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Reshaping the socialist economy: the Hungarian case

The New Economic Mechanism (NEM) introduced in Hungary on January 1, 1968 constituted a new model for the socialist economy based on state and cooperative ownership. As such, it received an expectedly large amount of international attention in the East and in the West. The historical, economic and political aspects of the 1968 reform were the subject of a sizeable literature before the change of system in 1989,¹ but since then, there has been no further boost from the release of secret archive materials.

The author, in researching the process of interest assertion between the authorities and agricultural society in the first decade of the Kádár period, has often encountered issues connected in some way with the NEM. This study sets out to present findings in economic and social history that complement knowledge of the reform in a few respects. It follows the course of the reform chronologically. Events in the agricultural sphere have a bearing on the antecedents and the reform in action. They provide information and clarification on issues requiring reconsideration or further research.

I. The wave of reforms in the socialist countries in the 1960s

COMECON countries faced a general problem in the first third of the 1960s: slowing economic growth, inadequate agricultural production, technical and scientific backwardness, and mounting internal and external financial tensions.² The appearance of these difficulties produced an awkward situation, for the question of catching up and overtaking the advanced capitalist countries had been placed on the agenda just a few years before. In the words of First Secretary N.S. Khrushchev, addressing the 22nd Congress of the Communist Party of the Soviet Union (CPSU) in October 1961:

„The CPSU is adopting the task of attaining over the next 20 years a living standard for the people that will be higher than that of any capitalist country... For the first time in history, there will be a full and final end to the situation in which people suffer from shortage of anything... The party adopts the task of

¹ Major works include Iván T. Berend, *The Hungarian economic reforms, 1953-1988*, Cambridge 1990.; Paul G. Hare/Hugo K. Radice/Nigel Swain (eds.), *Hungary: A Decade of Economic Reform*, London, 1981.; János Kornai, *The socialist system. The political economy of communism*, Princeton/Oxford, 1992.; Iván Pető/Sándor Szakács, *A hazai gazdaság négy évtizedének története 1945-1985* [Four decades of history of this country's economy 1945-85], Vol. 1, Budapest, 1985.; Rudolf L. Tőkés, *Hungary's Negotiated Revolution. Economic Reform, Social Change and Political Succession 1957-1990*, Cambridge 1996.

² Iván T. Berend, *Central and Eastern Europe, 1944-1993: Detour from the Periphery to the Periphery*, Cambridge 1996. 182-200.; Richard J. Crampton, *Eastern Europe in the Twentieth Century and After*, London 1997. 307-325.

*making this country in the next ten years the foremost industrial power in the world, so that in terms of the absolute scale of industrial production and of per capita industrial production, we shall gain an advantage of the United States... But that is only the first stage; we will not stop there. In the second decade – up to 1980 – this country will far outstrip the United States in its per capita industrial and agricultural production.*³

The great promises were made in the wake of the spectacular Soviet successes in rocket technology, which had prompted the CPSU leadership to state clearly its aim of overhauling the most advanced capitalist countries, especially the United States. Its proclaimed programme of being ‘first in the world’ rested on an ideological dogma: the socialist system was superior to the capitalist and that superiority would manifest itself in economic performance. A new phase in the historical development of the countries building socialism would bring economic ascendancy over capitalism.⁴ This deceptive axiom has since been overtaken by events, but it counted as an unquestionable underlying truth at that time.

The actual economic processes were already presenting a very different picture from the Utopian targets of the CPSU. Accumulated tensions and contradictions were making change essential. Debate on the reform in the Soviet Union began in the autumn of 1962; the various experiments led to a decision in September 1965 to reform the way the economy was run, known as the Kosygin Reform after the then prime minister, who presented it. Meanwhile the ‘Neue Ökonomische System’ had come into force in mid-1963 and a decision to reform the system of economic management had ensued in January 1965 in Czechoslovakia.⁵

The reforming work in the region was much influenced by the misconception that the quality of central planning could be improved by mathematical methods and computerization. Advocates of this saw the ultimate cause of the command economy’s problems in the crudity of the methods used for plan calculations, for want of an effective mathematical and cybernetic basis. Rational operation of the socialist economy would come from rapid development of programming and optimization procedures.⁶

Hungary was facing similar economic and plan-fulfilment problems. Industrialization accelerated just as agricultural collectivization was resumed in 1959. The leadership had living-standard promises to keep, a start had to be

³ A kommunizmus építőinek kongresszusa, 1961. október 17-31. Részlet az SZKP XXII. Kongresszusának anyagaiból [Congress of builders of communism, 17-31 October, 1961. Extract from materials of the 22nd CPSU Congress], Budapest 1961, 213-14.

⁴ On the main theses of socialist ideology, see Kornai 1992, 49-61.

⁵ For more detailed information on the history of socialist economic reforms, see: Christoph Boyer (Hrsg.), *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich.* Frankfurt am Main, 2007.

⁶ Kornai 1992, 396-407.

made in 1961 to servicing loans raised from other socialist countries in 1956-57, and Hungary's undertakings under the Warsaw Pact were increasing. This bank of commitments soon caused signs of fatigue under the second five-year plan (1961-1965).⁷ The rise in production volume was not joined by improvements in quality or efficiency, so that the chronic shortage was coupled with mounting unsold stocks. National-income growth declined and balance-of-payments problems appeared, while the rate of increase in the debt stock to the capitalist and socialist worlds increased.⁸ The tensions in the economic sphere were of particular concern in Hungary because they threatened the progress being made in domestic and foreign-policy consolidation.⁹

Works on the antecedents of the economic reform explain Hungary's domestic economic problems and the favourable international climate, but not why the party did not try to solve the problems by perfecting its planning procedures. Why did the Hungarian leaders choose a different path from the other COMECON countries?

One factor was a failed attempt to transform the industrial structure in 1962-64. In Hungary too, the first reflex reaction to the operational problems of the command economy was to reorganize and change enterprise sizes and structures. This approach (not independently of similar campaigns in other socialist countries) culminated in the 1962-64 campaign of industrial reorganization, which reduced the number of industrial enterprises from 1338 to 840. Contrary to expectations, this brought no improvement in productivity indices, but it altered significantly the pattern of decision-making powers, giving greater scope for large-enterprise managers to assert their interests.¹⁰

Another big factor was that reform proposals for tackling the problems of the planned economy had been drawn up in Hungary in the 1950s. These went back to 1953 and the chance after Stalin's death to change the war-economy type of policy that was being pursued. Hungary's New Course was associated with Imre Nagy, who as prime minister ordered in 1954 elaboration of a comprehensive working programme of economic policy to include the problems with the planning and economic management. The solution was seen in reducing the number of compulsory plan directives, but detailed work on the concept was interrupted by intermittent power struggles and a further political

⁷ Berend 1990, 113-128; Pető/Szakács 1985, 403-408.

⁸ The exacerbation of economic and plan-fulfilment problems in an increasingly critical situation can be sensed especially well in Political Committee (PC) minutes of the HSWP in 1963-64, see: Magyar Országos Levéltár [Hungarian National Archives, hereafter MOL] M-KS-288. f. 5/312., 337., 352., 363. ő. e.

⁹ For more on this, see János M. Rainer, *The Sixties in Hungary — some historical and political approaches*, in: János M. Rainer/György Péteri (Eds.) *Muddling Through in the Long 1960s. Ideas and Everyday Life in High Politics and Lower Classes of Communist Hungary*. (Trondheim Studies on East European Cultures & Societies, No. 16) Trondheim 2005, 4-26.

¹⁰ András Vígvári, *A magyar gazdasági reformfolyamat néhány kérdéséről* [Some questions on the Hungarian economic reform process], in: *Múltunk* [Our Past], 36 (1991), 4, 106-113.

upheaval at the beginning of 1955.¹¹

The question of comprehensive economic reform returned at the turn of 1956-1957, amidst serious economic difficulties, when the Kádár regime ordered a reappraisal of the plan-directive system. Work in 11 specialist committees gave rise to a proposal for reforming the command economy in a more radical way than ever before.¹² The draft rested on the idea of replacing the plan-directive system (except in investment projects) with a system of economic incentives to power the economic plan—in effect, framing the principles on which the 1968 reform would be based. But the political assessment of reform was changing in the meantime. The reform plans lost immediacy, mainly because the direct compulsion to reform was lifted once the Soviet Union and other socialist countries had provided large credits in goods and currency, resolving the inherited economic problems by traditional economic-policy means.

Revival of the proposals of 1953-4 and 1957 became possible when the political climate changed in 1963-4, although one constraint was that they had never been tried in practice. This lent decisive significance to agriculture – the one sector of the Hungarian economy with several years' experience of securing production without compulsory plan directives.

II. Agriculture as a testing ground?

As is generally known, the revolution in 1956 is an important turning point in Hungary's political history. It is, however, by no means part of the common knowledge that, following the revolution, the agrarian policy had seen changes and corrections unprecedented within the socialist block.¹³ The Kádár-regime, rising to power with Soviet military aid, had been compelled to take these measures. They wanted to make up for a lacking political legitimation by increasing the living standards.

As János Kádár, the chief secretary of the Central Committee (CC) of the HSWP, pointed on at the December 2, 1956 meeting of the Party's Provisional Central Committee: „*Our policy in economic questions, and especially, in questions of redistribution is that the primary aspect should be the gradual rise in living standards*”.¹⁴

¹¹ György Péteri, *New Course Economics: The Field of Economic Research in Hungary After Stalin, 1953-56*. in: György Péteri (Ed.) *Intellectual Life and the First Crisis of State Socialism in East Central Europe, 1953-56*. (Trondheim Studies on East European Cultures & Societies, No. 6) 2001. 47-79.

¹² Berend 1990, 30-37, 45-51.

¹³ See more on this: Zsuzsanna Varga, *The Impact of 1956 on the Relationship between the Kádár Regime and the peasantry, 1956-66*. in: *Hungarian Studies Review*, 34 (2007) 1-2, 155-176.

¹⁴ *A Magyar Szocialista Munkáspárt ideiglenes vezető testületeinek jegyzőkönyvei [Minutes of the Provisional Leadership Bodies of the HSWP], Vol. I. November 11, 1956. - January 14,*

This was in contrast to what prevailed before 1956 when the forced development of the heavy and military industries was predicated on the low production of consumer goods.¹⁵ The realization of the new policies regarding living standards in the early years of the new regime – and for some time even after – depended on the supply of foodstuffs, since the population spent much of their income on the buying of food.

The prominence of living-standard policy after 1956 gave strategic importance to raising agricultural production and encouraging agricultural producers. While during the first half of the 1950s the country's Communist Party pursued aggressive, strife-inducing agrarian policies, the post-1956 Kádár regime tried to minimize and even resolve the many conflicts it encountered in its dealings with the Hungary's agricultural producers.

This trend manifested itself already in November of 1956. The most significant measure taken was the abolishment of compulsory delivery.¹⁶ A further measure with great impact was the permission to quit agricultural cooperatives, brought at the end of November. By doing so, they fulfilled an important demand the farmers had made earlier.

It is worth dwelling for a minute on the abolition of compulsory delivery system, as it removed one of the pillars supporting the whole system of planned economy in agriculture and Hungary was among the first socialist countries to make the move.¹⁷ As peasants were no longer obliged to part with their produce, the state could only buy if it offered a realistic price. Instead of using economic compulsion, the state was establishing commercial relations with the agricultural producers, peasants and cooperatives, and trying to give them an interest in selling.¹⁸ It meant that market forces applied, albeit to a limited extent, in one of the main sectors of the post-1956 Hungarian economy.

All these measures marked a new period in the relationship between the political leadership and farmers. This attitude continued over the next period as well, albeit with an uneven intensity. A good example for this is the history of the final phase of collectivization. In the first half of the 50s, the Hungarian communist party made two attempts to collectivize peasant farms but failed

1957. Karola V. Némethné/Levente Sipos, (Eds.) Budapest, 1993. 151.

¹⁵ Tibor Valuch: Changes in the Structure and Lifestyle of the Hungarian Society in the Second Half of the XXth Century. in: Gábor Gyáni/György Kövér/Tibor Valuch (Eds.) Social History of Hungary from the Reform Era to the End of the Twentieth Century, New York 2004, 624-634.

¹⁶ See: *Törvények és rendeletek hivatalos gyűjteménye, 1956.* [Official Collection of Laws and Ordinances, 1956] Budapest 1957. 62.

¹⁷ Karl-Eugen Wädekin, *Agrarian Policies in Communist Europe*, The Hague/London 1982, 65.

¹⁸ Az Élelmezésügyi Minisztérium előterjesztése az MSZMP Politikai Bizottságához az új felvásárlási rendszer eredményeiről és tapasztalatairól. [Food Ministry submission to the HSWP PC on the achievements and experiences with the new central purchasing system], November 19, 1957. MOL M-KS-288. f. 28/1957/13. ő. e.

both times.¹⁹ Thus, the collectivization launched in December 1958 involved a great risk. On the other hand, the stakes were high as well: the party leadership led by János Kádár was bound to prove their efficiency to Moscow considering that the collectivization process coincided with the similar efforts of other socialist countries.²⁰

By the end of 1959 the economical and social problems arising in the agrarian sector became so severe that the leadership was compelled to initiate corrective measures.²¹ The correction was a sign that the HSWP, albeit under pressure, gave in to some of the farmers' demands. A certain kind of dialogue had started between the representatives of the political power and the cooperatives. The cooperative members managed from that 'bargaining' position to get leave to keep more stock on the household farms, do share-cropping on the collective farm, receive their premium in kind etc. Most of the party leadership, however, considered this not more than a transitional situation. Nevertheless, as my research clearly shows, this dialogue had not been terminated after completing the collectivization (1961), but in fact it had become stronger and wider. It became an integral part of the pragmatic agrarian policy of the Kádár-era.²²

The Hungarian party and state leadership first only tolerated, later even supported the functioning of the co-operatives that differed from the Soviet kolkhoz model and adjusted themselves more to the local conditions.²³ This pragmatic approach was not the result of conscious planning but was implemented as a byproduct of random decisions made in response to the developments in the countryside. The political decision-makers did play a role in it, as did the initiatives of the cooperatives and their membership. The policy came about as an interaction of pressures from above and below. As a result of

¹⁹ Sándor Szakács, *From Land Reform to Collectivization (1945-1956)* in: Péter Gunst (Ed.) *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)* New York 1998, 257-298.

²⁰ Ferenc Fejtő, *A népi demokráciák története [The history of 'people's democracies']* Vol. II. Budapest 1991. 133-135.

²¹ The mechanisms of defence and the strategies of survival developed in the first half of 1950s showed a quick revival in the course of the third wave of collectivisation. Due to the low income levels, the best of the village workforce (young people, men of working age) sought employment outside the co-operatives. And, on top of it all, a manpower of a few hundred thousands leaving the agricultural sector, was not easily replaced with means of mechanization. See more on these problems: Valuch 2004, 572-602.

²² For a fuller discussion of the HSWP' agrarian policy, see: Zsuzsanna Varga, *Agrarian development from 1945 to the present day*, in: János Estók (Ed.), *History of Hungarian Agriculture and Rural Life, 1848-2004*, Budapest 2004, 254-271.

²³ For the Hungarian model of collective agriculture, in English see: Chris Hann, *Tázlár: A Village in Hungary*, Cambridge 1980.; Pál Romány: *The Completion and Partial Dismantling of Collective Agriculture*. in: Péter Gunst (Ed.) *Hungarian Agrarian Society from the Emancipation of Serfs (1848) to the Re-privatization of Land (1998)*. New York 1998. 329-345.; Nigel Swain, *Collective Farms Which Work?* Cambridge 1985, 1-21.

the dialogue between the country's leaders and its agrarian society we can observe in Hungarian agriculture, from the early 1960s on, a cautious and gradual deviation from the Soviet model.

We have to emphasize however, that this departure from the kolkhoz pattern was never openly admitted by the Hungarian leadership. Kádár and his associates did not want to get into an ideological dispute with the leadership of the Soviet Communist Party; they satisfied themselves with implementing procedures that were at variance with Soviet agrarian practices.

Local initiatives by could ease problems of incentives at membership and cooperative level, but the legal regulations and economic environment surrounding the cooperative farms still followed the Soviet model, which restricted the efficacy of local initiatives. Recognizing that the Political Committee of the HSWP launched comprehensive reforms in late 1961 and early 1962. This project affected three areas: first, they had drawn up a new price-, tax- and monetary system for agriculture, second, they had revised the administration of agriculture and third, they had set up the frames for a new cooperative act.²⁴

This complex work process became a new strategic element in the agrarian policy of the HSWP. One of the dominant efforts of the reform process was, alas, to harmonize legal regulation with the methods applied in the everyday functioning of the co-operatives, that had in some aspects departed from the original rules of business and work organization and the regulations of remuneration. „*Even without legal regulation, the new type of co-operative has emerged that we wish to protect and develop with a new act. This new act, thus, serves the completion of the corrective measures made necessary by recent development.*”²⁵ The other objective of this work process was to get rid of the restrictions of the Soviet kolkhoz model that would have impeded the solution of the problems of monetary interest of both co-operative members and the co-operative itself. In addition, it served the indication of the way ahead.

The proposals for agricultural reform were completed in 1963,²⁶ but approval of them was postponed at the turn of 1963 and 1964, due to the macro and micro-level economic problems mentioned earlier.²⁷

²⁴ Jegyzőkönyv a Politikai Bizottság üléséről [Minutes of the PC of HSWP], September 26, 1961. MOL M-KS-288. f. 5/245. ö. e.; Jegyzőkönyv a Központi Bizottság üléséről [Minutes of the CC of HSWP], February 9, 1962. MOL M-KS-288. f. 4/45. ö. e.; Jegyzőkönyv a Központi Bizottság üléséről [Minutes of the CC of HSWP], March 28-30, 1962. MOL M-KS-288. f. 4/47-48. ö. e.

²⁵ Előterjesztés a Mezőgazdasági Bizottsághoz az új termelőszövetkezeti törvény előkészítésével kapcsolatos főbb vitás kérdések eldöntésére [Report to the Agricultural Committee on the Possible Decision of the Main Contested Points of the New Act on Agricultural Co-operatives], September 16, 1962. MOL M-KS-288. f. 28/1962/2. ö. e.

²⁶ Jegyzőkönyv a Politikai Bizottság üléséről [Minutes of the PC of HSWP], December 10, 1963. MOL M-KS-288. f. 5/322. ö. e.

²⁷ Jegyzőkönyv a Központi Bizottság üléséről [Minutes of the CC of HSWP], February 20-

Nonetheless, the agricultural reform package gave an impetus to the launch of general economic reforms. When Rezső Nyers, generally seen as the ‘father’ of the 1968 reform, was interviewed about its antecedents, he noted that *„the reappraisal of the price, fiscal and financial systems in agriculture had gone into issues of the economic mechanism from the side of agriculture... This had essentially raised the question of the ‘original mechanism’ on the agricultural side.”*²⁸

The draft of the agricultural reform pointed the way: *„Practical experience confirms that directing production by economic means, through price, credit and investment policy and the planning, purchasing and subsidizing system, is essential correct.”*²⁹ The agricultural cooperatives had amassed very valuable practical experience of the market, financial incentives and the role of enterprise autonomy. So attempts were duly made, during the work on the general reform, to use the tried methods of organization, business and entrepreneurship in state-owned enterprises as well.³⁰

III. The scope and limits of market socialism

Despite the ‘mood of reform’ that built up within COMECON in 1963-64, it remained taboo in most socialist countries to criticize the theory or practice of plan directives. This was not so in Hungary, where the need for such directives was questioned and denied during the reforms. As Rezső Nyers, Central Committee secretary responsible for economic affairs, wrote in the party theoretical journal early in 1964, *„It would certainly not be right to associate the essence of socialist economic planning to a particular method of planning or direction. A wide variety of methods of direction and periodic change in methods and mechanisms can all be accommodated and indeed belong in the Marxist-Leninist economic concept of socialism.”*³¹

On December 10, 1964, the party Central Committee decided that a critical assessment of the current economic mechanism (including the systems of planning, finance, pricing and financial incentives) should be made over two years, and a plan for modernizing the economic mechanism devised on that basis.³²

22, 1964. MOL M-KS-288. f. 4/66-67. ő. e.

²⁸ Katalin Ferber/Gábor Rejtő, Reform(év)fordulón [Reform turn/anniversary], Budapest 1988, 20.

²⁹ A Központi Bizottság határozata a mezőgazdaság időszerű kérdéseiről [The resolution of the CC of HSWP on the agricultural situation], February 22, 1964. MOL M-KS-288. f. 4/68. ő. e.

³⁰ Zsuzsanna Varga, The „Modernizing” Role of Agriculture in the Hungarian Economic Reforms, in: Christoph Boyer (Hrsg.), Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich. Frankfurt am Main 2007, 201-218.

³¹ Rezső Nyers, Az ötéves terv derekán [Midway through the five-year plan], in: *Társadalmi Szemle* [Social Review], (1964) 2,19.

³² Jegyzőkönyv a Központi Bizottság üléséről [Minutes of the CC of HSWP], December 8-

Twelve working committees set up embraced representatives of science and scholarship, the state, politics and the corporate sphere, a good many of whom had worked on reform projects in the 1950s.³³ The working committees completed their critical analysis by the summer of 1965 and a basic concept founded on their assessments was promoted into a resolution at the Central Committee meeting on November 18-20, 1965. The ‘Initial Guidelines’ embraced the essential ingredients of the reform and established the character of the subsequent changes. Then came the composition of the detailed guidelines, which was concluded by the spring of 1966. The final decision was taken at the Central Committee meeting on May 25-27, 1966.³⁴ The year 1967 could be spent on actual preparations for the introduction of the reform on January 1, 1968.

Central to the NEM were abolition of the disaggregation of central plans, indirect macroeconomic management by regulators, and having an increasing range of prices set by the market rather than by the bureaucracy. Abolition of compulsory, categorical plan directives meant that although annual and five-year plans were still devised to set the main targets and proportions of economic development, they were no longer ‘disaggregated’ down to enterprise level. Enterprises were no longer told under the new mechanism what and how much to make or what to make it out of. The compulsory directives were replaced by economic regulators (price, profit, tax, credit etc.) Essentially, the state was to point the economic processes in the desired direction, mainly by financial means.³⁵

The price system became the main indirect regulator. The reform required prices to signal production costs, market assessment and economic-policy intentions.³⁶ But with unchanged economic priorities, neither costs nor customer opinions could become prominent, since the prices were ‘diverted’ by the various policy considerations (such as priority for industrial development). A mixed price system came into force in 1968, in which three types were distinguished: fixed prices, prices that could move within an administratively set band, and free prices. Some 70 per cent of the domestic raw materials and semi-finished products used in the production sphere were sold at fixed or maximized prices and only 30 per cent at free prices. In the consumer sphere, about 50 per cent of the prices were fixed or maximized.

Profit became the decisive economic regulator in enterprise management. In

10, 1964. MOL M-KS-288. f. 4/71-72. ö. e.

³³ A magyar közgazdasági gondolat fejlődése. 1954-1978. A szocialista gazdaság mechanizmusának kutatása [Development of Hungarian economic thinking 1954-78. Research into the mechanism of the socialist economy] László Szamuely (Ed.) Budapest 1986, 34-48.

³⁴ Jegyzőkönyv a Központi Bizottság üléséről [Minutes of the CC of HSWP], May 25-27, 1966. MOL M-KS-288. f. 4/80-81 ö. e.

³⁵ László Antal, Gazdaságirányítási és pénzügyi rendszerünk a reform útján [Our economic-management and financial system on the path of reform], Budapest 1985, 146-66.

³⁶ Kornai 1992, 535-550.

principle, profit became the main yardstick of performance and the source for an enterprise's investment, for improvements in welfare arrangements at the company, and for productivity bonuses for employees.³⁷ The main curb on the transformation of enterprise management was fear of redundancies, the need to maintain full employment. That led to a levy on enterprise profits that was redistributed centrally to loss-making factories. Similar considerations led to the survival of certain obligations in the wage management of firms and in investment policy. The latter remained strongly influenced by the earlier axiom that investment decision-making in a socialist economy should be centralized. So the decision-making and financing processes changed little: big investments in production remained in the competence of the centre, while enterprises were able to decide only on 'standard-maintaining' and smaller development expenditures.³⁸

Despite the curbs and limitations mentioned so far, the system of economic management introduced in 1968 managed to combine certain elements of central planning and market forces. The NEM broke with the classic model of a planned economy that the Soviet Union had introduced in the 1920s and the European socialist countries at the end of the 1940s. The abolition of the cumbersome mechanism of plan disaggregation decentralized many production and other management decisions, which greatly increased the scope for independent action by enterprises. The financial indicators that replaced the plan tasks expressed in volume form brought with them the need to think in terms of money, costs and attainable profit, even if these were still heavily influenced centrally. Reassessment of the role of the market and money had begun.³⁹ Promotion of commercial methods greatly assisted in introducing trade in means of production instead of physical allocation of machinery, means and materials. Production and sales organizations and their executives gained real, if limited independence, so that on certain questions they became decision-makers instead of implementers of central directives.

But mention must be made of the reform's shortcomings and limitations, not just its benefits. Only these can explain how economic development became faster and more balanced for a few years after 1968, but many earlier problems (investment tensions, labour shortages etc.) remained unsolved.⁴⁰

The partial nature of the NEM came about decisively because the elite in power was prepared to treat the reform only as a way of helping the economy

³⁷ Antal 1985, 220-37.

³⁸ Hungarian reformers adopted the idea of the Polish economist Włodzimierz Brus of leaving simple reproduction to enterprises, while expanded reproduction remained in the competence of the state. See: Włodzimierz Brus, *A szocialista gazdaság működésének általános problémái* [General problems of operation of the socialist economy], Budapest 1966.

³⁹ Kornai 1992, 474-512.

⁴⁰ For more detailed information on market socialism in practice, see: Berend 1990, 147-166.; Nigel Swain, *Hungary. The Rise and Fall of Feasible Socialism*, London/New York 1992. 115-152.

to operate better. Neither ideological dogmas (the leading role of the communist party, the dominance of state ownership and so forth) nor economic-policy objectives (development priority for heavy industry etc.) were reconsidered. Also cautiously and purposely excluded from the reform concept was any transformation of the administrative apparatus of government or of enterprise organization. The Hungarian party leadership intended a few years later to introduce more radical measures in a second stage of reform in the 1970s.⁴¹ This would have covered major institutional changes, including banking reform, a new tax system, and expansion of the market sphere.

IV. Conclusion

Instead of the second phase of the reform process, the deceleration of the economic reform started from the beginning of the 1970s. The 1968 economic reform had its opponents from the very beginning. One such group with counter-interests were the big industrial companies, the trusts.⁴² The heavy industrial lobby enjoyed the support of the upper trade union leadership, the central planning apparatus, and the non-experts in the central and county economic policy party apparatus.

Made complacent by permanent subventions, the big industrial companies felt that their former privileges were being challenged by the introduction of the New Economic Mechanism, especially when it became clear that, in the second phase of the reform, the monopolistic large companies (trusts) were to be divided into efficient small and medium-sized companies. In addition to the plan for institutional transformation, new requirements emerged: apart from political reliability, an increasing emphasis was placed on expertise.

The directors of the industrial companies were also concerned that the agrarian lobby, which had strengthened in the meantime, was stating its interests more and more clearly. Thus, for example, the agrarians criticised the irrationally high price and poor quality of the machinery, equipment and industrial raw materials produced for agriculture, as well as the excessive gap between the prices of agricultural and industrial products.⁴³

⁴¹ Ibid. 194-200.

⁴² Due to the primacy of the development of heavy industry during the 1950s and 1960s, this branch had received the most investments. The enormous metallurgical and machine industrial plants etc. were in a privileged position, and their directors formed a strong lobbying group. The heavy industrial lobby relied, among other things, on the ideological axiom that the working class was entitled to the leading role in the building of Socialism. This provided them with privileges, not only in the obtaining of resources but in every major decision. See more on this, Berend 1990, 201-231.

⁴³ These issues emerged particularly keenly during the preparation of the fourth five-year plan, to be launched in 1971. In 1970 there was a fierce behind-the-scenes struggle over the distribution of investment resources. The industrial and heavy industrial lobby complained that in the course of the previous five-year plan, agriculture had received a larger proportion of

Since in the party-state system there was no opportunity for open clashes of interest, conflicts were expressed in the ideological sphere.⁴⁴ These ideological debates were in reality a preparation for the attack on the co-operatives. Referring to the interests of industrial workers, anti-reformist forces criticised increasingly vehemently the fact that the income level of the members of the co-operatives had reached, and by 1971 even somewhat surpassed, that of the workers.

Yet all this would not have been sufficient to launch an attack against the co-operatives since, as mentioned earlier, both the population and the state budget had benefited from the development of agricultural production. What came to be of decisive importance was the fact that, in the meantime, the international assessment of the reform had changed. Following the events of August 1968, that is, the armed intervention in the reform process in Czechoslovakia, Hungary was not simply left on its own with its reform. In the meantime, the evaluation of the New Mechanism in the Eastern bloc had become increasingly unfavourable.⁴⁵

Taking advantage of the external political pressure, primarily from Moscow but also from East Germany, Czechoslovakia and Bulgaria, the internal opposition to the reform forced the HSWP's Central Committee to decelerate the New Economic Mechanism at its session on November 14-15, 1972.⁴⁶ Although the reform was not publicly denounced, and its most important elements were not withdrawn, in response to pressure from the industrial and heavy industrial lobby restrictive measures were introduced that hit the agricultural co-operative sector particularly hard. The arsenal for the attack against the co-operatives ranged from ideological debates, administrative restrictions and the increased siphoning off of income, to police and legal procedures.⁴⁷

The assault on agricultural cooperatives also shows a basic limitation of the New Economic Mechanism. The reform had been based on the idea that economy, politics and ideology were separable. When it turned out that the changes initiated would overstep the bounds of the economy and set off a

investments than at any time previously (18 per cent), thus they now wanted to ensure the preservation of their former privileged situation. For investment question, see: Ágnes Ungvárszki, *Gazdaságpolitikai ciklusok Magyarországon, 1948-1988*. [Economic policy cycles in Hungary, 1948-88] Budapest, 1989. 49-60.

⁴⁴ These debates can very well be retraced in the reviews *Társadalmi Szemle* [Social Review], *Pártélet* [Life In the Party], as well as the daily paper *Népszabadság* [People's Freedom].

⁴⁵ Mark Pittaway, *Eastern Europe 1939-2000*, London 2004, 155-176.

⁴⁶ *Jegyzőkönyv a Központi Bizottság 1972. november 14-15-én tartott üléséről*. [Minutes of the CC of HSWP], November 14-15, 1972. MOL M-KS-288. f. 4/119-120. ő.e.

⁴⁷ For more on ideological, economic and legal dimensions of the offensive against agricultural cooperatives, see Zsuzsanna Varga, *Political trials against the leaders of cooperatives in the 1970s*. in: Ágnes Pasztercsák (Ed.), *Hungarologische Beiträge* 17, Jyväskylä 2005. 159-187.

process of social reorganisation inconsistent with the prevailing ideological principles, dogmatic forces intervened in the reform process. It did not matter that cooperatives had, in the meantime, become the most successful sector of agriculture, nor did it count that the cooperatives had in fact been striving for efficiency, more profit and market orientation - the assault had, in any case, been launched.

To make things even worse, this restorative process came about exactly during a period when the challenges of the world economy - the abrupt price jump following the oil crisis - would have required efficiency more than ever. The slackening of the reform process, and consequently, the assault on agricultural cooperatives had impaired the adaptability of the entire national economy.

