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OFFICE OF
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MEMORANDUM

The Hungarian Experiment: Kadar's Not-So-Middle Way

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

5 January 1970

MEMORANDUM

SUBJECT: The Hungarian Experiment: Kadar's Not-So-Middle Way*

NOTE

Kadar enjoys a well-earned reputation for caution and pragmatism. He has repeatedly declared that he has no intention of drastically altering the fundamental structure of Hungary's socialist system or of weakening Budapest's ties with its Warsaw Pact partners. Nevertheless, the pattern of economic and political reform in Hungary runs sharply counter to current trends and practices elsewhere in the Soviet Bloc. A degree of decentralization and liberalization is involved which is likely to require a substantial adjustment in the methods of control exercised by the Hungarian Party. This is an especially delicate matter since Moscow is clearly hypersensitive to any apparent weakening of the "leading role" of a ruling Communist Party in Eastern Europe. But despite warning flags from the Kremlin, Kadar has so far managed to avoid compromise on fundamental issues. His persistence raises certain questions: How sound are his reform programs? If left to his own devices, how far is he likely to go? What are the limits of Soviet tolerance and what is the likelihood of Soviet intervention if these limits are transgressed? Our principal conclusions appear in paragraphs 19-25.

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Kadar's Approach

1. The ghost of Imre Nagy still packs a very earthly impact in Budapest. Though Nagy and Janos Kadar dramatically parted company in the midst of the Hungarian revolution, Kadar continues to share Nagy's almost populist faith in the fundamental wisdom and loyalty of the non-Party masses. This attitude sets Kadar apart from such leaders as Gomulka, Ceausescu, and Ulbricht and -- despite clear differences -- places him closer to Tito and Dubcek. All the Communist regimes in Europe are attempting to rationalize their economies and to consolidate the modus vivendi they have achieved (Czechoslovakia excepted) with their respective general populations. But there is a vast difference between reforms which seek these goals within the framework of the paternalism of a narrow elite and programs which allow for a gradual increase of genuine popular participation in the decision-making process.

2. Kadar's concept of a Hungarian model of socialism clearly has deep roots. Indeed, foreign policy matters aside, there is little in the spirit or general outline of Hungary's current economic and political reforms that cannot be found in at least rudimentary form in the measures

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advocated before the revolution by the still discredited Nagy. But it took two rather traumatic developments to focus Budapest's attention on the urgency of thorough-going change. One was the ouster of Kadar's patron, Nikita Khrushchev, which impelled the Hungarian leader to seek additional domestic support. The other was the concurrent appearance of serious economic difficulties.

3. Of course, Kadar's faith in the non-Party masses and his commitment to the decentralization and humanization of the Hungarian economic and political system are far from boundless. The limits and directions of change must be determined by the Party and the implementation of reform must be kept under the Party's control. Yet, with the end of the Dubcek era in Czechoslovakia, Hungary stands alone among the Warsaw Pact powers in openly acknowledging that the Party does not embody the totality of the general population's legitimate interests. While a broad unity on vital national questions is said to exist, Budapest holds that natural conflicts of interest -- group and individual -- with respect to lesser questions must, within limits, be given an airing and, in some cases, institutional representation. Kadar evidently believes that the Party's

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leading role can be effectively exercised within the framework of a relatively pluralistic system. What is more, he seems to feel that such an arrangement is essential to maintaining the degree of popular support needed to ensure Hungary's economic and political development.

4. Here Kadar is skating on thin ice as far as his Warsaw Pact allies are concerned, and he knows it. Perhaps this is the main reason why Budapest has never developed an overall ideological blueprint, in the spirit of Prague's Action Program, for its economic and political reforms. The lack of such a program deprives Kadar of the tangible popular rallying point enjoyed by Dubcek and may render the implementation of individual reform measures more difficult. On the other hand, it permits particular aspects of reform to be introduced, postponed, or modified according to pragmatic considerations. This flexibility, combined with concessions to the Soviets in the foreign policy field, strengthens Kadar's hand against the Kremlin. It also serves to head off the emergence of the type of internal pressures, from both left and right, which eventually overwhelmed Dubcek.

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Economic Reform

5. While forced to make some preliminary concessions to conservative elements and initially upstaged by developments in Czechoslovakia, Hungary embarked two years ago on what is now the boldest program of economic reform in the Soviet Bloc: the New Economic Mechanism (NEM).* There has been a substantial decentralization of authority to the enterprise level. Unlike the economic reforms currently being implemented in other Warsaw Pact countries, NEM does not interpose a general administrative layer -- trusts, combines, or industrial centrals -- between central ministries and individual enterprises (most of which are, in any case, quite large already). Profits are to be the main indicator of enterprise performance -- although

* The process which led to NEM began in December 1964 when the Party's Central Committee established 11 expert working groups to investigate every aspect of the economy. The resulting recommendations were finally approved by the Central Committee in June 1967, but ample evidence of conservative misgivings emerged in the ensuing public debate. The Party sided with the reformers, and in late November it authorized NEM to take effect on an economy-wide basis on 1 January 1968. But, in deference to the conservatives, the originally-planned abrupt relaxation of some central controls was placed on a gradual basis. Thus, even without further delays, the full impact of NEM will not be felt until 1970 or 1971.

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profits above an established percentage are confiscated to reduce the temptation to change prices or product mix too much. Prices of nonessential consumer goods have been freed, with about 30 percent of Hungary's retail trade currently falling in this category. Other prices may be freed as time goes on, but prices of foodstuffs and most industrial materials are almost certain to remain under some kind of control. Enterprises are responsible for preparing their own annual plans and, interestingly, selected firms (now numbering nearly 40) deal on their own account in trade with the West.

6. NEM, alone among current blueprints for economic reform in Warsaw Pact countries, is openly predicated on a "marriage" of the plan and the market. Perhaps this union, as presently foreseen, is too unequal to justify even the loose application of the term "market socialism." But some new and distinctive label would seem to be appropriate, for the Hungarians propose to go as far as they can in using prices, profits, and competition to help in determining what is produced. A number of considerations -- including unwillingness to risk serious inflation, unemployment, and balance of payments disequilibrium -- will continue to set

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the limits within which the operation of even quasi-market forces will be permitted. The Party's current position is that if the market moves in a different direction from that foreseen in the general plan, the plan will have to give (albeit only so long as "the difference is not of great consequence"). All this may seem pretty tame in terms of Western economics, but even a limited reliance on market forces as a corrective mechanism contributes to the erosion of the Party's traditionally dominant role in the economy. Given Moscow's sour reaction to the ideas put forth by Ota Sik and the Yugoslav school of economists, NEM's explicit market fringes are indeed striking.

7. NEM is essentially an open-ended reform, and the lines of its eventual development are difficult to predict. But Budapest, generally pleased with progress achieved so far, seems to believe that the concept is proving workable and that only continued tinkering will be required. Transitional disruptions were foreseen, but most of these have so far proved to be somewhat less severe than originally anticipated. One admitted shortcoming, the failure of the reform to register more positive results in the field of worker productivity, is, however, viewed with some concern,

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and it reflects a new and significant phenomenon. Combining decentralization of planning with broadened autonomy of local governments and enterprises has crystalized and intensified group conflicts throughout the society. By creating competitive situations within a profit-oriented economy, NEM has fostered open clashes of interest between Party cadres and economic administrators or experts, between enterprises and banks, and -- perhaps most important -- between workers and management.

8. The Kadar regime feels that some conflicts of interest -- such as those involving short-changing of the consumer in pursuit of profit -- can best be resolved through the exercise of political pressure or centralized controls, but its approach to the problem of labor-management friction is far less orthodox. Formalized in the Labor Code adopted in September 1967 to pave the way for the implementation of NEM, this approach implies a fundamental transformation of Hungary's trade unions from instruments of political and economic policy into defenders of the workers' interests. Collective agreements are now concluded between the enterprise and the union at the local level, and the law requires that the enterprise director obtain the union's advice or consent

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with respect to actions which touch upon this agreement or otherwise affect worker welfare. In fact, the union has the right to "veto" (i.e. suspend) a managerial directive until a decision is reached by higher organs (generally the district council or the ministry concerned).

9. The unions have not taken easily to their new role. The reluctance of the majority of union leaders to take full advantage of their prerogatives has been born both of political conservatism and of an understandable uncertainty about the nature and limits of their mandate. But it is a fact that increasing use of the veto has been made in recent months. It is also a fact that "responsible" use of the veto has received consistent encouragement in official commentary. Beyond this, the local organs of the Party have so far seemed to be generally content to play a passive or secondary role in the settlement of labor disputes. Thus, in effect, the economic interests of the "proletariat" are gradually being accorded institutionalized representation outside the Party.

10. The political implications of this could be important -- and not only on the local level. The regime has already yielded to worker discontent about one of NEM's

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original features by abandoning the incentive system under which middle and top levels of management could receive year-end bonuses many times higher than those paid to workers. The unions were actively involved in the policy discussions which preceded this decision. Whether or not they actually carried much weight in this particular matter, it is certainly conceivable that as Hungary's political reforms progress, the unions could develop into an effective pressure group at the national level. Of course, with Prague's experience firmly in mind, the Kadar regime will almost certainly intervene if the unions threaten to develop into a genuinely independent political force.

11. NEM also raises some questions with respect to Hungary's membership in the Council for Mutual Economic Assistance (CEMA). Possessed of few natural resources, the country is heavily dependent on foreign trade. About two-thirds of this is currently conducted with Communist countries, the Soviet Union's share alone amounting to approximately one-half the Bloc total. Significant reorientation of this pattern would be extremely difficult for both economic and political reasons. But, under NEM, Hungary's increasingly decentralized and market-oriented foreign trade sector is becoming less and less compatible

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with CEMA's existing structure and method of operation. The Kadar regime's proposals for the reform of CEMA, including multilateralization of trade and the establishment of a convertible CEMA currency, parallel those once voiced by Ota Sik. Despite backing from Warsaw for some of its proposals, the chances that the changes sought by Budapest will materialize in the next few years are slim indeed. Moscow remains unwilling to bear the political and economic costs involved, including a more meaningful reform of the Soviet economy. Thus Hungary's CEMA ties are likely to exercise a restricting influence on the operation of NEM for some time to come. Budapest has bowed to reality by providing for central allocation of production (openly acknowledged as a violation of the principles of NEM) when required to fulfill a state-negotiated trade obligation.

12. Yet Budapest is not totally resigned to the status quo. NEM's world market orientation dictates the fullest possible exploitation of Western technology. Denied massive import of Western equipment by its limited ability to expand exports to hard currency countries, Budapest has encouraged cooperative agreements -- ranging from the mere buying of licenses to the establishment of joint enterprises --

between Hungarian and Western firms. The Hungarians have established two companies for the sole purpose of facilitating such cooperation, and another eight firms have been formed to provide local representation for Western enterprises. One government official has noted with pride that 26 cooperative agreements were concluded between Hungarian and Western firms in 1968 -- nearly as many as the total for the preceding four years -- and that a further 20 such agreements had been signed in the first half of 1969. Of course, most of these agreements have been of fairly minor significance, but if Budapest continues in pursuit of Western capital and cooperation, pressures will mount -- as they have in Yugoslavia -- for accommodations to make such propositions more attractive to prospective partners.

Political Change

13. A daring overhaul of an orthodox socialist economic system cannot be carried out in an unfavorable political climate. In Hungary, the circumstances which permitted the birth of NEM are rooted in the domestic "alliance policy" proclaimed by Kadar nearly eight years ago. Popularized in the slogan -- unique in the Bloc -- of "who is not against us is for us," this policy is characterized by Budapest as a

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continuation of the class struggle by means of persuasion and incentive rather than "administrative" measures. All who are loyal to their homeland and who are willing to help in the fulfillment of the concrete aims established by the Party and government are to be welcomed into the system without regard to family background, past activity, or personal philosophy. Under these guidelines, firmly and pointedly endorsed anew by Kadar in recent days, non-Party people are theoretically eligible for any responsible position (outside the Party, of course). And while, in practice, advancement beyond the middle echelons of government or management is still rare for non-members of the Party, a few have breached this barrier. Perhaps equally important, the "alliance policy" has done away with most of the discriminatory practices which had previously marked Hungary's education system.

14. The circumstances in 1964 and 1965 which prompted the drafting of NEM also sparked serious study of the question of the need to "broaden socialist democracy." In view of the delicacy of the issue, it is not surprising that tangible progress has been slow in coming. But the Kadar regime is publicly committed to meaningful political reform. In

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general terms, Budapest has made it clear that the major thrust of the Party and state changes is to be the improvement of the qualitative and representative characteristics of elected bodies and the enhancement of their powers at the expense of the executive apparatus. Within the Party, this process began some three years ago with the adoption of potentially significant statutory changes. Further interesting developments seem imminent, since the 1970 Party Congress is scheduled to adopt new measures to "democratize" the organization and to redefine its role in society. The Party will not, of course, renounce its leading position, but its right to intervene directly in the operation of the government and the economy is likely to be formally curtailed.

15. Outside the Party, the most dramatic step to date has been the enactment of the November 1966 Electoral Law. This measure gave voters the possibility of choosing between two or more candidates in electoral districts instead of approving a single list, a possibility which was at least partially realized in the 1967 elections. It also provided a mechanism for recall of elected representatives by their constituents (though there is no evidence that recall has yet been exercised). Future plans call for upgrading the

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role of Parliament and increasing the autonomy of district councils with the aim of making them "independent organs of self-management." In parallel action, the responsibilities and autonomy of mass organizations -- particularly the trade unions and the People's Patriotic Front -- will also be increased. According to one important Parliamentary official, a few of these organizations may even be given the right to initiate legislation. The exercise of power by various bodies will be more clearly defined and limited in constitutional law. And at least limited use will be made of popular referendums.

16. The similarity of this approach to what the Yugoslavs have been trying to do is striking, and probably not coincidental. Though the internal and external problems facing Tito and Kadar differ in many respects, the trouble Belgrade has had in translating theory into practice is instructive with respect to the changes envisaged by Budapest. Kadar has been cautious. He has avoided spelling out his plans in any detail. He has set himself no timetable. He has protected himself against conservative critics by stressing that there are to be no changes in Hungary's "political structure" -- only in "political work."

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Even so, implementation of his political reforms will, at best, be a slow and uneven process.

Nationalism

17. When history or tradition can be safely invoked, Budapest does not hesitate to do so. For example, plans have been laid for the celebration of the 1000th anniversary of the birth of Hungary's first king, Saint Stephen, in 1970. Unlike some of his peers elsewhere in Eastern Europe, however, Kadar is denied the luxury of openly exploiting nationalistic sentiment to rally the population behind his regime. The risk of unleashing anti-Soviet and irredentist emotions is too great. On the other hand, there is a strong element of nationalism underlying Kadar's insistence on Hungary's right to pursue its own road to socialism -- and events seem to be pushing Budapest toward a clearer reckoning with this fact. Whether motivated by alarm over the implications of the current trend of developments in Czechoslovakia or by its conviction that it is better to air than to suppress controversy, the Kadar regime has recently permitted an unprecedented debate on the questions of patriotism and nationalism to be waged in the Hungarian press. Of course the polemics have so far been couched in

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rather obscure language. And both sides -- "patriots" and "internationalists" -- have interlaced their arguments with professions of boundless love for the Soviet Union. Yet it is significant that a debate on such sensitive questions has been allowed to appear -- and to continue -- in public media.

18. Kadar will, of course, squelch this particular dispute if it seems to be getting out of hand. He has, nevertheless, taken a bold step toward reconciling the nationalistic aspirations of his people with the realities imposed upon his regime by external factors. This provides a new dimension to the accommodation he is seeking with the general population. It also adds a new dimension to the already complex picture of Hungarian-Soviet relations, a dimension which may assume greater importance as the Hungarian reforms progress.

The Outlook

19. As Kadar moves further along his presently established course, the obstacles he will face at home and abroad are likely to be formidable. His methods are careful, but perhaps his greatest asset is the fact that his objectives are limited and -- from the standpoint of

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purely Hungarian requirements and circumstances -- not unrealistic. Yet, even if there is no interference from Moscow, Kadar will need considerable time to overcome the most serious of his internal problems and to lay the groundwork for an orderly succession by like-minded leaders. The men around Kadar are generally loyal to him personally but, below the Politburo, enthusiasm for the reforms within the Party tends to be lukewarm. And even the attitudes of Politburo members are reportedly less than uniformly positive. Of course, Kadar consciously attempts to maintain a balance of views within the Party leadership, both to facilitate his control over the shaping of policy and to foster a greater sense of unity. But, as Yugoslav experience attests, this is a tricky business. Conservative elements are still clearly in a position to impede the smooth implementation of the reforms. Indeed, there are indications that Kadar may presently be having some sort of factional difficulty in the Ministry of the Interior. Finally, popular support for NEM still has but shallow roots and could easily be shaken by economic reverses.

20. Yet the internal problems confronting Kadar are not necessarily more serious than the ones he has already overcome.

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He has clearly established his skill at political manipulation. The results achieved to date under NEM give reason for some optimism about the long range effectiveness and viability of the economic reform. And whatever doubts may be entertained -- among bureaucrats or the general populace -- about Kadar's programs, the events in Czechoslovakia seem to have generated a widespread conviction that Hungary is extremely fortunate to have Kadar at the helm. Clearly, the next two or three years will be critical. But unless Moscow moves to thwart him, Kadar's chances for successfully recasting Hungarian socialism along the lines he has laid down appear better than even.

21. The problem posed for the Soviets by the Hungarian reforms is an exceedingly difficult one. Within limits, Moscow is publicly committed to the principle of separate roads to socialism. Kadar has demonstrated his determination not to repeat Dubcek's errors, i.e., not to let events take control. For 13 years he has proven to be an effective and -- from the Kremlin's point of view -- reliable leader. But while Kadar remains firmly committed to the principle of Party primacy, his pragmatism and humanism have directed him onto a path which stands in sharp contrast to current

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trends and practices elsewhere in the Soviet Bloc. Not only could the momentum of his reforms carry him beyond the limits he has staked out, but even the changes already implemented or planned could, if they prove successful, have far reaching long term implications for the rest of Eastern Europe, and perhaps for the Soviet Union as well.

22. Hungary is determined to remain an acknowledged member of the socialist community. Until its reforms are officially discredited, they are legitimate ammunition -- part of the common pool of "positive socialist experience" -- useful to critics of more conservative policies elsewhere. Husak apparently finds this prospect encouraging, but Ulbricht, for one, has already registered his uneasiness. And even the USSR is not immune to the Budapest virus. Recent articles in the controversial Moscow journal, Novy Mir, have suggested that some of Hungary's political and economic reforms should be emulated in the Soviet Union. While the influence of an established and viable Hungarian model of socialism would probably affect Budapest's allies unevenly, both in time and intensity, Kadar could well push the Soviet Bloc a long step in the direction of Togliatti's vision of "unity in diversity," with an attendant erosion of Moscow's control.

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23. The Kremlin's concern over developments in Hungary is reflected in the stream of high-level visitors and delegations which have been shuttling back and forth between Budapest and Moscow. The Soviets have warned Kadar personally on several occasions to go slow. And almost every day Soviet papers publish articles condemning the sort of "deformations" of Marxist-Leninist theory which may be said to underlie the Hungarian reforms. But Kadar has so far managed to avoid giving his would-be Soviet critics a firm handle for attacking his reforms directly. And he probably is not without friends in the Kremlin who view the Hungarian reforms as a potentially useful experiment. In any event, Moscow's public posture toward the Hungarian experiment has been ambiguous. Guardedly favorable commentary on NEM has been published in the Soviet press, and the Kremlin publicly congratulated the Hungarian Party last March for "firmly adhering to the attitudes of Marxism-Leninism and proletarian internationalism." On the other hand, frequent allusions have been made to the numerous pitfalls which beset Budapest's reformist path. Soviet officials have complained about the alleged diversion of Hungarian machinery to Western markets. And TASS significantly omitted Kadar's lengthy defense of his

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internal reforms in its summary of his recent interview with a L'Unita correspondent.

24. There are surely those in the Kremlin who read all sorts of dire threats into the Hungarian reforms, but so long as Kadar clearly maintains control over the direction and pace of change, they will be hard pressed to demonstrate that the Party in Hungary is losing its grip on any significant aspect of society. Barring the type of dramatic development which Kadar hopes to avoid, agreement in Moscow on the need to apply strong pressures -- political, economic, or military -- would probably be difficult to achieve. Under these circumstances, and with Soviet attention also directed toward such other matters as the threat from China and the pursuit of detente in Europe, Moscow has apparently opted for a compromise policy toward Hungary: neither hands-off nor heavy-handed intervention.

25. The point at which the Soviet Union's patience might wear dangerously thin simply cannot be predicted. There are probably at least some Soviet leaders who rationalize their present stance toward Hungary on the hope that without some extraordinary support and cooperation from Moscow, NEM will founder -- with predictable and

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gratifying political consequences. Other Soviet leaders probably feel that Hungary's dependence on the Soviet Union will gradually cause Kadar to shelve the more objectionable aspects of his reform and to adopt a more orthodox posture. Either of these eventualities could come to pass, but the chances are that they will not. And if they don't, the danger point for Kadar will come if and when the Soviet leadership comes to agree that the leading role of the Hungarian Party is being jeopardized and that the passage of time has been working to the Soviet Union's disadvantage. But by then the best opportunities for subtle Soviet intervention may have slipped away, and the price tag carried by cruder methods -- especially by military action -- is likely to have increased. Whether, at that stage, Moscow would be willing to bear this cost will depend upon a host of factors -- internal and external -- which even Kadar cannot now foresee.

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