very much about the scope of the intended reforms although it is quite apparent that a degree of decentralization is one of its aims. The form that this will take will most likely be one where individual enterprises are grouped into industrial associations, (*Zjednoczenia*) but this again would look like a sign of reluctance to drastically curtail the power of a very large and influential bureaucratic element, and thus it appears to be a concession allowing them to regenerate on a new, albeit lower, level.

There are, however, still a number of outstanding issues which have not been decided upon, e.g., the question of price reforms, and as such no doubt this year will be of crucial importance. Without a doubt, therefore, the power of the various contending factions will ultimately go a long way in determining how extensive the reforms will be.

"The really crucial issue is not whether a workable and pragmatic blueprint can be completed in time, but whether the ruling elite will muster the necessary political will to implement such a program of economic reforms without resorting to its traditional tactics of substituting half measures and

*compromise solutions for the real thing."*¹

EAST GERMANY:

Since the beginning of the 60's, East Germany has to be considered as the 'trail blazer' in instituting economic reforms. The 'New Economic System' (NES) was introduced by the Ulbricht regime back in 1963, and it too presents a unique example of the inter-relationship between political and economic forces.

We have shown above that Poland has been the scene, since 1956, of recurring clashes between these two forces and that so far political considerations and bureaucratic priorities have been dominant.

The GDR also fits into this pattern, but in a completely different way. Rather than viewing the two forces as mutually exclusive, Ulbricht has very shrewdly opted for the reconciliation or fusing of the two, by turning economic rationalization into a political priority, and economic reforms into an ideology.

¹ M. Gamarnikow, East Europe Magazine. op. cit., p. 17.

*Like Poland, the GDR also started to flirt with economic reforms in 1956. Fritz Behrends, a leading East German economist, suggested in 1956, that a radical decentralization should be effected. He advocated in very strong terms, that 'economic laws' should have paramountcy over 'political priorities.' (He even went so far as to advocate the withering away of the East German state). As was the case in Poland, Behrends' ideas were also rapidly ground down by the political and bureaucratic machinery. In the end he was forced to practice self criticism for "underestimating the significance of political power for the working class, ignoring the leading role of the party, and minimizing the menace of imperialist saboteurs."*¹

Yet owing to East Germany's peculiar position--dependence on foreign trade, severe labour shortages, the most industrialized economy in the bloc, rapid economic deterioration, and the proximity of the GDR--the party, or rather

¹ Thomas Baylis, "The New Economic System, The Role of the Technocrats in the DDR." Survey. No. 61, 1966. p. 141.

Ulbricht, realized that economic reforms were essential to its own legitimacy. It was as a result of these basic considerations, that the NES was instituted in 1963.

Parallel with the introduction of the reforms, a massive campaign was started by the party, to force the economic and political bureaucracy to 'think economically.' Economic rationalization in effect was turned into a new ideology, with Ulbricht on numerous occasions making it explicitly clear that in the future all those apparatchiki who fail to conform to this new ideology of 'rationalization' will be subjected to demotion regardless of their past.¹

Another significant factor in the case of the GDR was, that at this time the regime brought in a large number of technically qualified personnel to help out in furthering the success of the program.

The decision to 'go modern', therefore, was a political one--and it was made specifically for the purpose of achieving 'political legitimation', through economic modernization. The unique nature of the East German communist

¹ See ibid., pp. 147 - 48.

party, and of its leader, no doubt had a great deal to do with the way things have turned out. As H. Trend observes,

*"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 under way."*¹

The basic features of the East German reforms are as follows:

- 1. The powers of the State Planning Commission were sharply curtailed. Much of the previous authority of this body was transferred over to a middle level bureaucracy--the State Enterprise Associations. (VVB's)--which now control all enterprises within their branches.*
- 2. The 'profitability rate' has become the most important index of enterprise efficiency.*

¹ Harry Trend and Dorothy Miller, "Economic Reforms in East Germany." Problems of Communism. Vol. 15, March - April 1967. p. 31.

3. Administrative price reforms were carried out, to make prices more realistic.

4. The wage and premium system was revised-- to reflect the profitability of the enterprise.

5. Managers were given a greater role in the drawing up of plans.

As a result of these measures, the East German economy has shown fairly good improvements in the 60's, although a number of observers are of the opinion that unless other new and radical reforms are initiated, a decline will soon set in again.

CZECHOSLOVAKIA:

Czechoslovakia presents the third 'alternative' to this clashing of the two forces which we have been considering. As we have shown above, in Poland, the 'political traditionalists' have consistently been holding the upper hand. In the GDR, the two had been reconciled by the Ulbricht regime. In Czechoslovakia on the other hand, the 'political traditionalists' were obviously on the verge of defeat by August 1968.

The Czech reforms were considerably broader and more far reaching than those we have illustrated above. Administrative command planning, for all intents and purposes,

was abolished and furthermore it was not replaced by a new middle level bureaucracy. Managers under the New Economic Model were to have had considerably greater powers than their counterparts in other communist states. A fairly novel and far-reaching price reform was also initiated, with the hope that in a few years a number of price categories could be gradually set free to find their real value levels.

Because the Czech model is quite similar to the Hungarian NEM, we shall not go into its details here. Suffice it to say, that due to its scope and novelty, the political risks and ramifications raised by it were considerably greater than those of the more moderate reforms.

After the introduction of the Czech NEM in January 1st, 1967, implementation was barely hobbling along due to a serious case of bureaucratic obstruction. As a result, most everyone associated with the reform movement came to realize that the root of the whole problem was the existing political system. The party's 'Action Program' underlines this fact when it declared that, "The more profound cause for the perseverance of obsolete forms of managing the

economy lay with the deformities of the political system."¹

The traditional system was predicated on the principle of giving orders from above, and on the tight control over levels of participation granted to lower elements. Clearly, such a bureaucratic and hierarchical political system was not compatible with the newly decentralized system of economic management and market mechanism. Without a political change therefore, none of the major economic and social problems could have been resolved effectively.

Consequently, by January 5th, 1968, political reorganization was given top priority over economic reforms. Indeed, as we have seen, it was this pre-occupation with political transformation, with political 'democratization', with the elimination of groups having a vested interest in maintaining the status quo,--the efforts to create a new superstructure to reflect accurately the changes in basic realities, - which led in the end to the intervention of

¹From the Czechoslovak Communist Party's Action Program. Rude Pravo, April 10, 1968.

the USSR.¹

Today, as the quote from Vaclav Hula on page 8 of this paper indicates, entrenched political priorities have re-asserted themselves to the detriment of economic rationalization. Yet clearly this condition cannot be prolonged indefinitely. Czechoslovakia, more than anyone else perhaps, is badly in need of economic modernization. The forceful and ruthless intervention in 1968 did not solve any of those underlying problems which prompted the reforms initially. As such then, the invasion was nothing but a hollow victory. The root problems have not been eliminated, and without a doubt these will increasingly complicate and hinder the efforts of the present Czech leadership.

Looking back on the history of economic reforms, (and there were some even under Stalin's rule), one realizes that many of them have merely involved administrative or bureaucratic re-organizations, and that only of late has there been

¹ See Alberto Moravia's interview with O. Sik, in Espresso, September, 1968. Sik stated that, "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."

anything of a 'break-through to economics.' According to Prybyla,

*"The basic reason for this pre-occupation with administrative rather than economic reforms was that 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

Yet quite obviously it became vitally necessary to have economists and effective solutions, and it was this need to solve economic, therefore political, problems that economic science was 'revived.' The political elites could no longer disregard the opinions of this group, without whose help the system was gradually grinding to a halt.

For the most part, the recommendations by this 'body of experts' were unique in that they demanded a surrender of controls by the bureaucracy, in favour of indicative planning and of some automatic processes. It was this then which turned 'economic rationalization' into such a touchy issue--since it put into question existing divisions of political and bureaucratic prerogatives.

¹J. Prybyla, op. cit., p. 5.

We have talked of the necessity of political legitimation, and of the need to make socialism 'politically more viable.' We have listed three methods--nationalism, liberalization, and economic prosperity--which have been attempted in the past to achieve this end, also showing that the three were closely linked together.

We may now summarize some of the key criteria which determine the extent and nature of the interaction of economic modernization with political commitment.

1. The characteristics and composition of the 'power elites' are of crucial importance. (Education, style, attitudes, unity, resoluteness, discipline, recruitment, etc.).

2. The existence, role, powers, and characteristics of 'economic and scientific experts' in the political system--and the Party's reliance on them--are also significantly related.

3. Economic, political, social, and 'national' conditions prior to the institution of reforms is also important. An unstable and stagnant economy, for example, would tend to 'push' political leaders towards a 'legitimizing device', and towards the transformation of 'economic modernization' into a 'political priority.'

4. *The scope of the reforms themselves, the degree of proposed decentralization, the 'clarity' of new jurisdictional divisions, the role of managers and local party leaders, also need detailed analysis, since they relate to existing bureaucratic and Party functionary prerogatives. A 'smooth transition' for example, would depend a great deal on the extent of the impact which the proposed changes would have on the existing political and bureaucratic establishment.*

5. *International political conditions--for example, the attitude of the USSR towards proposed reforms within one of the East European states--are also to be investigated.*

Ultimately, all of the above factors are inter-related, and any serious study, dealing with the problem of 'economic modernization versus political commitment' would have to follow this general model of analysis.

CHAPTER TWO.

THE IMPETUS FOR POLITICAL AND ECONOMIC CHANGE

The Legacy of 'November 4' and the Need for Legitimation.

The crucial question here is, whether radical economic reforms can be reconciled with the 'custodial' political systems now in existence in Eastern Europe, and an attempt is made here to seek out those factors which affect such a reconciliation. In this connection it is important to evaluate the changes brought about in the "political superstructure" by the removal of the old economic base.¹

In line with this overall purpose, it is necessary first to examine certain basic characteristics of the

¹*A custodial decision-making system is one in which the leadership feels responsible for the management of the affairs of the citizens who are regarded as playing a decisional role analogous to that of an inmate in a correctional institution." Denis Pirages., "Modernization, New Decisional Models in Socialist Society." From Barry Farrel, (ed.) Political leadership in the Eastern Europe and the Soviet Union. Aldine Publishing Co., Chicago, 1970, pg. 253.*

Hungarian political power structure, such as the nature, role, history, and policies of the Hungarian Socialist Workers Party.

The correct assessment of the present political environment, however, can be made only in the context of the 1956 Revolution and the personality of the Party's First Secretary, Janos Kadar, since this political configuration is an "out-growth" of the total destruction and collapse of that political system which existed prior to October 23, 1956.

Kadar had been placed in power in Hungary, by the Soviet Union, on November 4, after the Soviet intervention forcefully toppled Imre Nagy and his revolutionary government. In order to speed up the 'normalization' and to restore order throughout the country, Kadar made a number of promises to the people of Hungary, including free elections, abolition of collective farms, withdrawal of Soviet troops, and the formation of Workers Councils: by the beginning of 1958, however, all of these pledges were forgotten. As pointed out by Professor Vali:

"As soon as Kadar 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

Thus, the period between 1956-59 saw an increasing reliance by the party on terror and coercion. Thousands of people were jailed, deported and executed. While Kadar talked of a 'return to Humanism', and 'Socialist legality', in practice he was behaving as if he was trying to resurrect the worst days of Stalinism. The peasantry became hopelessly alienated, as a result of the forced collectivization of their land. (In 1956, only 10% of the total farm lands were collectivized, by 1959, however, 90% of the lands not under 'State Farms' were collectivized). Intellectuals, especially the writers, were ruthlessly silenced. The Writers Union was disbanded, and a number of leading writers and artists were imprisoned. Members of the academic community were closely screened, and a great

¹*A. Gyorgy, (ed.)', Issues of World Communism. D. Van Nostrand Co. Inc., 1966. P. Vall. "Hungary Since 1956." p. 88.*

number of them were purged from their positions. None of the major demands of the workers were met: Workers Councils were disbanded, with a number of leading members executed or given long prison terms. In June 1958, the government announced the execution of Imre Nagy, Pal Maleter, and some of the other leaders of the revolutionary government, and Kadar announced that Soviet troops will remain in the country "as long as necessary."

Clearly, however, the pursuit of obviously unpopular policies increased the alienation of the people from the regime, and led to the perpetuation of a 'crisis-state', and the institutionalization of popular resentment. Yet it is a fundamental principle of modern societies, that their political systems cannot endure for long without the support and confidence of the 'masses' for their political 'elites'.¹ In the post mobilization stage of development, in particular, popular resentment and mistrust is a serious

¹ 'masses' and 'elites' are used in a loose sense here. We could have also used the terms 'people' and 'party'.

liability for any regime.

It seems in retrospect now that by 1959 Kadar came to realize that if Communism is to grow roots in Hungary, and if it is to survive, significant changes will have to be made in the behavior and practice of the political leadership.¹ A quote from the Party's daily paper, Nepszabadsag, underlines the Party's present concern with promoting consensus, and creating a basis of popular support; "It is impossible to solve economic tasks effectively, without conscious and intensive co-operation and increased activity on the part of society."²

In the new industrial society, significant pressures and problems develop, which can not be dealt with simply through coercive controls. For one, society by now includes a great number of educated individuals, and the system begins

¹ Perhaps a clarification is needed here; One should not attribute the totality of these policies to Kadar alone. There is ample evidence to show that for a year or two after the 'November Restoration' he was really not much more than a 'provincial governor', whose duties and policies were handed down from the 'Home Office' - i.e. from the Kremlin, or, from the commandant of the Soviet forces in Hungary.

² Nepszabadsag. "Economy and Politics." June 21, 1969. Budapest.

to require increasingly greater contribution from these 'specialists'. With growing economic, social, and administrative complexity, the responsibilities of individuals on the middle or lower levels of the administrative hierarchy become much greater than in the past, and unless the system allows for some innovation and automatic process to these lower component units, it will become increasingly unstable.

As we have shown in the previous chapter, all of these issues, are tied in with the problem of popular motivation and commitment to elite subscribed goals', to legitimacy, and to elite-mass equilibrium. But it is clear that, political elites cannot safely delegate powers to lower levels, nor can they relax coercive measures, while the majority of their "subjects" are hostile or as long as the 'masses' share only a few of the goals which the ruling elite deems necessary to attain.

To achieve this necessary 'resynchronization', Kadar since 1961, has instituted some significant changes in the policy, personnel, and organization of the Party. Some prefer to call this process 'controlled liberalization', but whatever name we assign to it, the essential aim behind this change was to help to bring about some kind of rapprochement between the people, and the government.

The Economic Factor: A Multiplier Effect in the
Process of Legitimation.

Coupled with this urgent need to wipe out the 'memory' of 'November 4', and to soothe hostilities which had been accumulating due to the above mentioned behavior of the Kadar Government, was the problem of deteriorating economic efficiency and growth. By the early Sixties, the Party was faced with an increasingly sluggish and unresponsive economy. Obviously, this had put a 'drag' on the progress of 'constructing bridges between the People and the Party'. The deterioration in the economic sector was a direct obstruction to Kadar's policy of regaining confidence, and it had decisive influence on the Party leader's commitment to work for a rapprochement^{with} the populace.

There is a clear-cut connection between objective economic conditions in the country, prior to the introduction of the NEM and the previously initiated policy of regaining confidence. As shown in Tables 5 and 6, the degree of economic stagnation had indeed reached crisis proportions by 1965. As a result of these economic failures--which were marked by sharp price increases--popular unrest once again began to re-emerge. Another sign of this growing disenchantment was that in 1965, approximately 4000

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Coupled with this urgent need to wipe out the 'memory' of 'November 4', and to soothe hostilities which had been accumulating due to the above mentioned behavior of the Kadar Government, was the problem of deteriorating economic efficiency and growth. By the early Sixties, the Party was faced with an increasingly sluggish and unresponsive economy. Obviously, this had put a 'drag' on the progress of 'constructing bridges between the People and the Party'. The deterioration in the economic sector was a direct obstruction to Kadar's policy of regaining confidence, and it had decisive influence on the Party leader's commitment to work for a rapprochement^{with}/the populace.

There is a clear-cut connection between objective economic conditions in the country, prior to the introduction of the NEM and the previously initiated policy of regaining confidence. As shown in Tables 5 and 6, the degree of economic stagnation had indeed reached crisis proportions by 1965. As a result of these economic failures--which were marked by sharp price increases--popular unrest once again began to re-emerge. Another sign of this growing disenchantment was that in 1965, approximately 4000

individuals decided not to return to Hungary, after having been granted permission to travel to the West. To curb the momentum of this visible dissatisfaction, a number of arrests and show-trials were held in the first quarter of 1966, but these only contributed to demonstrate the fact that Kadar's government was not built on very solid foundations. In the words of Paul Lendvai, these events openly illustrated,

...the shaky claim of the Kadar leadership to legitimacy and consequently to the absence of any national sentiment which might have served to broaden the popular support of the regime...the much publicized stability between 1961 and 1966 became no more than a facade.¹

¹Paul Lendvai, "Hungary; Change vs Immobilism." Problems of Communism. Vol. 16. No. 2. March-April, 1967.

TABLE 5.

Hungarian Gross National Product.

Year	Gross National Product	Breakdown		
		Industry	Construction	Agriculture
Previous year-100				
1951	106	110	100	95
1962	105	108	105	102
1963	106	107	104	105
1964	105	108	105	103
1965	101	105	101	88
1966	106	107	106	108

Source: Magyar Statisztikai Zsebkönyv. Központi Statisztikai Hivatal, Közgazdasági és Jogi Könyvtár, Budapest, 1967.

(Note figures for 1964, 1965, which no doubt greatly influenced the Party leadership's desire and commitment to a new economic reform.)

TABLE 6.

Average Yearly Growth in Per-centage.

<i>Year</i>	<i>G.N.P.</i>	<i>Personal Consumption</i>	<i>Total Consumption</i>
<i>1950-1966</i>	<i>5.8</i>	<i>5.7</i>	<i>5.8</i>
<i>1958-1966</i>	<i>5.6</i>	<i>5.0</i>	<i>5.1</i>
<i>1960-1966</i>	<i>4.8</i>	<i>4.1</i>	<i>4.2</i>

Source: ibid., pg. 35.

In 1965, Kadar invited some of the country's leading economists and social scientists, to set up committees and commissions and to provide the leadership with suggestions in dealing with the 'economic knot'. The consequent recommendations of these experts had been adopted--in certain cases revised--and were announced at the Party's Ninth Conference, in November 1966.

We would like to examine at this stage, an article of Ferenc Janossy's --a highly qualified economic theoretician, and one of the many 'fathers' of the NEM--and although this article had appeared in 1968, it nevertheless vividly illustrates the 'thinking' which lay behind the adoption of the reforms.¹

Janossy's main thesis is, that the NEM, by itself, is only a tool or a vehicle by which the new goals and directions of Hungary's future economic development will be more easily attained. He points out therefore, that the New Mechanism should not be looked at as an end in itself,

¹*Ferenc Janossy, Kozgazdasagi Szemle. July-August 1968. Budapest.*

but rather as a means to achieving the new ends of Hungary's economic development in the coming decades.

According to Janossy, Hungary must alter its previous economic goals. What the country's productive units should strive for, is not a quantitative increase of their output, but rather a qualitative improvement of production, and along with this, the satisfaction of market demands. He feels that the country's 'fetish' with quantitative growth has contributed to a qualitative deterioration in the economy. Turning out massive amounts of low quality products is to no one's advantage, least of all to the Soviet Union, says Janossy, since the USSR is the major importer of Hungarian industrial goods. He points out, that Hungary imports huge amounts of raw materials each year--most of them from the Soviet Union--'ruins' these in the process of production, and then tries to re-export inferior products--mostly to the Soviet Union again. In effect, trade between Hungary and the Soviet Union, in its present shape, is to the disadvantage of both.

In all branches of the economy, therefore, Hungarians should pay utmost attention to quality control, the development of modern technology, the raising of productivity, and the need for equaling 'world standards'.

He calls Hungary's present economic structure a 'quasi-developed' one, and argues that this condition is a direct result of the forced development of heavy industrial goods production. This is the most important section of his article, where he very lucidly and convincingly points out that a country deficient in natural resources, should not embark on a course of setting up a predominantly heavy industrial economy, since this will ultimately lead to the emergence of severe strains or imbalances throughout the economy as a whole.

The forced development of heavy industry, says Janossy, greatly increases the country's dependence on imports of natural resources, since ever larger amounts and different varieties of resources are required to feed the country's combines. Paying for these imports however, is a very costly procedure, since the country's export potential or competitiveness is poor due to the lack of experience and 'background' in heavy industrial goods production. Continuing this course of development would only aggravate the country's negative import-export ratio: the consequent strain which results from this imbalance may be neutralized by a country which can rely on the domestic development of resources, but since in Hungary these do not

exist, - they therefore must be paid for by manufactured goods, the production of which takes up an increasingly greater portion of the country's productive capacity. In the end Hungary 'loses' with each consecutive increase in the quantity of production.

Janossy calls this phenomenon, the 'negative-spiral' and he says that this condition will prevail as long as Hungary does not change its present political-economic directions, adding, that unless she does so, she cannot expect to improve her economic competitiveness and her economic efficiency. The only alternative therefore is to replace the old 'tonnage ideology' with a new goal--that of increasing the quality of production, and raising productivity.

After making his central argument for a change in Hungary's economic orientation, Janossy puts forth a number of equally convincing and forceful corrolary arguments to support his position. One of the necessary features of this 'quasi-developed' economic structure, says he, is that many sectors of the economy are compelled to struggle along, using archaic and outdated production methods, which in turn put a 'drag' on the development of technical know-

how; it is because of this that a large segment of the labor force is still uneducated in modern production techniques. The workers lack the adequate training and experience which is essential to the mastering of these techniques, since in their present daily 'routine' they have absolutely no need for such a background. There is a conspicuous absence of a much needed 'dynamism', which would compel managers, engineers and workers to strive for the attainment of greater and more modern production skills.

Another related aspect of Hungary's 'quasi-developed' economic structure is that a great number of low grade and "useless" articles reach the market, yet workers and managers have nothing to worry about since they know that they will be paid "even for that." In other words, says Janossy, the system in a way favors those individuals who work quickly and carelessly--rather than those who take their time and pay attention all along to the quality of their product. The 'quasi-developed' economic structure, says Janossy, in a truly Marxist fashion, can not but lead to a 'quasi-developed' social structure. It fosters the maintenance of a great number of inadequately trained individuals in society, and it keeps educational require-

ments at a low level. In all aspects of production a low 'working morale' is prevalent, which on the long run leads to nothing but the institutionalization of social apathy, cynicism, and adds that this 'deformation' of the economic sector can not help but obscure a lot of the magnetism which socialism would otherwise have to offer. This is the reason says he, why in Hungary everything is always "almost alright", knowledge is "almost adequate", production is "almost perfect" the necessary experience is "almost enough", etc. Due to the existence of such conditions, the worker continues to produce imperfect and 'shoddy' goods, while he himself is conscious of the fact that his 'creation' is imperfect, and is of low quality. Since according to Marx, 'man defines himself' or 'makes himself' through the action of his labor, then this kind of production, according to Janossy, is a most inhuman and degrading one. The only way to wipe out this mentality and the consequent alienation which it creates, is by improving the quality of goods produced, or rather by creating conditions whereby this end may be successfully attained.

The overall improvement of the quality of production, according to Janossy, is a "life or death" question

for Hungary, and only by aiming at this new goal, and by the creation of the necessary conditions for its attainment, will Hungary 'survive'. Only then, will her people finally and willingly take their place within the 'brotherhood' of the socialist world. The dramatic tone of Janossy's article vividly illustrates, the point which we are trying to make; namely, that the reforms are rooted in politics, and that they are an integral part of the search for legitimation.

In the previous pages, we have been trying to demonstrate that there is an organic connection between the collapse of Party rule in Hungary, in 1956,--a point which we might designate as 'zero-legitimacy'--the consequent 'controlled liberalization', and the final phase of 'economic modernization'.

But within this general cycle, one could also distinguish two separate 'sub-phases'. The period falling approximately between 1960 and 1966 could be looked at as the creation of a 'new-look team', while the next phase, say from the Ninth Party Congress on, would be described as the shifting into gear of this team.

Of these two phases, the first one witnessed not only some fundamental changes in overall Party policy but

more so, it was a time during which significant transformations were taking place in the style, composition and characteristics, of the Hungarian Socialist Workers' Party. When we are talking in this paper of political changes, preceding the introduction of the NEM, we are in effect referring to this particular period, in the 'legitimation cycle'.

The Creation of a New-Look-Team.

Between 1961-1962, and paralleling the second de-Stalinization campaign in the USSR, approximately 50 old 'stalinists' were purged from the Party, and since then a gradual 'rejuvenating process' has been apparent.

But if one is going to talk of political changes, it certainly is not enough simply to note that 'conservatives' or 'Stalinists' had been removed in a lot of places. Of much more significance is the kind of replacement being put into these 'vacated' positions. Unless we know something about the career characteristics, education, background, and general outlook of the new recruits, we can not discuss seriously the extent of the political transformation taking place in Hungary. As we shall demonstrate,

it is precisely in this area, that some significant changes had been occurring since 1961.

Professor Carl Beck, in a study on the Career Characteristics of East European Leaderships, attempts to present an analysis of the interaction between the political systems of various communist countries and the individuals being recruited into the system, and he concludes that,

"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." ¹

From the figures compiled in that study, some interesting conclusions can be made on Hungarian elite recruitment since 1961. Although most of the new recruits show a 'mix' of career channels--e.g. technician-

¹Carl Beck. "Career Characteristics of Eastern European Leadership." in Barry Farrell, (ed.) Political Leadership in Eastern Europe and the Soviet Union. Aldine Publishing Co., Chicago 1970. pg. 162.

bureaucrat-- a significant proportion of them have been drawn from the so-called technician or non-ideological sector. Furthermore, of all the countries surveyed, only Hungary showed an upward swing in favour of non-party career channels. This shift towards the promotion of non-party technocrats or towards the recruitment^{of}/party members with a strong technological 'bias', is especially strong within the state bureaucracy, primarily within its economic departments. Today, 14 of the 16 members of the Council of Ministers have doctoral degrees, and indeed, some of them are well known scientists, with a number of personal discoveries to their credit.¹

¹Hazai Tudósítások. No. 10. May 15, 1969. Budapest.

TABLE 7.

Percentage of Politburo Members Possessing Technical
in Addition to Party Career Specialization.

	USSR	Poland	GDR	Hungary	Czecho- slovakia	Yugo- slavia	Roumania
1958 N-118	50	22	28	30	38	36	23
1961 N-134	40	30	30	40	29	36	23
1964 N-142	47	27	32	54	40	27	29
1967 N-147	44	20	32	57	36	51	25

Source: B. Farrell, (ed.), Political Leadership in Eastern
Europe and the Soviet Union.
Aldine Publishing Co., Chicago,
1970. pg. 99.

TABLE 8.

Direction in Change in Technocrat Career Types
Recruitment 1957-1966.

Country	Politburo	Secretariat	Central Committee
Bulgaria	$\pm$	$\pm$	-.26
Czechoslovakia	$\pm$	$\pm$	.64
Hungary	2.50	$\pm$	.91
Poland	1.63	10.17	.86
Romania	$\pm$	0	no figures

.00 = no change.

$\pm$ = non-measurable increase.

0 = impossible to measure degree of change.

Source: Carl Beck. "Career Characteristics of East European Leadership." in Barry Farrell, (ed.) Political Leadership in Eastern Europe and The Soviet Union. Aldine Publishing Co., Chicago 1970. p. 190.

In the economic departments, we find a number of highly competent and professional individuals, such as Professors Vajda, Csikos-Nagy, Bognar, Erdei. It is interesting to note, that many of these people have been trained and received substantial experience prior to the Communist take-over in Hungary. (We should also state, however, that the number of young, 'technocrats', or non-ideological specialists, who are being recruited to top positions is also high). Most observers would agree, that today Hungary has perhaps the most efficient and intellectually competent 'administration' within the Soviet 'bloc'.

Kadar's policy of regaining credibility, confidence and support--that is to say, a policy of building bridges between his party and the population as a whole--is best summed up by his famous and often quoted phrase, "Whoever is not against us, is with us," (in a subtle reversal of Rakosi's "whoever is not with us, is against us.") In essence, the dominant policy today is, 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."*¹

This policy of Kadar--pragmatism and compromise-- is obvious from the way he has selected and balanced the membership of the Party's Politburo and of the Secretariat. Within the Politburo there is a 'hard core' of final decision-makers, all of whom are trustworthy old comrades of Kadar. (Biszku, Gaspar, Czinege, Komocsin and until his death in 1969, Szirmai.) These individuals are specifically entrusted to deal with security matters. They are in charge of Party organization, state security, military, propaganda and labour, and at any sign of trouble, Kadar could safely rely on these individuals to provide the necessary 'control'. Three members of this 'hard core' also hold seats on the Party Secretariat, obviously with the purpose of making sure that decisions taken in the

¹S. Kiss, 'The Kadar Imprint on the Hungarian Party.' East Europe Magazine. Vol. 18. No. 3. March, 1969. pg. 5.

Politburo are properly and efficiently implemented throughout the system.

The other section of the Politburo could be described, in the words of D. Tomasic, as an 'inner circle of close associates', who for the most part are well trained and efficient technocrats. It is this body of men on whom Kadar relies for the drawing up of programs and policies, whereby he hopes to improve the Party's image and bring about the much needed consolidation with the population.¹ The most visible member of this group is Rezso Nyers. There is only one 'Muscovite' in the Politburo today--Dezso Nemes, the official Party Historian--. All of the other members have shared in common the political experiences of the 'illegal years' during and prior to World War Two. Some of them had been in prison together with

¹See D. A. Tomasic, "Changes in the Power Structure of Communist Ruled Societies: The Case of Hungary." Canadian Slavic Studies. Vol. 2. No. 4. Winter 1968.

Kadar, under the Rakosi era. The 'esprit de corps' which exists between these men is not very much unlike the one that exists, or existed, among the members of the Yugoslav Party elite, whose comradeship dates back to the partisan years. Indeed, one of the remarkable features of the present Hungarian regime, is its unity. This unity, at the apex of the power structure, has to be regarded as one of Kadar's major political achievements.

But if there is unity at the top of the power structure, this doesn't automatically rule out diversity on the lower levels. An analysis of the various 'factions' within the apparatchiki would show that this homogeneity at the top does not embrace the party as a whole.

For the sake of analysis, we may distinguish three different groupings in the party. Although the labels that we have assigned to them are not to be taken too seriously, they nevertheless are useful in conceptualizing the issue.¹

¹ See Sandor Kiss, "The Kadar Imprint on the Hungarian Party." East Europe Magazine. Vol. 18. No. 3. March, 1969.

In the first group we include those individuals who have grown up under the Stalinist system of Matyas Rakosi, (Hungary's 'mini-Stalin' from 1948-1956), and who have adopted the 'rules' of that system as their own personal political philosophy. Members of this group are the most frequent opponents of the reforms--indeed, they are against any attempt to tamper with the 'true and tried' methods of the past--and they find it very difficult, or are unwilling, to comprehend the meaning and purpose of the new departures. They view the casting aside of old norms, and the experimentation with new methods as unnecessary adventurism; due to their inability to be flexible, and to adapt a more 'instrumental' posture, they are the most threatened group under the NEM. Their 'claim to fame' has been the ability to follow blindly and unquestioningly the dictates of the party leadership. Their basic characteristic is that of conformity. Under the New Economic Mechanism, however, conformity will not have such a high value. Increasingly, the emphasis is being placed on inventiveness, flexibility and efficiency.

The second group, whom we have labelled as the 'Reformers', comes closest to the 'instrumental axis.'

Members of this 'informal and unorganized' group are on the average quite young. Many of them feel that in the past Communism in Hungary has not lived up to its full potentials, and are possessed by a kind of idealistic zeal to build a 'genuine and Humanistic' Socialism. The membership is predominantly comprised of 'intellectuals.' These individuals are of course in support of the NEM, but a number of them feel that the reforms should be expanded to encompass a greater degree of liberalization, accessibility and political openness. Some of them would be inclined to argue that the profit motive should also be applicable to the political realm and not only to economics; that political leaders should be judged worthy of esteem on their ability to rally behind them--in an open competition--a large segment of society; in short, that they should fulfil not only the economic but also the political desires and demands of Hungary's population.

The third group, the 'Kadarites', would fit in somewhere between the above two extremes in willingness to institute internal political and economic transformations. Quite often, this group is also referred to as being made up of 'opportunists', but we would prefer to call them

'realists.' (Of course, we are not implying that an opportunist can not be a realist as well--more often than not, he is). These individuals might, or might not, be interested in the creation of a more pluralistic society, or a more instrumental political system, but they are also keenly aware of Hungary's geo-political situation. They are willing to improve the 'system', and are ready to make concessions--even to the extent of limiting somewhat their own monopolistic and preferential positions--as long as this would seem to contribute to a more smoothly functioning and less unstable political environment. This group is 'led' by Kadar, since, to quote Sandor Kiss, "... in Kadar, they find a living example of the political survival technique."¹

It is beyond the means of this author to give a precise estimate of the 'strength' of these various groups, or to measure the 'pressure' of each on the political superstructure. We may nevertheless hypothesize, based on the

¹ Ibid., p. 9.

analysis of the Party's behavior, that today the Kadarites and the Reformers, taken together, would outnumber and 'out-pressure' the Conservatives in the Party. Moreover, we tend to feel, that this ratio will increasingly expand in the future, to favour the first two groups, due to the fact that recruitment into the Party--and especially into its leading positions--seems to concentrate on individuals having more of an instrumental than ideological outlook. In conjunction with this, it should also be noted, that the proportion of 'hard-line Stalinists', (vague as the term might be) within the Party, is also diminishing with time, as a result of retirement, as does the number of those who have gained their political experience in the Stalinist era.

The Three Pillars of The Party's Policy.

One can distinguish three basic and unalterable principles in the Party's overall policy:

- 1/ Unquestioning and vigorous support of the Soviet Union, especially in the realm of foreign policy.*
- 2/ The Party's leading role in society must be continuously strengthened.*
- 3/ Democratization or liberalization--that is to say, the granting of greater democratic prerogatives to the people--must keep pace with the development of the Party's increased supremacy in society. Democracy must not be used as a 'cover' under which the authority of the Party is to be eroded.*

At first glance, one might think that these principles are somehow in contradiction with some of the things we have been saying above, but it is the view of this author, that in fact they are closely related to the process of economic modernization.

While we might say that Kadar's policy today is one of 'wooing the masses', we should add that he is equally aware of the fact that ultimately, his final guarantor, or protector is Moscow; because of this situation, the Hungarian Party leader's task is in effect two dimensional. He must not only make an attempt at reconciliation at home, but he must also do so with a view to keeping the Moscow

leadership satisfied.

The necessity of maintaining a close alliance with the Soviet Union is perhaps the most frequently mentioned 'message' of Kadar. His eagerness to please the Soviet leaders and to cultivate their trust in him is manifested by such ways as his immediate support of Moscow's position concerning the World Communist Party Conference in 1969, his volunteering to organize this conference, (to which Mr. Brezhnev graciously agreed), his public criticism at the conference of those 'Comrades' who had condemned the Soviet invasion of Czechoslovakia,¹ and last but not least his 'put down' of the Chinese, which unconditionally showed which side of the 'fence' attracted Hungary's support in the Sino-Soviet dispute.

In 1967, when the talk of a New Economic Mechanism was rapidly crowding the headlines of the Hungarian newspapers, he made a public pledge to increase trade with the

¹Although he was the only leader from the 'bloc' to air his criticism in a speech to the delegates, we should add that for about a month after the invasion, he virtually went into isolation making no public statements whatsoever in support of the 'Warsaw Pact' move.

Soviet Union during the next five years, by 100%. This projected figure was the highest amongst the East European states and no doubt added to the lessening of Soviet fears about Hungary's 'dependability.'

Another illustration of this concern with the maintenance of 'external legitimacy' was seen from the statement of Premier Jeno Fock, (and which by the way strangely contradicts one of the major points of the NEM-- namely the freedom of individual enterprises to deal directly with Western firms) that,

*"Numerically--during the coming 5 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."*¹

Hardly a week goes by without an announcement of a Soviet delegation arriving to Hungary or a Hungarian one leaving for Moscow; in short, Kadar and the Hungarian

¹Nepszabadsag. April 24, 1968.

Communist Party are showing an unusually strong concern with friendly and subservient behavior towards the Soviet Union. This particular behavior of the Hungarian leadership might go a long way to explaining the phenomenon, that while the Czech economic reforms were met, first, by silence and later, by belittling remarks from Moscow, the Hungarians--in many ways proposing more radical changes than the Czechs--are continuously supported and encouraged.

A number of trips have been made to Moscow by Nyers and others who are involved in the reforms. Official announcements always refer to these trips as taken up "to study economic life in the Soviet Union." After his latest 'study-tour', Nyers made the following statement in Nepszabadsag, "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 utilize the possibilities and regularities arising from socialist integration, as well as to accelerate development." ¹

¹*Nepszabadsag. September 11, 1969. Budapest.*

In effect one could say, that the party functions somewhat along the lines of the so-called 'brokerage-theory'. It tries to reconcile, as best as possible and to the mutual satisfaction of everyone involved, domestic desires with external political requirements. In the words of D. Tomasic,

*"The Hungarian Communist Party must win over to its policies the broad strata of the Hungarian population, while at the same time doing its best to please its protectors. This imperative need to maintaining a balance between the Kremlin and his subjects may explain Kadar's current policies in the party and country."*¹

Clearly, therefore, the continuation of this first principle--i.e. the close and whole-hearted support of the Soviet Union--will have a determinant relationship to the pace and extent of the Hungarian reform movement. (We will get back to this problem in the following section, where we will discuss the actual mechanics of the economic reform, and its impact on various groups.)

The second principle--the necessity of strengthening the Party's leading role in society--is also operative

¹ D. Tomasic. *op. cit.*, pg. 520.

in the process of economic modernization. But here, one should be aware of a subtle distinction; economic modernization does entail a reduction in the previous 'dominant guiding role' of the party, and yet can also create the condition of increased Party 'leadership'. The Party in effect is after a new power posture, one which is in more of a harmony with efficiency, and which in the opinion of the present leadership, will almost automatically draw or elicit a greater popular support. Again, this question is really part of the next section on the dynamics of economic modernization, and here we are only using it to show the connection of this to the overall legitimation process, and to those political changes of which we have spoken above.

And finally, the third principle, in a way is the logical completion, of the first two; again, one can discern the relationship of this, to economic modernization. One might view it as the 'happy ending' to the difficult road of building Socialism in Hungary. Economic modernization, in the hope of its supporters, will create a basis of popular support for the Party--hence strengthen its leading role--. Economic prosperity will heal the divisions

of the past; economic decentralization will give workers and managers greater initiatives, and prerogatives, and will thereby peacefully co-opt them into the work of Socialist construction. Since the leadership of the Party initiated and supports this reform, it should gain authority and respect, and consequently it will be able to allow for a greater degree of democratization and liberalization.

In a way this is a rather Utopean picture of the future, and a bit amusing from the standpoint that the Party views 'full Democracy' a prospect, only after the elimination of any need for it. That is to say, the Party's policy is grounded in the absence of full legitimacy; it hopes that by various means--such as the use of economic reforms--it can finally eliminate this absence; at which point it can safely open the 'flood-gates' of criticism, and institute a 'genuine democracy'; but one would assume, that what the Party would expect to hear then, would be not criticism but a final vindication of its 'correctness'. In short, economic modernization has been 'grafted' onto the theory of the dialectical development of Communism, it is viewed as a measure which will strengthen rather than weaken the Party's leading role,

and finally, it will greatly facilitate the 'smooth' arrival of full Communism.

To conclude this section, it seems obvious by now, that the Party's 9th Congress, held in November 1966, did herald in a significant new shift in the direction of that country's development. One could say, that the period leading up to the congress was one of incubation. We have elected to call this period as one, during which a 'New Team' was created. We have tried to show the extent of this 'transfusion' at the top; the changes in the style, composition, characteristics, 'philosophy', of the Hungarian Socialist Workers Party.

The following period--i.e., the post-Congress period--has been called as the 'shifting into gear' of this political leadership. It is our contention here, that were this new period not preceded by one in which some of the 'conventional wisdoms' and the holders of such wisdom, were eliminated, then the shifting into gear, would have ended only in a great deal of 'grinding', and the 'gear box' would have taken a tremendous amount of punishment. (In our first chapter, we have seen examples of this in Poland and Czechoslovakia.)

The present Party leadership is one which is willing to share some of its decision making functions with groups which hitherto, or traditionally, had not been so consulted--to such an extent--in Communist states. As it has been stated, the current policy is thoroughly pragmatic--or at least it tries to be..; it lays an unusually heavy emphasis on talent, and it follows the conviction that the Party can only gain from the 'exploitation' of the expert knowledge of those who are not party members.

This is a novel feature in the Socialist Commonwealth; not because it has not been attempted by any of the other states--but because it has been able to 'survive' for such an extended period. The existence of this a priori political change, was decisive in the creation of the NEM--and in the guaranteeing of its continuation.

Unlike the Novotny regime in Czechoslovakia, Kadar and the Hungarian Politburo have shown a much greater flexibility and responsiveness to pragmatic solutions, by taking the initiative, paving the way, and committing themselves to the creation of a radical economic reform.

The task of the Czechoslovak reformers was much more difficult; they had to fight a battle on two fronts,

and in effect, had to play an almost hopeless game of 'catching-up' with some of the political imperatives of economic modernization.

From an administrative point of view, the preparations for Hungary's New Economic Mechanism, were much more careful, precise, and serious, than anywhere else in the 'bloc'. To sum up, one could quote Gamarnikow, who in comparing the various approaches of the East European states towards economic modernization, says that,

"Although in Hungary the actual blueprint for the new economic model has been worked out relatively late by East European standards in one respect the economy was well prepared for the reform. For several years, the Kadar regime has 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 caliber 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 has well prepared the ground."¹

The crucial question, in the successful continuation of Hungary's economic reform, undoubtedly hinges on

¹M. Gamarnikow. Economic Reforms in Eastern Europe. Wayne State University Press. Detroit, 1968. p. 58.

the Party leader's ability to contain these and consequent policy changes, within the delicate balance, of which we have spoken above.

Paul Lendvai seems to feel that the contrast between the period prior to the 9th Party Congress and the one after it, is similar to the one between: Change and Immobilism.

"Kadar'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... The debate about 'socialist democracy', the electoral reform, the extension of rights to trade unions, workers, control over plant management, and the economic reforms clearly indicates that a major attempt will be made to get the country moving again." ¹

In this chapter, an attempt was made at showing that what to some people seemed as 'immobilism' was in effect a time of 'germination', and the present era of 'change' is logical and necessary product of those years.

The next chapters will deal with the 'dynamics' of economic modernization; while this chapter dealt with the demands of 'ground laying', or the 'political paving-job',

¹P. Lendvai. op. cit., p. 13.

the next chapter will discuss the contents of these economic reforms, their operation, and the interaction (economic-political) which goes on after the reform becomes functional.

CHAPTER THREE.

THE NEW ECONOMIC MECHANISM AND ITS EFFECTS.

1/ The Main Features and Scope of the Economic Reforms.

As indicated above, the actual blueprint for the NEM has been in preparation for three years prior to its introduction in January 1, 1968, and the government had relied extensively on the support and co-operation of a number of the country's leading economists and social scientists.

The discussion on the nature of the NEM, should first of all start off with a definition of the term itself. It is rather interesting to note, that during the early stages of the debate, the term 'economic reform' was never officially used. A number of commentators, in Hungary, pointed to the fact that 'economic reform' and 'reform of the economic mechanism' should not be equated. By introducing a new mechanism, they argued, Hungary's economic policy need not change. Another reason for this hesitancy was that the Party at first was reluctant to enter into an ideological debate over the 'justification' of the

existing political superstructure, once the economic base has been altered. But the main reason perhaps was a fear that international reaction--especially Soviet reaction--might not be too favourable. This position has been abandoned, however, by late 1966 and early 1967.

Rezső Nyers, member of the Party Politburo, as well as the Secretary of the Central Committee's, Economic Policy Committee, gives the following detailed definition of the term 'Economic Mechanism;'

"It (the economic mechanism) includes the methods of planning, of price fixing or credit; the financing of enterprises and the realization of investments. The economic relations between the enterprises, the system of contracts, the forms of the wage system's material incentive, the method of estimating the work of enterprises, the rights and spheres of authority, the division of the allocations of capital equipment between the enterprises and the directive agencies, and the community's participation in the management of the economy."¹

One could easily deduce from this, however, that any reform of this 'Mechanism' is the same thing as 'Economic Reform.' In fact, by now the two terms are often

¹

Nepszabadsag. April 24, 1968. Budapest.

used interchangeably, and the Party has publicly proclaimed that it "recognizes" Marx's law of the close interdependence between 'base' and 'superstructure.' Again, we may quote Nyers on this,

*"Every sign indicates that the Hungarian economic reform can not be treated as a purely economic process, that is had and will have, far-reaching social and political effects. In Hungary, as everywhere else, the problem of economic development is one of the principal subjects of politics."*¹

The most important and visible feature of NEM is the transformation (not abolition) of the planning system. 'Planning' will continue, but the so-called 'plan-break-down' system has been abolished. In other words, planned production programs for individual enterprises will no longer be centrally determined, and managers will no longer be provided with a series of compulsory and quantitative production indexes. The central planning bureau will continue to give long term (15 years), medium-range (5 years)

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

and short term (1 year) plans, but these will deal with broad national economic priorities, and of course, they will not have (supposedly) the binding force of laws--which they had in the past. In place of direct control or guidance, indirect means will be used, and compliance to the plan will be enforced by the use of economic levers such as budgetary, monetary, fiscal, investment, taxing and credit policies. Profit is to be the key and basic incentive for all enterprises.

Under this new system, the individual enterprises are clearly in possession of a much greater independence than they hitherto had. A host of problems, such as the development of production techniques, scheduling, innovation and marketing, are to be within their sole jurisdiction. According to Kadar, as stated in his report to the 9th Party Congress,

"...enterprises will draw up their own plans based on their own market information, and on data obtained from central organizations. Direct relations and communications between the individual enterprises will become the general rule." ¹

¹From Kadar's report to the 9th Party Congress, as reprinted in Nepszabadsag, November 29, 1966. Budapest. (Compare his statement to that of Kosygin's, appearing on page 22, above.)

Dr. Csikos-Nagy, Chairman of the Hungarian Board of Prices and Materials, outlines the aims of NEM, in the following way;

*"Hungary is trying to transform her economic system from a centrally directed one into a controlled market economy. We proceed from the proposition that without government planning no purposeful development can be achieved, and without market relations no rational allocations can be realized. We want to synthesize (emphasis added) plan and market in a way quite different from the traditional (non-market) socialist planning system."*¹

Dr. Csikos-Nagy, (who by way of interest, was a well known economist in Hungary, prior to the Communist take-over, as well as a member of the Hungarian Nazi, Arrow Cross Party, until 1945, when he joined the Communist Party), argues that Marxism deserves a great deal of credit for the 'discovery' of Macro-economic laws. (Most non-Marxist economists would hotly contend this view). He goes on to say, however, that it has been the customary practice in the past, within the Socialist countries, to enforce

¹*Dr. B. Csikos-Nagy, Pricing in Hungary. Institute of Economic Affairs, London, 1968. Occasional Paper No. 19. p. 7.*

these Macro-Economic laws at the expense or through the disregard, of Micro-Economic forces. In effect, says he, Marxist economists have neglected to 'Synthesize' Macro and Micro economic principles, and made no use whatsoever, of the laws of the Market.

"Only in the past decade has it been generally recognized that plan and market are not antagonistic. Planned development and economic efficiency can be ensured by the existence of market relations." ¹

In effect then, this statement gives a clear testimony to the official recognition of the 'marketing concept' about which we have talked in chapter 1 of this paper, and it shows that finally socialist economists are coming around to the view --of course with the tacit approval of the party elite--that the 'economic coin' does indeed have 'two sides'.

Taking Csikos-Nagy's writings as a reflection of official positions, we may summarize the three broad characteristics of the reforms as follows,

- 1/ Administrative, and obligatory targets will no longer be handed down from 'above' to individual

¹Ibid., p. 9.

enterprises, in the forms of commands.

- 2/ The functions allotted to the planning bureau will consist for the main part of creating harmony between plan and market.*
- 3/ The profitability rate, and consumer preference (market demand) are to be the chief motivators of enterprise behavior.*

To achieve these ends, the following changes were instituted;

- 1/ Individual enterprises were given the right to bargain directly with each other, rather than through ministerial 'middlemen', or through various intermediate agencies.*
- 2/ It will be up to the enterprise to decide, after taking into consideration market demands, and profitability, whether it will buy or sell on the domestic or foreign market.*
- 3/ Self financing is to replace central financing.*
- 4/ Enterprise profitability will be one of the chief*

determinants of wages within the enterprise.

5/ A market price system will replace centrally fixed, administrative prices.

Needless to say, this radical transformation can not be achieved in one move, and thus the whole process is 'programmed' to unfold gradually during the next few years. (e.g. full market prices are to exist in all sectors of the economy by 1975). The abolishment of the 'plan breakdown' system, however, was achieved with one sweep: in East Germany, Poland and the Soviet Union, this was 'programmed to unfold' in a series of stages, by gradually increasing the number of decentralized enterprises.

In line with this reliance on the profitability rate as the major success indicator of an enterprise, the government also announced that it will gradually remove many of the subsidies presently provided to unprofitable enterprises. The State, in other words, will no longer support inefficiency--in the future, the expense for this will have to come from within the enterprise itself.

a/ The New Pricing Policy.

With respect to price reforms, a provisional price

policy is in effect today. Quite obviously, the sudden freeing of prices to the forces of supply and demand, would have ended in a dangerous economic disruption. Owing to the significant 'back-log' in consumer demands, as well as to the shortage in supply of a number of goods, and also due to the irrationality of many of the present price levels, a dangerous inflationary cycle would have been an almost certainty. To get around this paradox, and onto a full market price system, a transitional price system is in operation today.

- 1/ Fixed prices will remain in operation for a number of raw materials, public goods, some of the agricultural products, and for more important industrial products.
- 2/ A flexible price system will be instituted for goods of 'medium importance' (i.e. the planning or rather the pricing commission, will determine the minimum-maximum price levels for these goods, and the individual enterprise may 'price' only within these levels).
- 3/ For goods of minor importance, prices will be set free, and they will find their true levels

as a result of the interaction of supply and demand forces.

At the present time, most of the prices for export and import goods fall within the jurisdiction of category one and two, but the chairman of the Prices and Materials Board, (Csikos-Nagy) has stated that administrative prices in these sectors will also be increasingly brought into harmony with production costs, purchasing power, and market demand.

b/ Wages, and The Trade Unions.

A significant corollary to the above, and which we have mentioned in passing, is that from now on wages are to reflect enterprise profitability. For the period 1968-1970, the Planning Bureau did set a transitional ceiling of 4% on salary increases, but this level has now been abolished. According to the New Labor Code,¹ wages and salaries are to be agreed upon through collective bargaining between the local trade union leaders, and the manage-

¹Law No. 2 and Government Decree No. 34. As published in Maquar Kozlony. October 8, 1967. Budapest.

ment of the enterprise. Salary increases and bonus levels will be worked out within the enterprise, in other words, and the final settlement will be directly influenced by the financial success of the enterprise, as well as by the bargaining skills of trade union leaders and factory managers. (as a result of this, we already have cases of salary scale differences between enterprises of the same production branch.)

As far as the profit sharing within the enterprise is concerned, the staff of each production unit has been placed into one of three categories; Management, middle-management, and workers. The management, which includes the director, and his chief engineer, may receive bonuses, up to 80% of their basic salaries--provided, of course, that the firm ends up with a profit at the end of the year.¹

The basic salaries of the top management are not guaranteed, however, whenever the firm fails to register a profit.. In the case of a financial loss, the director

¹The money for these bonuses is taken out from the enterprises' profit sharing fund, which is only one of three funds, into which enterprise profits are channelled. The other two are the development fund and the reserve fund. On the average, 30% of the enterprise's profit, goes into the profit sharing fund.

may not receive more than 75% of his basic pay.

On the middle-management level--engineers, department heads, supervisors--bonuses may total 50% of the employee's basic pay, provided again, that a profit is made at the end of the year. In the case of a loss, only 85% of the individual's basic pay is to be paid out.

Workers, who constitute the third and 'lowest' category in the profit sharing system, must receive their total basic pay, regardless of the enterprise's profit or loss column. In the case of a profit by the firm, they may receive bonuses totalling no more than 15% of their pay.

The new labor code also provides workers with a much greater degree of 'mobility' than in the past. Workers are being permitted to 'migrate' between different enterprises, and from one branch of the economy to another, according to labor demands and salary attractions.

One of the most novel features of the Hungarian economic reforms is, that it provides the Trade Union organizations with an increased role as a result of the enterprises new 'independence' from day to day central control. It has been conceded, publicly, that as a result of the curtailment of constant and direct administrative controls,

conflicts of interest may develop between management and labor. An article by Andras Hegedus, (a former 'Stalinist' premier under Rakosi, who was also minister of Agriculture in the early 50's, and who had recently turned into a 'revisionist sociologist' with the Academy of Sciences), appearing in Kozgazdasagi Szemle, says the following,

"It can not 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." ¹

Since managers are to be primarily concerned with minimizing costs, and since a number of unprofitable enterprises might be closed down, resulting in the loss of employment of a significant number of workers, Trade Union

¹A. Hegedus and T. Rozgonyi, "Social Conflicts and Decision-making in the Enterprise." Kozgazdasagi Szemle. July-August, 1967. Budapest.

activity will be essential in protecting the rights and interests of labourers. In short, the old notion of 'transmission belts', which is axiomatic to an ideological political system, is beginning to be eroded, and Labour Unions might move towards a potential--perhaps even active--interest group posture.

The New Labour Code, is of a conceptual nature, and it is based on the two pillars which we have outlined above, i.e. the recognition of enterprise independence, and the need to safeguard the rights and interests of employees. It is much shorter in length than the old labour code, and now details the rights and duties of Unions and Management towards each other. It is unique, in that it stipulates a basic principle, by raising the contract to a very high rank. To quote Professor Laszlo Nagy, who was one of the principal drafters of the new code,

"The collective contract, concluded between the enterprise and the trade union committee is of the most comprehensive nature. The contract includes the detailed rules and enacting clauses concerning the rights and duties of the enterprise and the workers." ¹

¹Jog Magyar. October, 1967. Budapest.

Significantly, however, it is often publicly emphasized, that with respect to the 'Rights of Workers', they can not play any role in the management or the direction of the enterprise. In other words, the Unions are not to assume anywhere near the functions of the Yugoslav Workers Councils. The Party frequently admonishes those who talk of 'direct democracy', "...in the manner of romantic Utopians who cherish the idea that the masses would directly make all decisions." As Kadar's speech to the Central Committee indicates,

"The nature of the economies management is such that except for 200,000 to 300,000 leaders, the millions of working people will not be able to realize 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 to 300,000 leaders." ¹

¹As quoted in Borba, June 24, 1968. Belgrade. (Translated).

In spite of this, however, we must admit that the enactment of the new labor code does present a significant break with past practices. While in the past the collective agreement was for the most part a meaningless document--as far as the protection of the workers personal interest was concerned--in the future, it could become an instrument of great importance in the regulation of labour affairs. In all of the other Communist states (excepting Yugoslavia), and especially in East Germany, the document is still very much a 'legal' contract, which binds the worker to the national economic plan. Under Hungary's New Mechanism, however, the approval of the Ministry is no longer necessary for the conclusion of a valid contract.

Again, we would like to point out at this stage, that we are describing the Hungarian Labor Code in a legalistic sense only. Practice has shown that there is still a good deal of deviation from socialist legal norms, and therefore one should be careful to note that legal codes or statutory texts need not always correspond to the actual state of affairs. Statutory demands have been ignored quite often in the past, whenever this was deemed desirable by the party. All that we are saying here is

that the code does present new potentials for Trade Union activism, and given time this activism may increasingly assert itself.

Although wage increases since 1968 had not been very substantial, and Trade Unions have been quite cautious--even lethargic--in asking for wage increases, an article from Munka, (the official Trade Union Journal), would seem to indicate that the present situation is not to be officially supported or maintained for too long,

"Certain enterprises are not making adequate use of the possibilities of material incentive, and are not utilizing the funds intended for wage development, whereas it may be seen from the government report that the great majority of enterprises probably will attain considerably greater profits than planned." ¹

Kadar's statement that it was "normal and healthy" for local interests to assert themselves by "snipping something off" the national economy for the benefit of the plant would also indicate that the party is not unduly opposed to a more active Trade Union role.

¹K. Macsarik, "On the Implementation of the 1968 Wage Policies." Munka. No. 2. 1969. Budapest.

c/ Agriculture

Another aspect of the Hungarian New Economic Mechanism--an aspect which is missing from other reform blueprints--is that the new policy is to be applied not only to the industrial sector, but to Agriculture as well. In line with the basic principles of the reform, individual collective farms are to be given much greater powers in determining their own programs. Profit maximization is to be the prime motivating factor.

The need for instituting reforms in the agricultural sector was quite obvious after it became known that during the second Five Year Plan (1961-1965) agricultural production had achieved only 40% of the planned production targets. According to Sandor Kiss,

"While the debate on the necessity of economic reform continued, creeping bankruptcy was deciding the issue. It came home to the party and the government that ever larger investments in agriculture and costly price supports were not enough to secure the desired rise in production." ¹

¹ Sandor Kiss, "Hungarian Agriculture Under the NEM." East Europe Magazine. Vol. 17. No. 8. August 1968. p. 12.

As in industry, there was a large scale administrative price reform introduced; the prices of certain agricultural goods was increased--which added money into the farmer's pocket--and significantly these price increases were not transmitted to the individual consumer. A three level price category was also put into effect after 1968. The ultimate aim of the planners is to gradually reduce the number of prices determined by the center, and to allow for supply and demand forces to determine the level of most of the others. The plan breakdown system has also been sharply curtailed, and for the future, the basic controls used by the state will consist for the most part of such methods as the manipulation of procurement prices and taxes. In the words of Janos Keszku, the Minister of Agriculture, collectives will ~~have~~ have the following functions and rights under the New Economic Mechanism.

"In general, the agricultural collectives have to decide how to utilize their produce, and whom they will sell it to. And also in what form it will be sold: whether raw, semi-finished or ready for consumption. The right decisions on these questions belongs to the co-operative, which is the collective enterprise under the ownership of the members. These members have to live on the income collected from the sale of the produce. A practice which would

force on them disadvantageous forms of selling, would also infringe upon their rights and at the same time impair their financial income." ¹

The functions and duties of co-operatives is given in detail, and in statute form, in the new Co-Operative Law and in the new Land Law.² Both of these laws are geared to the creation of a unity of interest between members and the collective. Collectives are to be looked at as individual enterprises; moreover a significant new ideological departure has been made since according to the new law, collectives are no longer to be considered as a 'transitory stage' between private ownership and state ownership, but rather they are to be placed "fully and consistently" on the same social level as State Farms,

According to the Land Law, collectives may now buy the lands which they have been leasing. This again may also contribute to the creation of a common feeling of responsibility and ownership, and it might foster a greater

¹Nepszabadsag. Feb. 25, 1967. as quoted in Gamarnikow's Economic Reforms in Eastern Europe. Wayne State University Press. Detroit 1968. p. 172.

²Laws No. 3 and 4. Passed by the Hungarian Parliament in Sept. 1967. Published in Magyar Kozlony. October 11, 1967. Budapest.

commitment to the common profitability of the farm.

In line with these changes, a number of social benefits have been also granted to collective farm members such as health insurance, old age pension, while a guaranteed monthly income is also in the offing. Obviously, as we have said, these innovations are not geared to purely technical ends, but also to the revival of a 'collectivist spirit', which has been dormant since the creation of the first collective farm.

As a result of these changes, some improvements are already noticeable in agricultural production, and as a matter of fact, in 1969, one year after the introduction of the NEM, the 'exodus' from the country-side has come to a halt, and indeed there has been a small increase in the membership of collectives. It seems that a number of workers in industry have decided to return to the collectives, and one hears some comments to the fact that the "peasant is being fattened at the expense of the industrial worker." Whatever the arguments, the fact is that there is a concerted effort on behalf of the regime to 'get agriculture moving', and it will be interesting to see how successful this new 'mobilization' of the peasantry will turn out to be on the long run.

2/ The Impact of the New Economic Mechanism.

Having described the features and scope of the New Economic Mechanism, and having looked at the characteristics, composition and 'philosophy' of the present Party leadership, an attempt will be made now to analyse the impact and interaction of this new mechanism, with the various forces of 'system maintenance.'

Opposition to the economic reforms, could come from a number of sources. Resistance to economic modernization is not the monopoly of a few members in a Politburo, or of the so-called 'dogmatic elements' of the Party; there are still other groupings in society, who have accumulated, during the previous decades, strong personal interests in the maintenance of the old planning system.

The managerial 'class' might be hostile to modernization, because their positions are less secure due to the new emphasis on entrepreneurship. They will be required to function quite a bit like their counterparts in the West;-- i.e. rely on innovation business skills and risk taking-- yet few of them actually possess such experience at this time.¹

¹See the article by R. Nyers, in Nepszabadsag, March 13, 1966, (also footnote on page 1 of this paper) dealing in part with the new responsibilities of 'Socialist Managers.' (cont'd on Page 114)

Opposition might also come from the ranks of the Labour force, since they might be required to perform in a more productive and efficient manner. They could have easily grown used to the idea of working 'quickly and carelessly', and might not share the views of people like Professor Janossy, (see pages 60-66 above), who argue that the NEM will improve their 'morale.'

Thousands of apparatchiki, local Party secretaries and white collar bureaucrats are also threatened by the reforms.

Finally, even the 'International Community'--i.e. the Soviet Union--might find itself having to take measures, to protect its stake in the 'realm.'

a/ The Power Elite.

With respect to the reforms' impact on the power elite, that is to say, its influence on the higher echelons

One of the major flaws in the argument which sees a managerial revolution lurking just around the corner, is that it is based on the premise of a 'monolithic managerial class'--which strangely enough, is nowhere in sight within the Communist 'bloc'--and it equates the outlook--pragmatic and scientific--of this group with the outlook of managers in the West. Both of these assertions 'fall down', when faced with empirical data. (continued from Page 113).

of the Party, (namely, on the Politburo, the Secreteriat, The Central Committee) and State Apparatus, (Council of Ministers, the heads of major economic departments) it would appear that their interests need not be in contradiction with the aims of the reform, or with economic rationality. We must realize that the party leaders' primary interest is power; on these grounds one would have to assume that they would support economic rationalization as long as in their opinion, this would lead to a 'pay-off'--i.e. as long as this would contribute to the maintenance or increase of their power position, and to the strengthening of the Party's 'leading role.'

In the previous sections it has been shown that the old administrative, or command system, was increasingly unable to cope with a complex and modern economy. Due to the resulting wastefulness, inefficiency and stagnation, stability in politics was increasingly threatened. In the words of Alec Nove, what is required therefore is,

"..that the party must seek to reconcile its power functions with efficiency, and must therefore initiate discussions and reforms in order to make its power position more consistent with practical aims pursued by its economic policies." ¹

¹Alec Nove, Economic Rationality and Soviet Politics. F. Praeger, Inc., New York, 1964. p. 63.

The dilemma in all of this is that once you do initiate radical reforms--and we would have to call the Hungarian reforms radical--you also significantly weaken or alter the party's old or traditional power posture.

In effect then, what is needed to carry through this transformation, is a change in the attitudes and perceptions of the party leaders, as to what really constitutes 'power.' Does power mean coercion, control and manipulation, rigidity, the freezing of automatic processes, and a day to day interference in all segments of social and economic behavior, (this would be Brzezinski's 'ideological' political system), or does it mean the ability to lead society in a way whereby members of that society are committed, rallied and identify with the party's goals and desires because they view these goals as being to their advantage. In other words, that they participate in, and support, the system without a feeling of being compelled to do so, or ideally, because they choose to do so. (This would be termed by Brzezinski as an "instrumental" political system.)¹

¹See, Z. Brzezinski and S. Huntington, "Political Power: USA/USSR". The Viking Press. New York, 1965. pp.71-76.

But obviously, to achieve this state of affairs, leaders are needed who will place an increasingly greater value on this second conception of power. Leaders alone, however, are not enough; one also needs policies, which will rally popular support, by at least seeming to satisfy the desires and needs of a large enough segment in society, which hitherto has been hostile or passive towards the regime.

In a nutshell, what is needed by any radical economic reform to 'survive', is new people, or if that is not possible, then 'old people' with 'new attitudes.'

From the nature of the Hungarian NEM, from the fact that it was introduced in 1968 and is still very much in 'existence', as well as from other evidence which we have included in the previous sections, one may contend that this necessary political 'transfusion' at the top of the Party hierarchy, had indeed taken place, or is in progress. Consequently, we may conclude by saying that the new economic system, as it exists today, and the basic principles of the NEM, are not in conflict with the political--or ideological--values of this 'dominant' group in Hungarian society. The likelihood of a 'Novotny type resistance' to the NEM, in other

words, is highly unlikely.¹

b/ Local Party Leaders and State Bureaucrats.

When searching for resistance to the NEM, within the Party, one will find the most intense opposition at the local 'nerve endings' and not at the center. It is not difficult to find the reason for this, since under the New Economic Mechanism. it is the local party functionary who stands to lose the most, owing to the enterprise's greater independence from the center-hence the lesser need for day to day interference by the local party secretary. In short, transforming the 'outlook' of these individuals about the 'correct-road' is much more of a problem, since they have a considerably greater and immediate involvement in maintaining the old planning system. An analysis of the attitudes, characteristics, and size of the local party opposition to the NEM, as well as the opposition within the planning and State bureaucracy, would be essential.

¹An interesting article appeared in the government daily Magyar Nemzet, on June 30, 1968 (note date!), which puts the blame for the faltering of the Czech economic reform on the absence of a prior "reorganization of the political mechanism", and states that in Hungary "things are going well as a result of a previous political readjustment."

This would be truly an immense research task in itself, and in fact would require the researcher to spend some time 'on site'. The following comments might seem to be a bit 'sketchy', but they are necessarily so, due to the scarcity of available information about this matter.

Upon reading the Hungarian press, one finds that apparently there has been considerable conflict at the local level between party leaders, state administrators, and enterprise managers. Most of the conflicts appear to be restricted to the enterprise level, however, as controversies had developed over new lines of jurisdiction.

It is extremely important to note, that the reforms clearly stipulate, that whenever conflicts develop between enterprise managers and local party leaders, it will always be up to the next higher party organ--i.e. not economic or state organ--to resolve the conflict.¹ In other words, the 'ultimate arbiter' will always be the Party organization, and not the economic wing of the state bureaucracy, nor, the enterprise manager. As a quote from the party's daily newspaper Nepszabadsag, shows, since January 1968, "...The superior party organs had to intervene repeatedly in order

¹Nepszabadsag. August 26, 1969. Budapest.

to create the conditions for quiet work." ¹

An investigation, by the Budapest Party Committee, into 35 disputes, concluded that the disputes investigated involved only about 100 "leaders", yet "...they resulted in the serious unrest of 35,000 workers, and some 4,000 party members."²

Most of the public statements about these conflicts also mention that they are the results of 'prestige struggles' or 'personal struggles, accompanied by impatience and rude manners'. The Budapest Party Committee's study concluded that the main reason for their occurrence rests in the "...blurred limits of sphere of activity and unjustified interference into each other's affairs." ³

Arguments of disgruntled local party secretaries, such as the following, are also heard from time to time.

"In filling state and economic positions in a one sided way, skill is the determining factor, and political requirements are neglected...state and economic leaders, exaggerating the demands of training, do not like to admit party members to their domain... in some cases recently experts who were not

¹Ibid.

²Ibid.

³Ibid.

politically acceptable have been placed into leading positions." 1

With the introduction of the NEM, also came the news that far ranging "remodellings" were initiated within the Ministries, and inside the Planning departments.

A number of Ministerial departments underwent significant staff reductions--the limit in most cases being around 40% - with the Ministries of Domestic Trade, and Heavy Industry, topping the list: in these two, staff reductions almost reached 50%.

These figures would clearly support what we have been saying before; under the new reform, a large segment of the economic bureaucracy, becomes redundant.

The Party has been quite shrewd, however, in carrying out these staff reductions, by ordering the departments concerned to "streamline themselves" in such a way, as not to "interfere" with the department's party organization. In other words, most of those who were 'laid-off', were not party members, and almost all of these people were "resettled" or given assistance until they were provided with a suitable new position.

L'artelet. October, 1967. (As quoted in East Europe Magazine. Vol. 17. No. 8. 1968. p. 18).

This, might be another reason, why the reaction against the reforms, has not been able to 'get off the ground.'

c/ Workers and Managers.

Of particular bitterness to workers is their relatively low share of the profit fund, (15%). But conflicts between workers and managers have also increased as a result of the manager's new concern for 'getting more out of' his staff than in the past, and in 'cutting corners', as a means to raising labour productivity. By increasing the role of the Trade Unions, however, this labour hostility might be more easily controlled. In any case, the 'impotence' of workers in the past, as an active pressure group, would tend to rule out the prospect of a successful 'sabotage' of the NEM. One would also have to say, that the level of labour dissatisfaction towards the NEM is not that significant. Lately, there has been some talk about raising the 15% limit on labour's share of the profit sharing fund, and if instituted, this would also contribute to the elimination of whatever opposition there is right now.

A much bigger 'headache' is posed by the absence of the kind of enterprise manager which the New Economic

Mechanism requires in order to be effective. Two years after the introduction of the NEM, one of the major complaints is that managers are still not making sufficient use of their new responsibilities, or that they are hesitant about making decisions on their own and that they are unduly afraid of risk taking.

Removing managers and factory directors, is not simply an administrative matter. For one, the regime certainly doesn't want to create a 'scare-campaign' about 'massive lay-offs'. Moreover, a significant number of directors are still around, who have been placed into 'office' in the old days, as a result of political favoritism. Many of them, are also very 'reliable' ideologically.

But assuming that the removal of enterprise managers - those who cannot adjust to the principles of the NEM - could be an easy matter, the problem would still be far from solved, and the 'revitalizing' of management would still be a slow process.

The basic problem is, that suitable managers are difficult to come by, due to the non-existence in the past, of adequate management training institutions. To quote Professor Imre Vajda, who by the way had contributed ex-

tensively to the formulation of the reforms.

"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

To make up for this deficiency a large scale training program has been initiated under the direction of the Ministry of Labour and Education, and the courses which are being offered are rather similar to those being offered to students of management in the West.

It is hoped, that as a result of this, the efficiency of enterprise management, ~~will be~~ greatly improved. The up-grading of 'management', thus follows various routes; removal, retraining, and re-juvenating (i.e. bringing in recently educated 'technocrats'). Presently, the

¹ I. Vajda, *Kozgazdasagi Szemle*. June, 1967. (as translated in *East Europe Magazine*. Vol. 17. No. 4. 1968. p. 32.

greatest emphasis is on retraining, while simultaneously the numbers of those who cannot 'manage', are slowly being reduced.

The problem with 'management', therefore, is not so much their resistance, but rather the absence of qualified managers. This is essentially a problem of time, and the continuation of the NEM, would definitely activate towards the creation of a more competent, aggressive, and efficient managerial core.

d/ A Revision of Ideology?

One also finds a good deal of criticism against the reforms 'coated' with ideological paint. These arguments follow the general line, that the "so-called profit motive", and the "introduction of market-economy" are both contrary to the teachings of Marx, that they are the dominant features of the capitalistic mode of production, and their adaptation therefore is nothing but a step back from Socialism. All of these arguments, however, have been countered quite successfully by party's theoreticians.¹

¹See for example I. Friss, "The Laws and Management of the Socialist Economy." Kozgazdasagi Szemle. June 1967. Budapest.

(One might add, that on ideological grounds, the party has also been quite successful in 'proving' that state ownership of the means of production is identical with workers' ownership).

The party's theoretical apologists, argue that Marx was not against profit as such, but rather, he was against the separation of 'profit takers' from 'profit makers'. To be more specific, they point out that in the capitalist countries, profit is 'personal profit' which goes directly into the 'pocket' of the capitalist entrepreneur. In Socialist countries, however, the 'profit takers' are the workers, the very same people who 'make' the profits. In short 'profit making' and 'profit taking' is one and the same thing in Hungary, and the adaptation of the profit motive is just another step in the improvement of the Socialist workers' condition.

The 'apologists' also state that the Socialist market is vastly different from the "chaotic and inhuman" capitalistic market, since the latter is not controlled by the people-- the way that it is done in the socialist states - and furthermore, the enterprises which conduct their business on the capitalistic market are not owned by 'The People' but are privately owned interests, which,

unlike the state (i.e. People) owned firms in Hungary, simply do not take into consideration social 'necessities'.

In short, the ideological arguments against the NEM, do not seem to pose much of a threat, and therefore there is no need to go into a deeper analysis of them.

e/ The International Community.

As the events in Czechoslovakia during 1968 so clearly demonstrated, whatever transformation does occur within the countries belonging to the 'Soviet Orbit', the upper limits of these changes are always closely defined by the security dictates of Moscow. Consequently, it is this question and its relationship to the Hungarian economic reforms, that we want to investigate now.

To begin, it might be helpful to refer back to what was said about the Hungarian Communist Party's 'Three Basic Principles'; the first and most important being, "to go along with the Soviet Union."

The most frequently recurring feature of official literature on the reforms, is its concerted effort to allay the fears and suspicions of the Soviet leadership. There is a total absence nationalistic or even vaguely anti-

Soviet views in the press, (the latter of course is not a new phenomenon), and in fact one of the most often repeated assertions is that the NEM has been worked out after a close study of Soviet economic experience.

There are frequent references by Kadar, Nyers and others, to the necessity of closely "studying and following the advice and experience of the Soviet comrades." The degree of 'altruism' is almost comical at times, in the sense, that some public statements verge on giving almost complete credit to the 'Soviet comrades' for the formulation of the reforms. A most recurrent warning is that "We should not be be-devilled by nationalist and anti-Soviet elements" or that "we should not feel as if we had placed the Hungarian tri-color on the hat of Socialism."¹

In a way none of this is very surprising. The experiences of 1956 have not been forgotten, in spite of the complete absence of any public or official reference to those tragic days. One would have to admit, that if there is anyone today in the 'Communist Commonwealth', who knows

¹This is an obvious allusion to the old pre-World War Two Hungarian nationalist slogan--"If the Earth is God's Hat, our country is a bouquet on it."

how the minds of the Kremlin leaders work, then that man must surely be none other than Kadar.

The unfortunate experiences of the Czechoslovak reforms, in 1968, had a tremendous impact on Hungary. Observers in Hungary at the time, reported that there was almost a 'mass psychosis' in the country after Czechoslovakia was invaded, since it was thought that the Hungarian economic reforms would also be shortly abolished.¹ Yet this fear did not take the form of anti-Soviet hostilities, (and this is not simply the result of regime's ability to control the masses), but on the contrary, the need to strengthen Soviet-Hungarian ties was even more loudly proclaimed. In a way, the impact of Czechoslovakia's invasion was very similar to that which Hungary's invasion in 1956 had on Poland. (It is widely acknowledged that the example of the Soviet's action in Budapest in 1956 was what finally deterred the Poles from a recourse to mass violence).

Unlike Yugoslavia, Hungary frequently points out that the NEM has been structured specifically to suit Hungarian conditions, and should not be looked upon as a new

¹See E. Sandor's "Hope and Caution". Problems of Communism. Vol. 19. No. 1. 1970.

ideology, which the country is willing to export to interested customers.

Nothing sums up more clearly this concern of the Hungarian leadership with Soviet attitudes towards the reforms than the following passage from a speech of Premier Jeno Fock.

"In the success of our economic reform to date 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 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 viewpoint in the future as well."¹ (emphasis mine)

In response to this behavior, the Soviet Union has not been critical of the Hungarian reforms, but on the contrary she has been warmly encouraging. To illustrate,

¹Magyar Tavislati Iroda. (Domestic Service)
September 20, 1968. Budapest.

*"From the very beginning the Hungarian Communists have had both feet planted firmly on 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."*¹

In short, at this stage it would seem as if this cautious policy of the Hungarian Party is 'paying off', and it confirms the view that what really worries the Soviet leaders is not so much the nature of the ideological heresy itself, but rather, the trustworthiness of the heretic. As long as the Soviet Union is convinced that Kadar can maintain control over the pace of the reforms, and also uphold the security interests of the Soviet Union, then she will not interfere in the country's domestic affairs extensively. The Hungarians apparently are fully conscious of this, and it is around this axis that the whole of the reform program seems to turn.

One should also give credit to the Hungarian regime for its very effective 'publicity campaign' about the NEM. A tremendous amount of press coverage has been given

¹Izvestia. January 9, 1969. Moscow. (Translated)

to the reforms, and because of this constant flow of information about the nature, aims and limits of the NEM, many of the initial fears, misunderstandings and suspicions had been eliminated. (In sharp contrast to this, the Czech economic reforms were surrounded, throughout, by a significant degree of popular ignorance, and confusion). Although jurisdictional confusions still 'crop up', it is important to note that all of the new regulations were issued in the forms of detailed and carefully prepared state decrees, which have seriously attempted to delineate the lines of responsibility which the various organs of state, party, enterprise and labour unions must fulfil. As Gamarnikow says, "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." ¹

To sum up all that we have said in the past few pages, there seems to be ample evidence of resistance to the New Mechanism, and this opposition does not emanate from only one source but from a number of directions. We

¹M. Gamarnikow. Economic Reforms in Eastern Europe. Wayne State University Press. Detroit, 1968. p. 180.

would have to conclude, however, that it is not significant enough to seriously endanger the continuation of the program.

On the other hand, should the reforms show no economic gains or advantages, and should the top leadership lose its present cohesion, as a result of economic difficulties, then quite obviously the present situation might be drastically altered. Without a doubt, therefore, the success of the reforms, manifested by improved efficiency, productivity and working morale, would go a long way in assuring the maintenance of the present course, and would also bring about a decrease in the levels of hostility that is only too apparent in certain quarters at the present time. It should also be noted, that the longer the NEM is allowed to 'exist' the less pronounced will be the impact of the initial dislocation on those who had been adversely affected by the changes since these people will gradually adjust themselves to the new environment.

The fundamental reality to keep in mind is the nature and outlook of the party's leading 'power core'. We have shown the transformations which have occurred in this sector since 1961, and we would have to conclude that

ultimately it is up to this group to decide whether the reforms 'live or die'. As Kadar's recent statement so clearly shows,

"What is essential is that the 6,000 people in leading positions, should have a solid understanding of the aims and goals of the proposed reforms." ¹

As long as Kadar, and those '6000 people' continue to believe that the NEM is a positive reform, a legitimating device, - which is functional to the Party's basic principles, - and which is definitely contributing to the 'building up of faith in Party's ideals', this economic reform should prevail.

¹Nepszabadsag. August 2, 1968.

Conclusions:

For the past twenty-five years, the fundamental goal of Hungary's Communist Party has been the creation of an advanced and industrialized economy. By far, the largest amount of energy and time was directed towards the attainment of this end. Today, this goal of the Party has been achieved, for the most part, but she is finding the efficient management of an industrialized economy far more difficult, than the actual building up of one. The State and its planning bureaucracy were presented with problems which were impervious to the management techniques of the past. In effect, by 1965, Hungary's economic development was rapidly heading towards a crisis point, and the only way of averting this eventuality was through the institution of a radical managerial and organizational reform. In this paper we have outlined and characterized the features and scope of this reform.

But we also tried to show, that the problem with which the leaders of Hungary were faced in 1965 was not simply an economic one, but fundamentally a political dilemma. Our purpose, therefore, was to analyse the interaction between the forces of economic modernization and political commitment. We wanted to examine and illustrate

the hypothesis that economic modernization does unleash tremendous political forces. We looked at the operation of these forces, and at ways by which this process could be 'managed' so as not to weaken the legitimacy and power of the governing authorities.

But 'deep down', what we were really interested in--and which we are still concerned with, for the answers have been elusive--was to find out whether a radical economic reform could not also lead to an eventual qualitative transformation in a country's political system. We wanted to get 'closer' to the problem of the impact of a new economic base, on a traditional political superstructure.

Upon contemplation, we have realized that Marx's concept of historical development is inapplicable in this case, for the 'choice' behind the erection of a new political system is greatly complicated by a variable not accounted for in Marx's model. That is to say, Hungary's 'new political superstructure'--provided that she is to get one in the near future--depends as much on Soviet approval or support as it does on the compulsive forces of economic modernization.

An unmistakeably clear, and determinant factor, in

the politics of Eastern Europe, is the preponderance of Soviet power. There has been far too much academic debate as to whether these states are satellites or not, having a circular as opposed to elliptic, orbit. That Albania was able to escape Soviet retaliation, or that Roumania 'talks back to Moscow' is no rebuttal of this fact. Their 'freedom' is certainly no proof of 'Soviet Impotence', or of 'Soviet Humanism' or for that matter of 'Socialist Internationalism'. They simply indicate that in Moscow's estimation, the loss is permissible. It is not worth the expense of a military intervention. While undoubtedly she would love to have them fully on her side, she realizes that at the moment they present no significant security problems. They neither weaken nor enhance Soviet power-- they are only a nuisance. The people and governments of Eastern Europe do not want to emulate the Albanians or the Roumanians, but were the Czechoslovak reformers successful, this certainly would have set into motion a massive demand for change by the other states. In short, some colonies are more valuable than others, and some can get away with more than the others can. While a number of commentators mistake dynamism with independence, or 'tugging at the

leash' with freedom, the preponderant factor in Eastern Europe is that the limits for such unruly behavior are still defined in Moscow. The impact of the Sino-Soviet rift does present problems for discipline, and the 'little ones' are getting away with more nasty behavior than in the past, but in spite of all that, they are still very much 'Daddy's boys'. The so-called Brezhnev Doctrine--which is neither new nor original--exists not only on paper; it is also practiced resourcefully and convincingly whenever the need arises.

Economic reforms are being initiated throughout the Socialist 'Commonwealth'. Some of the leaders are 'dragging their feet', in initiating these changes. Others like Kadar have committed their country to reform. Still in other states, the pressures for reform are not yet as great as to warrant a parting with the policies of the past.

For the radical reformers--like Hungary--the purpose behind the introduction of this 'new course' is not simply the attainment of a three per-cent GNP increase, for as Denis Pirages so rightly points out, "...The political organization..stands on the record of economic achievements as a main source of legitimacy."¹

¹D. Pirages. op. cit., p. 256.

The reforms which have been instituted are not intended to undermine the 'legitimacy' of Soviet preponderance nor the legitimacy of the Party. On the contrary, they are dedicated to the creation of a basis for legitimacy and acceptability.

The initiative is with the Party, as it must be, and in Hungary this Party is forever searching (at least since October 1956) for a modus vivendi, granting concessions here and there, not because of a sudden concern with morality and social welfare--or because of Marxist 'Humanism'--but due to a growing realization, that the failure to adapt to certain objective situations, and the disregarding of various structural demands, would in the end not lead towards Socialism but towards another fiasco. There is no great new pre-occupation with democratic principles. What there is, however, is a very real and concerned attempt at self-preservation.

Kadar is not a 'Hungarian Dubczek'. He was in charge of the Secret Police in 1949, when the worst excesses of the Rakosi regime were being perpetuated. Kadar's greatest concern is the possible toppling of Hungary's ruling elite: he doesn't want another 'October 23.' While

he knows that the people of Hungary paid a very heavy price for that uprising, and that 'next time' they will be less foolish in physically challenging Soviet authority, he also knows that until his Party receives a genuine basis of legitimacy, the likelihood of a serious repetition should not be discounted. What the Hungarian party leader wants is peace and the cessation of hostilities. He is a pragmatist and he is willing to pay a price in return for a 'tranquil' atmosphere. But above all, what he wants is a place for his Party, at the 'head of the procession'.

This rationalization about the "positive and progressive steps instituted by our Party" is not to be heard anywhere in Hungary--at least not in official circles. At every opportunity, official proclamations loudly announce the Party's preponderant concern with the "well being of the Hungarian people", "the well being of our working brethren and sisters", and the "preservation of humanity" in general. The Party, "the embodiment of Marxist-Leninist Principles" is "resolutely leading the way towards democracy."

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 (emphasis mine)

On examining Hungary's New Economic Mechanism, we recognize that it is undoubtedly an imaginative, thoroughgoing, carefully prepared and positive reform, which should activate, for the time being, Hungary's stagnated economy as well as provide a number of 'safety-valves' through which pockets of hostility will be diffused. Indeed, it is quite conceivable, that it might even provide the Kadar regime - for awhile - with a genuine basis of popular support. It is a big step forward from the policies of the past two decades and it must deserve a good deal of credit and support. Its originators were far-sighted and they correctly recognized that certain political changes are essential before a major legislation of this nature could become an effective policy. In this paper we have talked quite extensively about the nature of these political changes.

Yet in actuality, political modernization has not kept up the pace with economic modernization. Legitimacy

¹R. Nyers, 'Social and Political Effects of the New Economic Mechanism'. The New Hungarian Quarterly. Vol. 10. No. 34. 1969. pg. 16. Budapest.

often demands that the present and future be made continuous with the past, and Hungary's political leaders take it as a given that the existing Socio-political situation is basically correct and progressive, i.e. that the political norms of tomorrow are essentially those of yesterday. While there has been numerous official reference to "great new changes in our political realm",¹ (without a specific elaboration) these have never received the kind of legislative attention which all of the NEM policy changes have. While the economic reform moved through three successive stages--announcement of intent, formulation and implementation - political reform has only vaguely touched on the first stage. Political pluralism, or democracy--as practiced in the West--free speech, a multi-party system, organized opposition to the Communist Party, open competition for the leadership of the party, a foreign

¹See I. Pozsgai, Tarsadalmi Szemle, October, 1968, or, E. Kalman, Tarsadalmi Szemle, August-September, 1968. The quotation from Nepszabadsag, September 1, 1968, also gives a good illustration of this;

"Everybody knows that following the reform of the economic mechanism, many questions concerning the directing activities of state and local council organs are also on the agenda... the economic reform also calls for modernization in other areas."

policy independent of the Soviet Union, public disagreement or criticism of Soviet policy, (as in Czechoslovakia) and other features of modern liberal democracies, are still conspicuous by their absence. Obviously, it is much more dangerous to bring about 'planning from below' in politics, than it is in economics.

The extent of 'political modernization', or the 'reform of the political mechanism', has been restricted within the limits we have shown in this paper. Granting that the 'Stalinist political system'--which relied on the use of force and indoctrination as the chief agents of mobilization--is a thing of the past, it nevertheless remains true that whatever political organization does exist in Hungary, it is still hierarchical rather than competitive. The Party has shown willingness to share some of its functions with people who are obviously better qualified, but it retains the crucial and decisive function of the selection or dismissal of these individuals. There is no competition with the Party for the right to govern or legislate. The Party is the ultimate arbiter. Against it, no decisions can be made. (This should not be taken to mean that there is no conflict within the process of governing; competition over

policy does exist, within the confines of the Party. Any conflict or competition outside of the Party 'Forum' must stay within the sanctions of the Party).

But to make our point another way; although Stalinism as a method of decision-making and mobilization technique has disappeared, (more or less), the basic hierarchical or custodial system--of which Stalinism was only an aberration--has remained. The custodial model is fine for a country which is backward--socially, economically, educationally or culturally--(provided too, of course, that the ruling elites are not), and which is trying to shake off these handicaps. It is a highly attractive option for nations which are committed to eliminating the miseries which colonialism has blessed them with, and it offers a way towards modernity and prosperity--fast. The model becomes wasteful, however, once modernity has been attained; once illiteracy has been wiped out, once industrialization has been reached, once people 'had been fed' and know how to 'stand on their feet', the custodial model.. becomes increasingly redundant.

The tragedy for the people of Eastern Europe is that today, so many of their leaders are of the opinion that in the second half of the 20th century, the elimination of this

organizational system from their political realm, is tantamount to treason, or that it is a revisionist, retrograde and decadent move, geared towards the "enslavement of Humanity."

And yet, one must ask, what of the long term impact of this economic reform? In this case, Jeremy Azrael's comment is extremely worthwhile to keep in mind;

"If history teaches anything, it is surely that democracy does not come of itself or as an automatic consequence of economic modernization... but arises only as a result of dedicated and active support by politically significant groups."¹

This paper has repeatedly warned of the dangers of equating economic decentralization with the creation of political pluralism. Keeping this in mind, we should nevertheless ask; wouldn't a large scale economic reorganization in an authoritarian society, carried out on a national level and involving a transfer of decision-making powers from central to local areas, engender a certain amount of impetus to repeat a similar move in the political realm? The 'impetus' of course, would come from those groups who have

¹Jeremy Azrael, "The Party and Society" in A. Kasso (ed.) Prospects for Soviet Society. Frederick A. Praeger, Inc., New York, 1968. p. 75.

'found their voice' under the new organizational system. As Lida Urbanek asks, "...how can people be expected to think rationally about economics and in ideological terms about politics or social relations? Can a society which is economically consumer oriented be strictly disciplined in politics?"¹

While this author might be left open to the charge of begging the question, he nevertheless takes that chance feeling that this question is a relevant one. Surely societies, just as much as economies, do not remain stagnant for decades. (At least they have not done so for any great length of time in this century). As in every industrial nation in the world, so in Hungary, development can not be restricted to economic growth. There have been radical transformations in the Social realm as well. Due to the combined forces of education, communications, technology, industrialization and urbanization, the societies of Eastern Europe have undergone tremendous changes. Attitudes, values

¹Lida Urbanek, "Some difficulties in Implementing the Economic Reforms in Czechoslovakia." Soviet Studies. Vol. 19. No. 4. April, 1968. p. 565.

and social norms have been greatly altered since 1945.¹
The view which limits adaptive organizational pressures to the economic sector alone is clearly an imperfect one.

Although one shouldn't 'buy' the Theory of Convergence in its entirety, it does have certain valid assumptions. Complex industrial societies do require a certain amount of similarity in management. But that there should be complete social and political similarity between

¹A number of studies and polls have been published in Hungary recently, dealing with the social and cultural impact of industrialization as well as with the effects of twenty five years of Communism. Studies on the changing attitudes of young people are especially revealing. (For example, G. Czako's "Twenty-Year Morality" in Kortars, November 1968).

The following quotation from Peter Veres' article is also quite interesting, especially so since it appeared in the party's daily, Nepszabadsag, October 15, 1967.

"It has not yet penetrated the public ethos sufficiently that in socialist society, you also have to have a collectivist public ideology, public sentiment, public taste and public behavior; that the state is not merely our employer, (if it were only that we would have state capitalism: would that be worth a world revolution?) but also our community, the frame of life of our nation, our people. There is no sense denying it, in the midst of our socialist construction, a fairly large part of our citizenry is going through a continuing process of increasing individualization."

A good review of these studies and the previous decades of social transformation can also be found in Karoly Nagy's 'The impact of Communism in Hungary', East Europe Magazine, Vol. 18. No. 3. March 1969.

systems having the same economic base is only asserted by domestic Marxists or by wishful thinking 'liberals'. Within the limits provided for by the organic requirements of industrialized societies, there are still quite a number of different options about the kind of political 'superstructure' which may exist on top of a fully industrialized economic base.

The author of this paper is not a sociologist--nor a clairvoyant--and therefore will not attempt to refute this criticism of convergence. He does feel very strongly, however, that today there exist certain conditions which may lead towards a narrower 'political gap' than it was hitherto deemed possible.

The dominant feature of the second half of this century is the breakthrough or explosion in communications, education and cultural de-mystification. In the past, dictatorships thrived in those societies in which the people were largely illiterate, passive and inward looking, and who were not used to asking 'what's in this for me'. These fundamental requirements for prolonged totalitarianism are rapidly disappearing from the part of the world which commonly refers to itself as developed.

History, traditions and a political culture are important factors in the shaping of political systems. A number of scholarly articles have been written on the powerful contribution of certain historical forces on the present Soviet polity. But it is also essential to realize that history is only one of a number of different 'in-puts' which go into the creation of political systems. In to-day's world, as a result of modernization, history is rapidly losing out as a dominant moulding influence, while the numbers and pressures of other in-puts is continuously increasing. (I would hope that no one will take this as saying that Nationalism is no longer an important 'determinant').

It would appear rather unrealistic to think, that the style of Soviet politics for example, will forever be determined by centuries old tradition of centralism, messianism and authoritarianism. A nation whose population is 90% literate, (which of course is the first essential step in the development of analytical thinking), or a people which is continuously being bombarded with a 'liberating' ideology, will not accept passively everything it is being told, ad infinitum.

Man is not an automaton: While he may act like one for an awful long time, eventually he begins to 'play around' with the in-puts that are being fed into him, questioning and analysing them until at one stage in his development he takes over the process himself. It is this capacity which distinguishes man from animals, and it is this capacity which has made Western Liberal Democracies possible, as well as created Stalinism.

While some people argue that modern dictatorships could be even more successful than the old ones--precisely because of all the new technological 'gadgets' at the aid of a dictator--we, nevertheless, feel that this argument is inherently rooted in a static social concept. For it to succeed--for any length of time--one would also need an 'air tight' cell, with perfectly sealed borders, through which nothing could come in or go out. It would require the blocking out of all foreign ideas and events.

Fortunately such a 'magic-box' has not been invented as of yet (although the Chinese are supposed to be 'working on it'). While we are nowhere near McLuhan's 'electric village', we are nevertheless witnessing the rapid erosion of that insularity which has existed between states and cultures, for centuries. It is very difficult to contain

the force of this explosion. One may try to dampen it, but arresting it is well nigh impossible. The world on the long run is not being compartmentalized--it is being opened up.

Hungary's New Economic Mechanism is a logical and necessary part of this 'opening up' process. One should only read an economic textbook written in the West and then take a second look at the 'new mechanism'. One should only read the economist Keynes--who was no Socialist by any standards--and will be surprised to find that the Hungarian Mechanism is not really so new after all--that a good part of it is 'imported material'. Another good illustration of the breaking down of old barriers is, that today one can drive into Hungary with an automobile, fill up his tank with Shell gasoline, sleep in the new Intercontinental in Budapest, leave his car with Avis, and fly out from the country with BOAC.

Hungary's as well as the USSR's ruling elites are going to need increasing popular commitment to elite subscribed goals. While economic decentralization might create some kind of legitimacy basis, on the long run, it could easily turn 'back on' the center, questioning the legitimacy and wisdom of a number of other centrally defined political goals. Decentralization invests the new local units with a potential dynamism which in turn will require certain new measures to

remain system supportive. One would think that goal motivation or elite-mass equilibrium needs more than a full stomach or a market mechanism--albeit a controlled one--if it is to remain viable.

Economic activity, as it has been shown above on occasion, does not take place in a political vacuum, especially not in a state where it is the most important activity of politics, and where the leaders of that state are politically committed to the creation of abundance. That the drafting and introduction of the NEM involved a tremendous amount of political 'ground-laying' has already been shown. But this reform is no 'cure-all'. A controlled market mechanism and free prices are no solutions to the myriad problems with which modern economies and societies are having to face up to. While it is not advanced here that the NEM will become the economic determinant of Hungary's future political superstructure, it is felt, that its acceptance and support by the ruling party elite, was a significant political 'breakthrough': a necessary and, on the long run, unavoidable first step which will continue to activate and motivate for newer political improvisations.

Someone very wisely announced two thousand years ago that "man does not live by bread alone." While History has

shown that man can do so for quite a long time, it is yet to 'prove' that man can do so forever. A basic feature modern industrial societies is that the 'occupants are refusing to stay quiet', and will not remain content with simply being 'fed and clothed'. Aristotle, who lived before Christ, coined the phrase that 'Man is a political animal', and there is ample evidence to support the wisdom of this deduction. In time, Man demands the right to speak for himself and to govern himself: he will not accept as legitimate, the notion that 'Freedom is the recognition of necessity'. Democracy and Man's refusal to be 'up-eased' is reducible to one reason and one reason alone--the recognition that he can have 'the best' of two worlds, a 'full stomach' and an open political system.

Whether the NEM will cause a significant shift in Hungary's political 'curve' is difficult to say with any degree of certainty, but that "...the decentralization issue is heading for a crisis in all of the developed socialist countries,"¹ is no longer in doubt.

¹D. Pirages, op. cit., p. 275.

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