



**Director of  
Central  
Intelligence**

~~Secret~~

25X1

**MASTER FILE COPY**  
**DO NOT GIVE OUT**  
**OR MARK ON**

# **Hungary: The Waning of the Kadar Era**

**National Intelligence Estimate**

~~Secret~~

*NIE 12.5-86  
May 1986*

*Copy*

**433**

**THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.**

**THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.**

*The following intelligence organizations participated in the preparation of the Estimate:*

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

***Also Participating:***

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps



25X1

~~SECRET~~

25X1

**NIE 12.5-86**

**HUNGARY: THE WANING  
OF THE KADAR ERA**

Information available as of 14 May 1986 was used in the preparation of this Estimate, which was approved by the National Foreign Intelligence Board on 15 May 1986.

~~SECRET~~

**Page Denied**

SECRET

25X1

## CONTENTS

	<i>Page</i>
SCOPE NOTE .....	1
KEY JUDGMENTS .....	3
DISCUSSION .....	7
Introduction: Hungary's Unique Status in Eastern Europe and Emerging Problems .....	7
The Political Dynamics .....	7
Kadar's Alliance Strategy .....	7
Offering Incentives .....	7
Co-opting the Intelligentsia .....	8
Seeking Feedback .....	8
Kadar's Ruling Style .....	8
Responding to Political Frustrations .....	8
The Internal Strains of the 1980s .....	9
The Economy .....	9
The Mistakes .....	9
Austerity and the Reform Debate .....	9
Kadar's Current Economic Agenda .....	9
Agriculture .....	11
Moscow's Economic Leverage and Increasing Demands .....	12
Social Problems, Dissidence, and Nationalism .....	13
Dissatisfaction Among Youth .....	13
Main Opposition Groups .....	13
The Regime's Response .....	14
Hungarian Foreign Policy .....	15
Meeting Soviet Concerns .....	15
The "Small-State" Gambit .....	16
The Outlook: Kadarism Maintained But Tested .....	16
Alternative Outcome: A More Precipitous Slide .....	18
Implications .....	19
For the USSR .....	19
For the United States .....	20

25X1

iii

SECRET

**Page Denied**

SECRET

25X1

SCOPE NOTE

This Estimate is the first to deal specifically with Hungary since 1955. Its goal is to assess the prospects for that country's political and social stability, economy, and foreign policy through the end of the decade. The next five years or so will be a crucial period for Hungary—a time for choosing directions—as the leadership prepares for and possibly experiences its first major political succession since 1956.

25X1

**Page Denied**



SECRET

25X1

## KEY JUDGMENTS

Hungary has entered an important transitional period. The era in Hungarian politics associated with Janos Kadar is inexorably drawing to a close. The regime is facing some rigorous tests. Accumulating social and economic strains are serious enough that by the end of the decade Hungary will have a harder time maintaining its present image as a unique showcase in Eastern Europe for economic reform, political stability, and a relatively relaxed ideological climate. [redacted]

25X1

The problems are many:

- The economy, suffering from one of the lowest growth rates in Eastern Europe since 1980, is still in the doldrums. Performance lags in the key export sector and debt service burdens loom into the end of the decade.
- Moscow's trade demands have toughened in recent years. The Soviets are requiring more exports, higher quality goods, and a reduction in Hungary's hard currency surplus with the Soviet Union. Moscow is unlikely to moderate these demands over the next several years, thus cutting into Hungarian prospects to increase their exports to the West and revive their economy.
- The economy's poor growth prospects will impede the regime's ability to improve living standards, which have stagnated for several years.
- Social tensions have grown to uncomfortable levels because of stagnating living standards, inflation, and growing income disparities.
- Political dissidence has been stimulated by the public's broader contacts with the West and the younger generation's increasing impatience with the regime over issues such as the treatment of Hungarian minorities in neighboring countries (particularly Romania), political reform, and economic problems. [redacted]

25X1

One of the key uncertainties is how long and to what degree Kadar, who is now 74, will remain in charge. Should Kadar die, become incapacitated, or much less likely retire, the succession probably would proceed fairly smoothly at least in its early stages. Deputy General Secretary Nemeth, 63, is a strong contender and at the moment appears to be the most likely immediate successor. However, there are other

SECRET

25X1

strong candidates—Central Committee Secretary Janos Berecz, Politburo member and First Secretary of the Budapest party committee Karoly Grosz, Central Committee Secretary, Politburo member and economic czar Ferenc Havasi, Central Committee Secretary Istvan Horvath and Deputy Prime Minister and Politburo member Laszlo Marothy, among others:

- Should the succession be triggered soon, whoever follows Kadar probably will continue Kadar's general political approach and the current economic reform program at least initially. "Kadarism" has worked well for too long to be reversed without major negative repercussions. Moreover, the majority of the top leadership has been carefully groomed and selected over the years because they subscribe to Kadar's general beliefs.
- The continuation of Kadar's general approach probably will mean that the social malaise will still be evident but Hungary will remain basically stable. Dissent, however, may be somewhat more visible as economic problems drag on and as Hungary approaches the 30th anniversary of the 1956 October Revolution this fall. The government's use of police measures may be more common than during the 1970s, although not as repressive as in the late 1950s.

25X1

We question, however, whether even Kadar's masterful tinkering with the system will be viable over the longer term if the economy shows no signs of reviving and the resultant social strains continue to grow. Piecemeal implementation of reforms will limit the gains in efficiency and competitiveness needed for improved industrial performance. Debt burdens and Moscow's hardening trade demands will limit resources available for industrial modernization. Without an economic turnaround, troubles could deepen in Hungary toward the end of the decade:

- Economic stresses could sharpen rivalries within the leadership concerning the scope and pace of reforms. If the succession to Kadar occurs about this time, the initial smooth transition period might be but a respite before factionalism becomes more serious.
- While struggling with heightened factionalism, the regime could begin to drift, resorting to a "stop and go" approach to economic reform and ultimately deepening morale problems and accentuating social strains.
- An increase in public discontent would renew and possibly intensify the regime's emphasis on discipline and social control.

25X1

SECRET

25X1

Hungary's economic and social problems will deepen during a difficult period for Moscow—a time when Gorbachev will wish to concentrate on Soviet economic problems and not assume any more burdens of his allies. Tensions between Budapest and Moscow could increase over a number of issues such as: the scope and pace of economic and political reform, commercial ties to the West, the dimensions of CEMA integration, ruble versus hard currency payments, prices for raw materials from the Soviet Union, the quality of Hungarian exports to the Soviet Union, and defense spending. [ ]

25X1

Despite the somewhat greater possibilities for increased strains, particularly over economic issues, in all major respects Hungary will continue to fulfill its current commitments to the Warsaw Pact. A serious crisis—one that would require the direct use or the very real threat of force by the Soviets—is unlikely. If such a crisis did develop, however, it would most likely spring from a Hungarian succession process that goes awry and/or Soviet mishandling of the leadership transition. [ ]

25X1

The United States has an important stake in the evolution of the situation in Hungary because it is at the leading edge of reforms in Eastern Europe. Hungary's growing indebtedness to and economic need of the West, moreover, should continue to give the United States and other Western industrialized countries some limited leverage. Over the longer term—and particularly if Gorbachev's program to revive the Soviet economy fails—the economic attraction of the United States and the developed West may increase even more and, thus, provide a better opportunity for Western leverage in Hungary. [ ]

25X1

**Page Denied**

SECRET

25X1

## DISCUSSION

**Introduction: Hungary's Unique Status in Eastern Europe and Emerging Problems**

1. Hungary—which has long enjoyed a unique reputation as the most stable, affluent, and ideologically relaxed country in the Warsaw Pact—will have a harder time maintaining this image in the next several years because of several interlocking strains: a faltering economy, stagnating living standards, growing social inequities, continuing demands by opposition groups for greater political liberties, and a looming succession. Tensions between the government and the people and among various socioeconomic groups stem largely from the question of who is to bear the brunt of the economic slowdown and resulting economic austerity—management or workers, rural or urban interests, or the haves and have-nots. Moreover, a generation gap is rapidly emerging. The youth are rejecting the compromises of their elders and are rediscovering the dissidence and nationalism of more heroic as well as more troubled times. [redacted]

2. The overarching issues facing the regime are: how far and fast to proceed with economic and political reforms while assuring Moscow's continuing confidence; how best to maintain social stability in the face of socioeconomic strains; and how to prepare and shepherd Hungary through the political succession to General Secretary Janos Kadar, who has ruled for some 31 years. [redacted]

**The Political Dynamics****Kadar's Alliance Strategy**

3. From the mid-1960s Kadar has given the Hungarian people the best of an unenviable lot among the East Europeans under Soviet domination. Kadar has proved himself to be an extraordinary politician (see inset). Recognizing the futility of past attempts to rule Hungarians by raw compulsion, Kadar has relied on preempting and co-opting potential opposition. He always deals from strength, however, maintaining a publicly understood option of applying "extraordinary" measures to buttress his regime's authority. [redacted]

4. *Offering Incentives.* Kadar's domestic strategy ultimately depends on credible positive incentives. His first political concession over a quarter century ago

**The Legacy of 1956 and Kadar's Rise to Power**

Kadar's reputation as Eastern Europe's leading reformer developed from inauspicious beginnings. Both a participant and victim of the Stalinist purge trials, he came to power in 1956 at the head of a Soviet-installed regime whose first tasks were to topple the legal government of Imre Nagy and brutally crush the popular resistance. Later, Khrushchev tasked him with setting right the Stalinist excesses that brought on the revolt. In his early rule, Kadar coerced or silenced all manner of opposition. He suppressed the revolutionary workers councils, either acquiesced in or ordered the execution of Nagy, and forcibly recollectivized agriculture. Only after the latter was completed in 1959 did Kadar win from Khrushchev his first substantial leeway in Hungary. In the early 1960s, Kadar launched the policy of "national reconciliation" based on the slogan "he who is not against us is with us." He quietly rehabilitated victims of Stalinism and many, but not all, of those who participated in the uprising. In the early 1960s, he also initiated planning for an economic reform—the New Economic Mechanism (NEM)—a scheme based on modified market mechanisms and private incentives largely borrowed from Imre Nagy's New Course. (Khrushchev captured the essence of the changes by dubbing it "goulash Communism.") [redacted]

was to ease demands that Hungarians publicly affirm commitments to Communism, the party, and the USSR that they do not hold. In essence, he encouraged the silent and the politically uncommitted to pursue constructive nonpolitical careers and even to be active in public life through the party-controlled mass organization, the Patriotic Peoples Front (PPF). [redacted]

5. His strategy, which continues into the present, also encourages more political involvement through devices that gradually erode the commitment of the opposition. The party, as in other Communist countries, allocates the highest paid and most sensitive public jobs to loyal supporters who are registered in a secret "nomenklatura" list; and, more actively than other Communist regimes, it uses the lure of career

SECRET

25X1

advancement to draw Hungarians, in stages, from political passivity to incremental activism in the regime's activities. Kadar has also instituted some limited political reform while holding out the prospects for further liberalization. All social strata—including workers, farmers, and the intelligentsia—are urged to take their place in this alliance policy. Such "evenhandedness" contributes to an unusually high tolerance for the regime in previously irreconcilable strongholds of anti-Communist sentiment such as the Catholic Church; rural, agricultural communities; and even emigre groups. [redacted]

6. *Co-opting the Intelligentsia.* Under Kadar the intelligentsia have enjoyed more artistic freedom than most of their Warsaw Pact counterparts. Recognizing the crucial role that intellectuals—especially men of letters—played as harbingers of the 1848 national uprising against Austria and in 1956 against the USSR, Kadar has assigned them a special place in his alliance strategy. Those who play by his relatively liberal ground rules reap substantial rewards. Obdurate, vocal anti-Communists or antiregime activists lose favor, perks, jobs, and sometimes their physical freedom. The resulting pressure to conform has created a system of "self-censorship" in which the limits to criticism are ill defined but very effective. [redacted]

7. *Seeking Feedback.* Aware of the self-deceit and isolation of the previous Stalinist regime, Kadar also has made collection of reliable information on grassroots opinion in the country a top priority:

- He relies on an informal network of contacts in which top party officials maintain a rapport with nonparty opinion makers in the arts, academia, trade unions, villages, and even among the clergy. [redacted]

[redacted] To an extent, these leaders not only sell the party's alliance tactics to their constituents but also explain their constituents' interests in Politburo debates on policy issues.

- Kadar also relies on secret, frank polling to cross-check whether or not his aides have an accurate reading of the popular mood. The top leadership, however, is uncomfortable about polls as a policy input, in part, because the techniques applied have long been the domain of dissident sociologists and because orthodox elements remain suspicious of polls that they regard as bourgeois devices for diverting them from ideologically "proven" measures. [redacted]

8. *Kadar's Ruling Style.* Kadar's assessment of public sentiment and Soviet wishes is reflected in his promotion of individuals to top leadership posts. For example, he may have promoted Karoly Grosz to the Politburo at the last party congress so that those who have suffered from the reforms, such as pensioners, would have a spokesman. In this way, Kadar has permitted the key institutions in Hungary to be led by men who have considerable range to advance new views on important issues. [redacted]

9. Kadar's approach has been one of consensus building among officials who represent important interests or constituencies. He has sought to avoid conflict in this process and those officials who remain in opposition once a consensus has been reached—as happened with Bela Biszku on economic policy in 1979—are quickly demoted, though without character assassination or fanfare. Thus, Kadar has achieved a level of unquestioned authority without arbitrary muscle flexing or the trappings of a personality cult. More in the style of a remote chairman of the board, he has delegated power and encouraged collegiality among his Politburo lieutenants and the leaders of other key institutions while insisting that they respect his ultimate authority and avoid debilitating factionalism. Another source of his success has been the unflinching support of a succession of Soviet leaders. [redacted]

10. *Responding to Political Frustrations.* In the past few years, as the gloss has worn off Hungary's economic achievements, a pattern of political malaise and social stress has emerged. The regime has tried to counter these problems through some limited political reform. An electoral reform, first broached in 1969 and finally used in June 1985, introduced mandatory multicandidate races in most parliamentary and all municipal council elections. The optional use of multiple candidates and secret balloting, moreover, has spread to trade union elections. There is also a measure of more free speech in debates in the legislature, and in March the parliament passed an amendment to the tax law despite high-level party opposition. [redacted]

11. The regime probably intended these new practices to be a palliative for internal pressure for greater political liberalization and as propaganda to boost Hungary's image in the West. Most top leaders, some 3 dozen including Kadar, were exempt from challenge in their parliamentary seats. Most regime-favored candidates in contested seats, while sometimes put in the position of having publicly to defend government policies, were kept safe with a nominating process that

SECRET

25X1

squeezed out dissidents. But three Central Committee members running for reelection to the parliament failed to win. The reform, in general, failed to catch the popular imagination even though it went beyond any other such attempts in the Warsaw Pact. [ ]

### The Internal Strains of the 1980s

#### The Economy

12. The Hungarian economy, suffering one of the lowest growth rates in Eastern Europe since 1980, is still in the doldrums. Performance lags in the key export sector. Debt problems loom into the end of the decade. The leadership knows that more fundamental reforms involve some very hard, politically sensitive decisions. Without continued sizable Western credits and the once growing supplies of comparatively cheap Soviet energy and raw materials, the economy faces poor growth prospects that will impede the regime's ability to improve living standards and to halt the declining domestic and foreign confidence in the system. [ ]

13. *The Mistakes.* Through the early and mid-1970s, Hungary enjoyed record postwar economic growth, but flaws in regime policy sowed the seeds of problems in the 1980s:

- Kadar retreated too far from the intent of the 1968 economic reforms in the retrenchment of 1972-73, which was sparked by resistance to change among party bureaucrats and industrial workers and by Moscow's concerns over excessive decentralization.
- The regime further tightened central control in a shortsighted effort to shelter the economy from the oil price shocks, global inflation, and recession of the mid-1970s. Rather than adjust, Hungarian planners opted to sustain rapid economic growth and expansion of consumption, borrowing from liquid Western credit markets to cover widening payments deficits. Regime policies reinforced inefficiencies in production and increased subsidization of consumption while the country sank deeply into debt. Gross hard currency debt rose from \$1.4 billion in 1973 to \$9.1 billion in 1980, amounting to a per capita debt burden higher than Poland's. [ ]

14. By 1978 Hungarian policymakers recognized that changes in policy were needed to avoid financial disaster. The regime lowered economic growth targets and shifted priority to improvement of the balance of payments by cutting back on hard currency imports. Planners placed the burden of the slowdown on

investment, permitting living standards to level off rather than erode. At the same time, Budapest began to revive the reform program in an effort to enhance efficiency and export competitiveness. [ ]

15. Budapest's measured program of adjustment and reform, however, proved inadequate to deal with the rapid deterioration in Hungary's external circumstances at the outset of the 1980s. Payments deficits were reduced, but not eliminated, and the debt continued to rise. Hungary's terms of trade with both the West and CEMA deteriorated sharply as the oil price escalation of 1979 stoked inflation and shortly afterward accelerated the rise in Soviet oil prices. In quick succession, the Polish financial crisis and ensuing flight of creditors from Eastern Europe, skyrocketing world interest rates, recession in Hungary's Western markets, and a cutback in Soviet oil supplies forced Hungary to impose tougher austerity measures. [ ]

16. *Austerity and the Reform Debate.* Under pressure from Western creditors and the IMF, Budapest made still deeper cuts in investment, imposed controls on imports, hiked consumer prices, and slowed the growth of wages in the socialist sector after 1981. These measures improved financial performance enough to convince Western banks, governments, and the IMF, which Hungary joined in 1982, to provide the credits needed to stave off insolvency. At the same time, despite all these efforts, debt continued to grow, reaching \$11.8 billion with the West in 1985. At the same time, the economic stringencies associated with adjustment provoked a wide-ranging debate within the leadership about whether Budapest should take a bolder or more cautious approach to reform. The proreform group contended that more rapid and thoroughgoing change was the only way to get Hungary on a course of long-term growth and balance-of-payments equilibrium. Kadar agreed to the necessity of further reform, but proceeded cautiously because of anxiety about potential Soviet and domestic criticism and about the impact of greater decentralization on management of Hungary's financial position. This tenuous financial position will continue because debt service payments will remain high through the end of the decade [ ]

17. *Kadar's Current Economic Agenda.* By early 1984 Kadar was ready to move forward on economic reforms. The regime recognized that austerity measures were eroding morale while providing no prospect of an economic turnaround. Encouraged by some improvement in its financial situation and indications

25X1

25X1

25X1

25X1

25X1

SECRET

25X1

**Table 1**  
**Hungary: Schedule of Debt**  
**Service Payments, 1983-90<sup>a</sup>**

Million US \$

	1983	1984	1985	1986	1987	1988	1989	1990
Total	1,969	2,560	2,642	2,665	2,428	2,187	1,997	2,289
Interest <sup>b</sup>	753	879	905	865	872	890	915	915
Amortization	1,216	1,681	1,736	1,800	1,556	1,298	1,082	1,374

<sup>a</sup> Including payments on projected new borrowings.

<sup>b</sup> Including interest on short-term debt. Assumed interest is 9.7 percent in 1985 and 8.7 percent afterward, based on average rates actually paid.

25X1

25X1

that Moscow would tolerate further reform, Budapest felt less constrained by external factors. At a Central Committee plenum in April 1984, Kadar called for:

- Further liberalization of prices by reducing subsidies and turnover taxes and by adjusting exchange rates more frequently.
- Further decentralization of economic decision making in many enterprises and introduction of new management forms, including the participation of worker-elected representatives in the management of state enterprises.
- Encouragement of small-scale ventures under both socialist and private ownership.
- Greater differentiation in wages to reflect differences in productivity.
- Introduction of a bankruptcy law providing for the liquidation of chronically insolvent firms.
- Decentralization of the banking system and the creation of securities markets to facilitate the movement of capital among enterprises.

18. These measures were intended to increase enterprise independence, promote greater competition, and strengthen market forces. Their implementation, however, has been erratic, and at times undermined by backsliding on reforms. This has had destabilizing social and political repercussions because many interest groups feel threatened by change:

- Price reform, in particular, has become one of the most sensitive issues because it has led to higher consumer prices. Inflation ran at 8 to 10 percent annually over the 1979-85 period by

official Hungarian estimates, but the actual rate was probably higher. Consumers have felt the price hikes because wages have not kept up with even the official inflation rate. Thus, the majority of Hungarians have taken second jobs just to maintain their standard of living. Pensioners and those workers who are unwilling or lack opportunities to moonlight in the private sector have suffered the most.

- Factory-level reforms are another source of anxiety for industrial workers, union officials, and managers. Unions stand to lose if workers are allowed to represent their own interests in enterprise management. Many enterprise directors are uneasy about being personally responsible for performance and profit levels. Workers, meanwhile, are concerned that wage differentiation will reduce incomes for the old, the less capable, and those with insufficient training. Wage differentiation also strikes at the socialist doctrine of equal distribution of wealth and threatens certain social programs that the population has come to expect. There is also concern that the regime will not be able to meet its promise of full employment should inefficient firms be closed.

25X1

- Expansion of private-sector activity has had a mixed impact on Hungarian life. While private enterprises have improved the quality and quantity of consumer goods and services, this prosperity is not shared evenly among the population. This poses new problems for the regime in terms



SECRET

25X1

of ideological contradictions, widening income differentials and corruption. Ideological conservatives and those envious because they lack the opportunity to participate in lucrative pursuits claim that the emergence of a wealthy class and its conspicuous consumption demonstrate that the reforms are bringing capitalist evils to Hungary.

- One of Kadar's reforms called enterprise work associations is becoming particularly controversial. Designed to make up for factory shortcomings and help workers augment incomes, the system allows workers to rent factories after hours to produce extra goods for sale to their enterprises. At first, the reform was praised for boosting productivity. Critics now claim, however, that these workers rest on their regular jobs, do not pay their fair share of enterprise maintenance and modernization costs, and are not fairly taxed on their extra earnings.

- Financial reforms are resisted by many senior National Bank officials who fear losing control over credit allocation and their arbitrary power over the financial system. Their primary worry probably is that a decentralized banking system will encourage excessive lending and an uncontrollable investment boom. In addition, should loans be granted on a more competitive basis by new banking institutions, inefficient enterprises that depend on cheap credit may be squeezed out of the borrowing market and go bankrupt.

19. The need to build support among interest groups for the new reform initiatives has caused the regime to implement them at a very measured pace and even to backtrack in some areas. Kadar and other leaders are aware that social tensions have grown to uncomfortable levels because of inflation and widening income disparities. They have attempted to address these problems by restricting price increases in 1985 and by increasing taxes on higher incomes earned in legalized private activities. They may also be forced to crack down harder on illegal private activities and to defer some controversial reforms, such as the closing of insolvent firms.

20. Even if the regime continues to go slow on reform, social tensions will keep rising because poor growth prospects argue against any tangible improvement in living standards. The plan for 1986-90 indicates that Budapest will continue to give priority to correcting foreign payments problems over growth. Consumption and investment are to grow by only 1.5

to 1.8 percent annually because of ambitious targets for expansion of both hard currency and ruble exports. Increases in output and exports are to come largely from the industrial sector.

21. Even modest growth in national income will be difficult to achieve because it depends on a sharp increase in industrial efficiency. The problems the Hungarians will face in trying to revitalize industry, however, are daunting:

- Six consecutive years of cuts in investment have delayed industrial modernization, and the investment that has been made has flowed mainly to traditional heavy industries.
- As a result, Hungary's industrial structure remains geared toward products with poor growth prospects and Hungarian industry has been losing ground in international markets.

22. The 1986-90 plan aims to increase the proportion of investment allocated to infrastructural development. Yet if Budapest is serious about restructuring, it will also have to liquidate insolvent firms and continue to limit growth in consumption in order to free resources for a modernizing investment drive.

23. *Agriculture.* While agricultural production has suffered through ups and downs (see table 2) largely because of weather variations, the general availability of food in Hungary has been one of the successes of the Kadar regime, contributing to domestic stability. The regime's liberal approach to agricultural development has increased farmers' incentives and thereby minimized domestic shortages. The successful introduction of private incentives into the collectivized farm system in 1963-64 also paved the way for the 1968 economic reform mechanism in the rest of the economy. In the mid-1960s, the farms were able to increasingly meet rising domestic demand, and in the 1970s they became major hard currency earners as well.

24. The dearth of investment in agriculture during the past six years, particularly in animal husbandry, by 1985 began to sap the sector's ability to continue fulfilling its dual role in meeting domestic needs and supplying exports. A drought in 1983 caused some shortfalls, while export performance dropped due to other adverse trends. Agriculture's export performance, has been buffeted in recent years by some adverse trends. The decreases in world food prices have cut sharply into agriculture's hard currency earnings. While the volume of food exports overall has increased since 1980, the value of these sales has

SECRET

25X1

**Table 2**  
**Hungary: Domestic Economic Indicators,**  
**Average Annual Percentage Growth**

	1970-74	1975-82	1983	1984	1985 <sup>a</sup>
Real GNP	2.8	2.1	-1.2	2.4	0.8
Industrial production	2.7	2.2	1.0	2.0	1.0
Agricultural production	-0.1	2.4	-5.8	6.4	-4.1
Other	4.7	1.8	-0.3	0.6	-0.4

Sources: CIA Estimates.

<sup>a</sup> Preliminary.

25X1

fallen. In the plan for 1986-90, agricultural growth targets have been scaled down from the previous planning period in part because of weak markets for Hungary's food exports. Moreover, the majority of Hungarian hard currency exports to the Soviet Union are agricultural products, but the Soviets have been less inclined in recent years to buy these products on terms previously favorable for the Hungarians. [ ]

25. Through the end of the decade, the regime may have to face difficult choices between increasing agricultural exports to meet growing Soviet demands to pay hard currency debt obligations or to satisfy domestic expectations. That choice will be all the harder in the event of more crop damage due to drought or other causes. [ ]

26. **Moscow's Economic Leverage and Increasing Demands.** Moscow's economic leverage compounds the many uncertainties clouding Hungary's economic future. The USSR is the leading trade partner and the source of most of Hungary's raw material and energy needs. From the mid-1970s through the early 1980s, the Soviets subsidized the Hungarian economy by selling their key exports at prices below world market levels, accepting low-quality goods in payment, and allowing Hungary to run deficits. Moscow shored up Budapest's financial position by buying Hungarian meat and other agricultural products for hard currency, permitting Hungary to run a surplus in this unique trade relationship among CEMA countries. But the Kremlin's economic demands have toughened in recent years and are not likely to moderate since Moscow faces its own trade problems, including weakness in both oil production and exports. Examples of Soviet pressure to balance trade include:

- From 1980 to 1984, Hungary boosted its real exports to the USSR by 30 percent, but obtained

no increase in the volume of Soviet imports. The Hungarians had to accelerate deliveries to cover rising Soviet prices and, more recently, to comply with Moscow's demand for reduced ruble trade deficits. Hungary's terms of trade declined by 15 percent over this period as prices on Soviet goods rose by nearly 50 percent compared with a 25-percent increase in Hungarian export prices.

25X1

- Besides requiring more exports, the Soviets insisted on higher quality goods. Moscow has even threatened a reduction in its exports if the quality from Budapest is not improved. The delivery of more and better goods to the USSR probably was a factor behind the Hungarian economy's disappointing results for growth and exports to the West in 1985.
- The Soviets have also insisted on a reduction—if not elimination—of Hungary's hard currency surplus with the USSR. A reduction in Soviet hard currency purchases—possibly by shifting these goods into ruble trade—reduced Hungary's hard currency surplus with socialist countries from \$800 million in 1982 to \$340 million in 1985.
- Moscow has called upon the Hungarians and other East Europeans to invest in Soviet energy and raw material projects to ensure continued deliveries of these vital exports.<sup>1</sup> [ ]

25X1

25X1

<sup>1</sup> The recent nuclear accident at Chernobyl in the Soviet Union could affect a number of Hungary's economic interactions. The dimensions of the disaster were unclear at the time of this Estimate's publication and precluded an assessment of the full economic implications. [ ]

25X1

SECRET

25X1

**Social Problems, Dissidence, and Nationalism**

27. The country's social fabric has shown signs of steady decay. Over the past five years, this has manifested itself in a range of negative trends, such as the absolute decline in the country's population (which is projected to last well into the next century), the rising number of suicides (previously high but now afflicting more youth), divorces, alcoholism, and juvenile and adult crimes, including drug addiction. Poverty also is on the rise, with estimates claiming that the living standards of nearly 30 percent of the population is hovering at or below subsistence level. These negative trends, which are compounded by the chronic housing shortage, have had their greatest impact on the increasingly alienated youth and have contributed to the proliferation of dissent in Hungary. [ ]

28. *Dissatisfaction Among Youth.* Since the latter half of the 1970s, a new group in Hungary—the generation of young people who are beginning to enter their thirties—has become increasingly disenchanted with the regime. Younger Hungarians, increasingly skeptical of Communism, in part because their own material prospects have dimmed, have begun questioning the compromises of their elders. The youth differ from their elders in several key ways: most matured in periods of relative plenty and without keenly felt hardships and repression. This has resulted in higher expectations for continued improvement of living standards, expectations the regime is increasingly hard pressed to fully meet. This conflict serves to steadily widen the gap between the party and growing segments of the younger generation. [ ]

29. In their search for an alternative to what they now regard as a bankrupted social contract, some younger Hungarians have “rediscovered” the politically sensitive issue of Magyar nationalism. There has been a strong reaction against official efforts to alter the historical record and, thereby, diminish Hungarians' traditional antipathy toward the Soviets. While the authorities still routinely praise Hungary's “liberation” by the Red Army, dissident and some official historians are reevaluating the record and publishing information about the sacrifices of the Hungarian Army, which fought with Nazi Germany on the Eastern front. Dissident historians have also gone as far as describing some of the atrocities committed in 1945 by Soviet “liberators.” [ ]

30. Youth meanwhile learn at home a more accurate and emotionally compelling history about the national martyrs of 1848 and 1956 who were brutally suppressed by intervening Russian troops. The number of historical articles and books addressing Magyar

nationalist issues has grown in recent years. One of the most notable events was a rock opera entitled “Stephen the King,” with strong nationalist and religious themes, which played to hundreds of thousands of Hungarians in seven standing-room-only appearances in Budapest's main park. This was followed by a Western-style flurry of T-shirts, records, and posters based on the rock opera. [ ]

25X1

31. *Main Opposition Groups.* Opposition in Hungary has traditionally been a loosely organized movement, composed of dissident subgroups from various strata of society, each with their own specific interests and objectives.

- A new “democratic opposition” made up of about 200 young sociologists, philosophers, and historians has organized to promote the human rights principles of the Helsinki Final Act. [ ]
- A splinter group of young Catholic priests critical of the conciliatory stance of its hierarchy under Cardinal-primate Lekai has organized numerous “basic communities”—groups of believers and clerics who contest both regime controls on religion and what they believe to be an overly accommodationist Catholic hierarchy in Hungary.
- The “neopopulists,” primarily writers, actors, sociologists, and historians, have criticized the negative social, cultural, and moral impact of Communism.
- “Economic reformists” have argued that Hungary's economic reforms are inadequate and urged accelerated decentralization, much greater leeway to market forces, closer ties to the West, and, most daringly, removal of state and party influence in running the economy as well as faster and more far-reaching reforms.
- There also exists a loose collection of environmentalists who oppose the construction of a hydroelectric power plant on the Danube and the Gabcikovo-Nagymaros Dam, as well as social activists who have set up an organization to protect the interests of the poor. [ ]

25X1

25X1

25X1

32. Although the regime tries to keep the opposition divided and weak, last year these disparate and often rival groups made the first formal attempt at establishing a dialogue on national issues. Their representatives met secretly at Monor for a seminar-type discussion of their differing views and programs. No deals were struck then—the issue of cooperation was left mute—but the texts of all speeches were reproduced and broadly circulated. A follow-on meeting sometime in 1986 is to continue the initial effort. [ ]

25X1

25X1

SECRET

25X1

33. "Samizdat" (dissident literature) has increased in recent years, and, perhaps even more important, these publications increasingly have addressed politically sensitive themes:

- The regime's failure to alleviate the plight of the most impoverished Hungarians.
- Support for a fledgling independent peace movement, an environmentalist coalition, and religious pacifists.
- Demands for public investigation of sensitive historical issues, such as the execution in 1958 of Imre Nagy, and revelation of his secret burial place [redacted]

34. *The Regime's Response.* In the last three years, the Kadar regime has tried to manage the opposition by increasing random crackdown measures, such as fines, confiscation of Samizdat, and denial of passports; these measures have served as reminders to the various opposition groups of the established regime-approved limits for their activities. Since the beginning of the year, the police have broken up two major demonstrations, and we have other reports that searches of dissidents' homes, retentions, and various other police harassments have increased. [redacted]

35. Concerned about his image at home and abroad, Kadar also sought to temper the general dissatisfaction in Hungarian society by tolerating popular complaints about the status of Hungarians in Romania and Czechoslovakia (see inset). The Kadar regime is very cautiously trying to co-opt and exploit the revised sense of nationalism—in part to enhance its legitimacy and to divert the population's attention to economic problems. The regime may also see nationalism as an antidote to the growing malaise among young people who are increasingly alienated from the government, skeptical of its promises, and frustrated by the lack of opportunities for job mobility, housing, and the emptiness of official ideology. [redacted]

36. Kadar is, however, engaged in a very risky game: Hungarian nationalism is a potentially explosive mix of ethnocentrism and anti-Russian feelings and if not carefully controlled could anger Moscow as well as have adverse domestic consequences for the regime. The issue already has become an especially sore point in relations with Romania. Hungary and Romania's criticism of each other over minority policies escalated to the level of party-to-party communications within the last two years. [redacted]

37. Kadar's approach, while so far successful in controlling volatile popular reactions, has not given him control over this highly charged issue. In general,

#### The Status of Hungarians in Other East European Countries

Hungarians are Europe's largest minority. More than 3 million live in the states that border Hungary: over 2 million in Romania; some 630,000 in Czechoslovakia; about 435,000 in northeastern Yugoslavia; and some 171,000 remain in western Ukrainian territory, previously part of Hungary but annexed by the Soviets after World War II (see map). How these minorities are treated varies from country to country. Hungarians are treated fairly well in Yugoslavia, where they enjoyed significant cultural autonomy; they are treated less well in the Soviet Union. The situation is worse, however, in Romania and Czechoslovakia, where a combination of official policy, mutual ethnic rivalries, and prejudice have set the Hungarians against the majority population. The regimes in these two countries seem wary of any form of cultural or intellectual diversity particularly any that question the postwar borders formed at Hungary's expense. [redacted]

Kadar thus far has managed to contain regime critics through a combination of repression and conciliation. Working in the regime's favor is the fact that Hungary's dissidents are presently not a large, powerful, cohesive force. He has not, however, resolved many of the basic issues that concern the opposition and continue to fester beneath the surface. [redacted]

38. *There is another view that holds that the Estimate exaggerates the role of nationalism among Hungarian youth and ascribes to Kadar a "risky" activist "game" with nationalism, which, in fact, he does not play.<sup>2</sup> The holder of this view also believes that the Estimate understates the impact of the two largest opposition movements:*

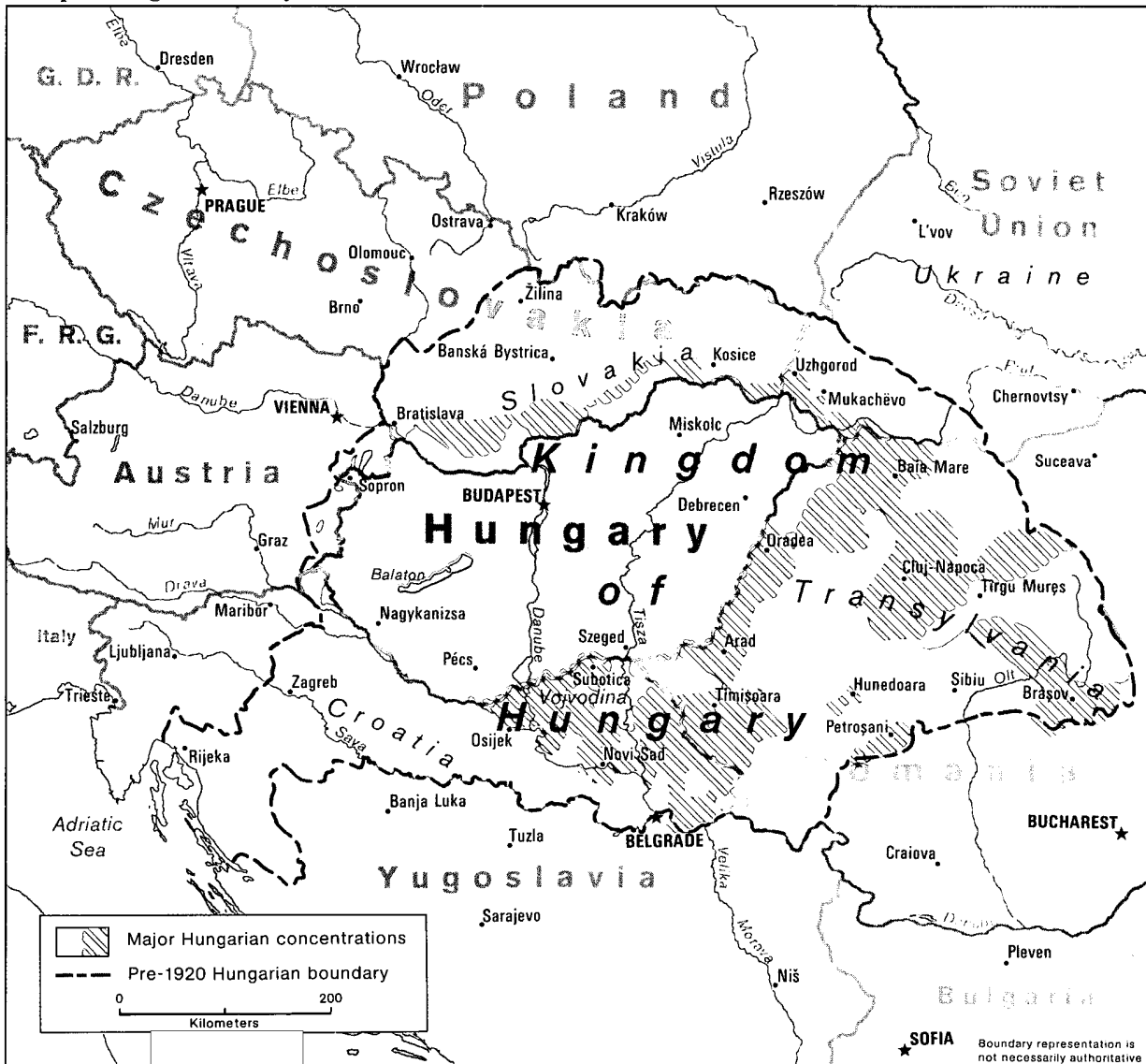
- *The "neopopulists" represent the greatest challenge to the regime as they criticize the decaying social fabric and the mistreatment of ethnic Hungarians in Romania and Czechoslovakia—issues on which Kadar is highly vulnerable. The "basic" or grassroots communities have a potential for upsetting church-state relations. Their primarily young adherents pursue a "counter-society" to offset what they see as a harmful alliance between church and state, and they resist state authority. Some 150 of their conscientious objectors are already serving stiff jail terms.* [redacted]

<sup>2</sup> *The holder of this view is the Director of the Bureau of Intelligence and Research in the Department of State.* [redacted]

SECRET

25X1

## Europe's Largest Minority



705130 (A05351) 7-85

## Hungarian Foreign Policy

39. **Meeting Soviet Concerns.** Soviet leaders have always harbored reservations that Kadar's system might undermine Communism in Hungary and spread elsewhere in the Bloc. To keep in the Kremlin's good (though guarded) graces, the Hungarian regime under Kadar is consistently loyal to the USSR's larger interests and usually meets Soviet minimum expectations regarding their important foreign policy concerns. For example, Budapest provides financial and political support for Third World insurgent groups along with training and weaponry. The secret police are among the most closely controlled services by the KGB in

Eastern Europe and have been particularly cooperative in illegally acquiring Western high technology. Hungary is a key transit point of COCOM controlled technology to the Soviet Union probably because of Budapest's extensive commercial contacts with the West. Hungary follows the Soviet policy and propaganda lead in the United Nations and other international organizations. The main service Kadar provides the Kremlin, however, is assuring the continuity of the Communist system forced on Hungary 40 years ago. A succession of leaders in Moscow since Khrushchev have prized Kadar's leadership for its stabilizing effects, which are all the more dramatic in light of recurring crises elsewhere in the region.

25X1

25X1

SECRET

25X1

40. Soviet troops, along with economic ties, provide leverage and influence for Moscow. There are nearly 70,000 troops stationed in Hungary in four divisions with support elements and major portions of an air army. Soviet advisers are believed to be stationed down to at least the division level in the Hungarian People's Army. Most top Hungarian officers have had some form of training in the Soviet Union. Relations between the local populace and Soviet troops are calm, with little overt signs of resentment. Articles in the official press, however, carefully refer to the Soviet forces as "temporarily" stationed in Hungary. [ ]

25X1

25X1

41. *The "Small-State" Gambit.* While economic and military restraints keep Hungary closely in the Soviet camp, Budapest, in the last few years, has tried to create an image of Hungary as a moderate loyalist that can serve as a go-between for the Warsaw Pact with the West. Because of its dependence on foreign trade, Budapest is also interested in maintaining good relations with the West. Since about the mid-1970s, it has gradually developed high-level contacts with Western Europe, which seem not as dependent on the Soviet lead as they once were. While in 1985 both Zhivkov and Honecker had to cancel their visits to the West because of Soviet pressure, Kadar still managed to visit both Paris and London. [ ]

25X1

25X1

42. During contacts with Western officials, the Hungarians stress the special role, even responsibility, of "small nations" in promoting East-West detente as well as Budapest's wish to be a "correct partner" to all nations on the basis of "mutual interest." Hungary's trade relations and more active level of international contacts, which began in the mid-1970s, laid the foundation for this approach. [ ]

25X1

25X1

43. In the early 1980s, moreover, other developments appear to have prompted Budapest to take a more active foreign policy role. Soviet policy toward East-West ties and the general chilling in Soviet-US relations raised anxiety in Budapest and other East European capitals that their national security and economic interests would be harmed. Soviet actions that raised such concerns included: the call for boycotting the 1984 Olympics, Moscow's hard stance against INF deployment, and the Soviet deployment of new missiles to East Germany and Czechoslovakia. In addition, during this period, the Soviets were going through a drawn-out succession process. General Secretaries were often sick and absent [ ]

25X1

44. As a result, Budapest may have perceived an opportunity to pursue national interests a little more assertively. Matyas Szuros, party Secretary responsible

25X1

for international relations, authored several articles during this period, which justified more Hungarian "wiggle" room through this theory of Budapest as a "bridge" between East and West. Such a notion, at times, has brought warnings for greater conformity from Moscow. There even erupted a short-lived outbreak of polemics concerning national interests versus Bloc unity in various East European official presses in the spring of 1984. [ ]

45. The Hungarian "small-state" idea, however, appears to have survived even in the face of occasionally explicit Soviet disapproval. Most Hungarian leaders are well aware of the Soviet limits on their sovereignty and would exercise great caution not to arouse serious Soviet ire. The Hungarians have survived throughout history in a conflict-prone Central Europe by being realists and keen readers of great power relations. Yet, top leaders also sense that it is necessary to appear as a Hungarian "patriot" and supporter of Hungarian national interests in order to maintain some popular confidence or acceptance. Thus, the regime is trying to walk a very fine, careful line in its foreign policy, using the appeal of the "bridge" role. [ ]

46. What assists the Hungarians in staying on this carefully drawn line is the fact that certain aspects of the approach, while serving Hungarian interests, may even be useful to the Soviets. For instance, because of their "moderate" image, statements by Hungarian officials are believed more readily in some Western circles than if the same statements came directly from Moscow. Hungary, therefore, can serve, at times, as a conduit for Moscow's policy and propaganda views. [ ]

#### The Outlook: Kadarism Maintained But Tested

47. Hungary has entered an important transitional period. While Janos Kadar may remain politically active throughout this period, his era in Hungarian politics is inexorably drawing to a close. Kadar's success has rested on an approach that combines some partial political concessions, co-opting elements of the opposition, isolating intractable regime enemies, and at least until about the mid-1970s providing rising standards of living for the majority of the population. Now, however, the regime faces some rigorous tests. Beyond the looming leadership change is a variety of problems, such as stagnating living standards, a heightened sense of nationalism, demands for faster political liberalization, and debt burdens, among others. How well the Hungarian regime copes with these issues will greatly determine the shape of Hungarian society into the 1990s and the fate of Kadar's political legacy. [ ]

SECRET

25X1

48. One of the key uncertainties is how long and to what degree Kadar, who is now 74, will remain in charge. The regime has undertaken some steps to begin the transition to the post-Kadar era. At the March 1985 party congress changes in political appointments seemed designed to put more vigor, technical expertise, and youthfulness into the top leadership. Karoly Nemeth was named to the new position of Deputy General Secretary and is taking over some of Kadar's day-to-day workload. Although his workload has been lightened, Kadar still appears in control of policy formulation. [redacted]

25X1

25X1

25X1

49. There are recurring rumors—as recently as this spring—that Kadar will retire or is being eased out. In the past, such rumors may have been disseminated by Kadar or his opponents for domestic political reasons. We believe it is unlikely Kadar would accept relegation to figurehead status. However, certain special circumstances might develop that would lead him to assume a largely ceremonial post turning over most political control to Nemeth and others. Such circumstances might be a serious decline in his health, Kadar's own disillusionment and frustration over economic and/or social problems, and Soviet pressure. [redacted]

25X1

50. Should Kadar die or become incapacitated, we believe the succession probably would proceed fairly smoothly at least in its early stages. Nemeth in his current position is a strong contender to replace Kadar. While he lacks charisma, in some ways the neutral image he presents could make him a "safe," compromise choice. [redacted]

25X1

25X1

51. While Nemeth, at present, may be the most likely successor, there are other challengers. Other potential successors can roughly be divided into several very general and sometimes overlapping groups—those who support even further reforms, those of a somewhat more orthodox bent in their ideological and economic views, and the opportunists. Economic czar Ferenc Havasi, 57, at the proreform end of the spectrum, was one of the chief architects of the latest reform package adopted at the April 1984 Central Committee plenum. Hungary's poor economic performance in recent years could damage his chances, although he would argue that he has been blocked from implementing the necessary corrective measures. Trade union chief Sandor Gaspar probably represents the more orthodox end of the spectrum but is too old, 69, to be near the top of the succession list. Falling more ambiguously between these two are contenders such as Central Committee Secretary Janos Berecz, 55, Politburo member and First Secretary of the Budapest

25X1

25X1

Party Committee Karoly Grosz, 56, Central Committee Secretary Istvan Horvath, 49, and Deputy Prime Minister and Politburo member Laszlo Marothy, 43, among others [redacted] Given the spread of ideological differences, a centrist-opportunist like Berecz could have the advantage if Nemeth falls aside and the others neutralize each other. Soviet wishes might be the determining factor, but we have no evidence that Moscow has made known its preferences. [redacted]

52. Reporting on Gorbachev's views on Hungarian reforms is mixed. There are some indications that Gorbachev has remarked favorably about Hungarian economic reforms, particularly agricultural reforms, and that he has "blessed" the current scope of the reforms although no public endorsement has yet been given. Gorbachev, however, has been critical of reliance on the West and extensive emphasis on market mechanism and private enterprise. The mixed reporting may well reflect a genuine Soviet ambivalence, and the Hungarian leadership probably is uncertain about what measure of additional reform Gorbachev would tolerate. [redacted]

53. Thus, the post-Kadar Hungarian leadership most likely will continue to "tinker" within the system as Kadar leaves it, avoiding risky new reforms until confident of Soviet approval. We believe, moreover, that whoever follows Kadar will also try to continue within the broad outlines of Kadar's political strategy because "Kadarism" has worked well for too long to be reversed without major negative repercussions and because the majority of the top leadership has been carefully groomed and selected over the years since they subscribed to Kadar's general beliefs and approach. [redacted]

54. Continuing with Kadar's general political approach and the current reform agenda could contain economic, social, and political challenges at least for the next year or so. This would mean the general social malaise will still be evident but Hungary will remain basically stable. Both strikes and demonstrations—presently fairly rare occurrences—could increase, although within controllable limits, as the economy continued to experience problems and the impact of industrial reforms was felt. Dissent, in general, could become more visible because of the 30th anniversary of the October Revolution this fall, but the regime will control the opposition using rhetoric, intimidation, and force, if needed. The government's use of police measures could become more common than during the 1970s although not felt as severely as in the late 1950s. [redacted]

25X1

SECRET

25X1

55. We question, however, whether even Kadar's masterful tinkering with the system will be viable over the longer term if the economy shows no signs of reviving and the resultant social strains continue to grow. The most recent series of reforms probably will not improve the chances for an economic turnaround in the next five years or so. Notwithstanding the accomplishments of some 17 years of economic experimentation, piecemeal implementation of reforms will limit the gains in efficiency and competitiveness needed for improved performance, particularly in industry. Moreover, debt burdens and Moscow's trade demands will limit the resources available for modernizing the industrial base. [redacted]

56. At some point, perhaps toward the end of the decade, economic stresses could sharpen rivalries within the Hungarian leadership concerning the scope and pace of reforms. If the succession to Kadar occurs at that time, the initial smooth transition period might be but a respite before factionalism becomes more serious. Kadar has been exceptionally successful in reconciling policy conflicts as well as being adept at maintaining Kremlin support. His successor might not have similar gifts nor command the same respect that Kadar has earned after three decades of rule. [redacted]

57. While trying to maintain some consensus within the top leadership, the regime could begin to drift, altering some reforms, dropping others most under attack, even while moving ahead on another front. Such "stop and go" implementation, however, would run the risk of ultimately deepening morale problems and accentuating social strains. An increase in public discontent would, in turn, renew and possibly intensify the emphasis on discipline and social control by a leadership that would feel more defensive and was fearful of Moscow's reaction if it failed to control or preempt public dissatisfaction. [redacted]

#### Alternative Outcome: A More Precipitous Slide

58. The fact that Hungary is facing its first political succession in some 30 years at a time when the economy is troubled and social strains are on the rise means a good measure of uncertainty is inherent in our discussion of future trends. Many variables outside leadership control—the strength and duration of the Western economic recovery; the continuation or not of the recent oil price decline; changes, if any, in Soviet policy toward Eastern Europe; the outcome of other leadership transitions in Eastern Europe; the state of Soviet-US relations, for instance—will impact on the Hungarian political and economic scene. [redacted]

#### Indicators of the Most Likely Scenario "Kadarism Maintained But Tested"

- Economic performance is mixed; some targets of the Seventh Five-Year Plan (1986-90) are met while others fall short; overall, the industrial sector continues to stagnate.
- Strikes or demonstrations, while possibly more frequent than presently low levels, are managed and contained by the regime.
- Police measures are somewhat more evident but not nearly as repressive as during the late 1950s.
- Should the succession be triggered, the process is fairly smooth, at least in the early stages.
- Kadar's successor adheres to main outlines of Kadar's alliance strategy and the current economic reform program at least through the next two years.
- Debate over course and scope of economic reforms more evident and intense by the end of the decade if economic and social stresses not eased; some reforms halted. [redacted]

25X1

25X1

25X1

59. It is possible that economic problems might worsen more quickly than forecast, that public morale could slide more precipitously, and, if so, that the more intense strains we foresee as a possibility at the turn of the decade would unfold earlier and to a greater degree. Leadership debate on reforms could turn into more personalized attacks with blame for economic and social problems attributed to different individuals. The likelihood of this intensified leadership struggle emerging would increase should Kadar leave the scene or be incapacitated for a long period. [redacted]

25X125X1

60. Another variable is the future course of opposition in the country. The various groups of regime critics in Hungary have taken only the very first, tentative steps toward cooperation. However, in a situation of greater, more visible leadership rifts and spreading popular discontent, at least some of the dissident groups might coalesce long enough to offer more of a challenge to the regime with an appealing program of faster and truly fundamental political and economic reform. Certain factions within the party might even take up these calls. The regime would then be in a bind of trying to defuse the escalating demands and resolve its own differences, while maintaining Soviet confidence. [redacted]

25X125X1



SECRET

25X1

61. The most likely result of such increased tensions would be purges within the leadership. The regime's response to the opposition would depend on the new balance of forces in the leadership. Based on our current reading of the trends, we believe the most probable initial response would be greater repression, in short, a protracted crisis during which reforms would be halted and the economy would continue to slip. Such a situation would continue for a number of years before pressures built again to return to and intensify reforms. [redacted]

the quality of Hungarian exports to the Soviet Union, and the extent of Budapest's commercial ties to the West, could gain more significance and increase bilateral strains as both Hungary and the Soviet Union struggle with domestic economic problems and a tougher trade environment. [redacted]

25X1

63. Defense spending is another issue that could become a bit more contentious. Hungary is likely to continue to resist pressure from the Kremlin to increase defense spending. Gorbachev, in turn, may be less inclined to put up with Budapest's foot-dragging as he tries to find means to lessen the defense burden on the Soviet economy. [redacted]

25X1

25X1

#### Indicators of the Alternative Scenario "A More Precipitous Slide"

- Economic performance in most sectors falls seriously short of the yearly targets of the Seventh Five-Year Plan (1986-90).
- Hungary experiences increasing difficulty in maintaining trade with the West.
- Some Western banks decline to extend additional loans to Hungary increasing the possibility of rescheduling.
- The regime halts or backs away from the current reform program.
- The number of labor strikes and demonstrations (presently at low levels) substantially increases.
- Should the succession process be triggered, political infighting increases with criticism of individual leaders made by various factions accompanied by possible purges.
- A substantial increase in heavyhanded police measures such as crackdowns on Samizdat, greater restrictions of travel to the West or contact with Westerners, and more show trials of dissidents are undertaken.
- Social distress as exemplified by alcoholism, drug use, and juvenile crime rises significantly. [redacted]

64. Moscow, however, probably worries most about the direction of political reform in Hungary. Soviet tolerance for Hungarian economic reform has been predicated on the tacit assumption that such reformist tendencies would not spill over into the political arena. Moscow would not allow—nor do we believe any Hungarian leadership is likely to permit—a serious challenge to the system of one-party rule. However, as the Hungarian regime struggles with various social and economic problems, Moscow might overreact to greater public debate concerning these issues, which probably would include calls by opposition groups for more fundamental political reform. This could also lead to somewhat greater tension between Budapest and Moscow if the Kremlin did not perceive the Hungarian leadership as moving quickly or forcefully enough to suppress such demands. [redacted]

25X1

65. There is also a possibility that frictions between Hungary and Romania could intensify. As economic and social strains in Romania increase, the leadership in Bucharest might clamp down even more on perceived antiregime behavior among minorities and spark greater outrage in Hungary. A less-experienced successor to Kadar, in turn, might not be as skillful in defusing and containing this emotional issue in Hungary. Budapest might miscalculate the reactions of its own population, those of Romania, or the Kremlin, leading to a nasty, temporary flareup of ethnic rivalries at a time when Gorbachev is trying to demonstrate to the world that the Soviet house is now in order. Faced with Soviet pressure, however, we believe Budapest would tighten policy and eventually check any popular protests. [redacted]

25X1

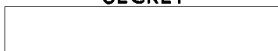
#### Implications

62. *For the USSR.* If our most likely scenario proves true, the Kremlin may be faced with a more troubled ally by the end of the decade. Tensions between Hungary and the Soviet Union, particularly over economic issues, may increase. Different perspectives on trade and economic issues such as the scope of CEMA integration, ruble versus hard currency payments, prices for raw materials from the Soviet Union,

66. Hungarian economic and social problems will deepen during a difficult period for Moscow—a time when Gorbachev will wish to concentrate on Soviet economic problems and not assume any more burdens of his allies. While Hungary's deepening problems

25X1

SECRET



25X1

are manageable for Moscow, they will be part of broader problems for the Soviet Union in Eastern Europe and as such could take on extra significance. The Kremlin has had little reason to be concerned for Soviet interests in Hungary since Kadar consolidated his regime. But the Soviet leadership may feel somewhat less secure about Hungary's future and its impact on the Bloc in the same period when other East European regimes are facing leadership transitions.

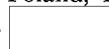


67. Despite increased strains over a number of issues—particularly economic issues—in all major respects Hungary will continue to fulfill its current commitments to the Warsaw Pact. A serious crisis in Budapest-Moscow relations—one that would require the direct use of Soviet military pressure or at least the very real threat of such use—is not likely. If such a crisis did develop, however, it would most likely spring from a Hungarian succession process that goes awry and/or Soviet mishandling of the leadership transition.



68. *For the United States.* US-Hungarian relations have developed rapidly since 1978, when the United States returned the crown of St. Steven and granted Hungary most-favored-nation status subject to annual renewal. There has also been a steady intensification of scientific, cultural, and high-level official exchanges. Hungary's value to the United States—as an

example of the “success” of the policy of differentiation—has been heightened somewhat, in part, because of the troubles in Poland, Romania, and to a lesser degree, Yugoslavia.



25X1

69. If our most likely scenario proves true, however, by the end of the decade Hungary may slip into more social distress. Should economic stresses sharpen rivalries within the leadership as well as public discontent, the great temptation will be to make party control the top priority, which could mean resisting Western and domestic pressures for liberalization. This might be at least a temporary setback to the hope for incremental, systemic reform in Eastern Europe, in general, and for the gradual dissolution of the post-World War II Soviet dominion in Eastern Europe.



25X1

25X1

70. Hungary's growing indebtedness to and economic need of the West, however, will continue to give the United States and other Western industrialized countries some limited leverage. Too many of the Hungarian elite have traveled or in other ways been exposed to the United States and other developed Western societies. Too many Hungarian leaders are aware not only of the benefits but also of the very necessity of their country's international economic ties. Over the longer term—and particularly if Gorbachev's program to revive the Soviet economy fails—the economic attraction of the developed West and the United States may increase even more, thus providing a better opportunity for Western leverage in Hungary.



25X1

25X1

**Page Denied**

Next 5 Page(s) In Document Denied