

CONFIDENTIAL

FOREIGN AND COMMONWEALTH OFFICE

DIPLOMATIC REPORT No. 48/80

ENH 014/1

General (Q) Distribution

HUNGARY
4 January, 1980

HUNGARY: ANNUAL REVIEW FOR 1979

*The British Chargé d'Affaires at Budapest to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

The "Kádár years" have seen the creation of a consumer society peculiar to Hungary. The events of 1979 have checked, but not stopped, the country's progress (paragraphs 1-3).

2. Inflation and world recession have forced Hungary into taking economic decisions which may prove unpalatable to orthodox ideologues, and have already caused tensions in the country (paragraphs 4-6).

3. The Government's policy of keeping the public informed has again been effective in minimising active dissent over its economic policy. Political dissent is still mildly handled by Eastern European standards, with "repressive tolerance" the hallmark (paragraphs 7 and 8).

4. Materially, the Hungarians have probably "never had it so good". But the Government is concerned to bring home the message that changes in attitude will be necessary if the country is to preserve its position in the 1980s (paragraphs 9-11).

5. Links with the Soviet Union remain strong, and loyal. Hungary, however, is not a mere satellite, and her foreign policy is an active one, with some distinctive traits. Relations with Austria are particularly good (paragraphs 10-14).

6. Anglo-Hungarian relations remain fairly smooth and trouble-free. The Hungarians keenly feel the lack of high-level Ministerial visits (paragraphs 15-18).

7. Hungary's domestic and foreign policy is likely to continue on established lines. The 12th Party Congress will probably be the occasion for a sober reappraisal (paragraphs 19-21).

(Confidential)
My Lord,

Budapest,
4 January, 1980.

"Hungarians are, in general, fond of the pleasures of the table and extremely indolent." (Quin's *Voyage Down the Danube*, 1835.) The remark about indolence is not so true in these harder times, although the Hungarian leaders still find it necessary to devote most of their addresses to the population to the need to increase the efficiency and productivity of their work. But, for most Hungarians, the "pleasures of the table" in the form of a steadily increasing availability of all types

CONFIDENTIAL

of consumer goods and a gradually diminishing list of goods on the shortages list have been the most notable feature of the Kádár years—and this process has continued, if more slowly, in 1979.

Internal

2. Although Hungarians are quick to remind foreigners that theirs is a small country, they believe—or try to convince themselves—that they have re-created conditions within it to enable them to pretend that, once again, “*extra Hungariam non est vita*”. Thus the Party newspaper, *Népszabadság*, carried a full-page cartoon on Christmas Eve drawn after the style of Hieronymus Bosch. Under the caption “Our Small Mad World” it showed Hungary as a reservation behind a sanitized frontier fence depicted as a stockade. Outside it, violence, militarism, mercenaries, terrorists, dictators, emperors, monsters and mullahs, inflation and pollution dominate. Inside, a family are relaxing, complete with Christmas tree, dog, and an abundance of food and drink. But they are watching the television, with the Party Secretary responsible for the economy—Mr. Ferenc Havasi—telling them “Now we really must try to economise”.

3. The cartoon of course gives an official view, by representing to the newspaper's readers that Hungarians are sheltered from many of the unpleasant—and supposedly rampant—features of life in the non-Communist world. But Hungarians do not need to be reminded that they are better off both materially and in the political climate created by Mr. Kádár's policy of so-called national alliance than their partners in the other Warsaw Pact countries. From time to time the average Hungarian wonders how much of this relatively favourable state of affairs will survive Kádár's eventual departure. However, the succession does not seem to be an immediate problem. Kádár is in good health, and there is no known challenge to his leadership. Indeed, there has been little superficial change during 1979 in the Hungarian political scene. But under the surface strains and tensions have increased as the leadership has taken steps to adapt and modernise the country's economy, and cope with inflation and world recession.

4. The past year brought a spate of economic decisions. Unsurprisingly, as Hungary has to import about 60 per cent of her total energy needs, the population was warned that they were entering a period of lowered economic expectations. Largely because of this dependence on imported fuel, Hungary has suffered considerably from a worsening of her international terms of trade and this was graphically summed up by Miklós Ovári (Secretary of the Central Committee, HSWP) when he said on 11 December that, whereas Hungary used to get five tonnes of oil for one tonne of wheat, now she was lucky to get one tonne of oil for one tonne of wheat. Ovári went on:

“We must adjust our own work to the changed world economic situation . . . we must get nearer the world standard in both productivity and quality.”

It is with such—frequently repeated—calls to thrift, efficiency and economy that Hungary is moving into the 1980s.

5. The Government impressed on the people that the time had come for action and some important steps were taken. These included starts on reducing price subsidies and regrouping labour resources; a campaign to improve the quality of management (by personnel changes if necessary), and raising many consumer and producer prices towards world levels. The difference between the tourist and commercial rates of exchange of the forint was reduced from 100 per cent to 75 per cent. Orders were given to stop the production of unprofitable items and a new emphasis was placed on the respectability of wage differentials, payments to be

brought into line with the work done. All this confirmed that economic realists had won the day in an internal Party debate. The green light had again been given for a vigorous resumption of the policies which were first put forward eleven years ago under the heading of "New Economic Mechanism".

6. This produced tensions in the Party and in industry. They were given rare open public expression on 23 October, when a writer in the Government newspaper *Magyar Hirlap* said that a new uncertainty was being felt:

"For years we have been sustained by the conviction that our development—despite all its contradictions—has been unbroken: there is peace, the life of society is well balanced, we work and prosper, and ever more favourable conditions are brought about for a fuller human life. This feeling of security has now been shattered."

A striking admission indeed. The writer went on to state his belief that the concept of security and stability had now gained a new interpretation which was the need to adjust dynamically and swiftly to constant changes.

7. The Hungarian public has, I believe, kept its enviable position in Eastern Europe of being the best informed about its Government's plans and activities. Throughout the year, the Government has continued its policy of informing people at every stage of the decision-making process, and then ensuring, after the decision has been made, that sufficient sensible justification is provided in press articles and Ministerial speeches in the geographical and policy areas where most trouble is likely to arise. That Ministers are not always entirely successful in quelling incipient disturbances was illustrated by the reported postponement from July to October of Kádár's planned speech at the steelworks on Csepel Island. Even then, the speech was not delivered to the—apparently still grumbling—workforce of Csepel, but to an imported group of Budapest HSWP cadres.

8. But no major organised movement of dissent against the Hungarian Government has yet emerged, and the authorities have continued to follow Kádár's policy of "national alliance". While some Western journalists have referred to this as a "liberal" policy, I think it better described as being one of repressive tolerance. Thus, while Kádár has personally claimed that no "administrative" (*i.e.* governmental) action has been taken against the 200-odd Hungarian signatories of open letters protesting against the October trials in Prague of Charter 77/VONS supporters, we have heard that some at least of the signatories have been warned officially that they may lose their jobs if they publish such views again.

The economy

9. The Government's policies of retrenchment and reform began to bite on worried managers and consumers alike. The latter suffered from at least the officially admitted 9 per cent rise in prices during 1979 (compared with the 4.7-4.9 per cent forecast a year earlier). However, foods of all kinds remained in abundant supply; that of consumer goods was reasonable. Another 100,000 private cars joined the national car population of 800,000 cars. The end of the year none the less brought official admissions that the country now had to work harder to preserve existing living standards rather than to make any early, substantial improvements.

10. Managers and directing staff suffered from pressure to improve efficiency, productivity, quality and profit as well as to redeploy labour. They had to economise. They found that they had to adjust to the prospect of more frequent changes in the prices they paid for raw materials and in the pricing of their own

products. The National Bank severely tightened its credit policy: investments could only be justified if they were sure to produce good profits; there was to be no more protracted rescuing of lame-duck enterprises.

11. In spite of a continuing deterioration in the terms of trade, the Government's policies to encourage profitable exports and to restrict inessential imports had some success: overall, exports increased by nearly 12 per cent by value while imports dropped by 0.5 per cent. Because of the late spring drought agricultural production remained static; industrial production rose by 2.5-3 per cent.

External

12. With the Foreign Ministry still headed by the unattractive Mr. Frigyes Puja, Hungarian foreign policy has remained busy but basically loyal to Moscow. The four main factors underlying this loyalty are, I think,

- (i) The basic ideological sympathy of the HSWP leadership with the Soviet Union as the main leader of the Communist movement;
- (ii) The general recognition by most Hungarians that unfortunately they are, for the foreseeable future, within the Soviet sphere of influence, and garrisoned by Soviet troops;
- (iii) Hungary's dependence on Soviet raw materials, oil and gas supplies;
- (iv) The fact that an orthodox foreign policy seems to help to give Hungary Soviet acceptance of her more innovative economic policy.

13. Even with that constraint the Hungarians have made the best of their considerable willingness to explain their views, and of the improved international reputation of Janos Kádár, to continue the process of building up their international contacts. By our count, Mr. Puja paid seven official visits abroad. Budapest hosted the May meeting of Warsaw Pact Foreign Ministers, and received visits from Mr. Waldheim, Helmut Schmidt, Franz Josef Strauss, the Greek Prime Minister and the Benelux and Danish Foreign Ministers. The Prime Minister, Mr. Lázár, visited his French colleague in November.

14. Relations with the US cooled somewhat at the end of the year because of Hungary's unforthcoming attitude over the hostages in Tehran. Her relations with Romania remained uneasy and were further irritated by the tourist petrol crisis in that country in the summer. By contrast, and this may be a rare but significant feature of Hungarian foreign policy, relations with Austria were close and friendly.

Anglo-Hungarian relations

15. These remained fairly smooth and trouble-free. The Deputy Foreign Minister, Janos Nagy, visited London in February, and Sir Michael Palliser came to Budapest in October. The Archbishop of Canterbury, Dr. Coggan, made a very successful visit to Hungary, as did both the Bishop of London, Dr. Ellison, and the Bishop of St. Albans, Dr. Runcie. These visits gave much satisfaction and pleasure to the Hungarian Churches and helped us to improve our links with them. We can now look forward to Cardinal Lékai's proposed visit to Britain this summer. Our relations with Hungary were also helped by the second, very successful, Anglo-Hungarian Round Table Conference, which was held in Cambridge in July. Our biennial Cultural Exchange Programme was renegotiated in a record two-and-a-half days in London in November.

16. Our positive balance of trade with Hungary has been reduced by an increase in Hungarian exports, while British exports have suffered from Hungarian restrictions on investment credits and import licensing, as well as from the strength of Sterling. Nevertheless, with an expected two-way value of £109 million in 1979 Hungary is, on a per capita basis, quite a good little market.

17. At just under 16,000, visa applications from Hungarians to visit Britain were about one thousand down on 1978. They return home with favourable impressions of Britain. Tourism to Britain has so far been actively fostered only by British Airways (in partnership with the Hungarian Airline Malév), so I am glad that the Department of Trade is now considering whether anything more should be done to encourage Hungarians to visit London.

18. To summarise, in the context of Anglo-Hungarian relations, I should recall what Mr. Puja said to Mr. Parsons in early December, when Her Majesty's Ambassador made his farewell call. The Foreign Minister said, correctly, that there were no important bilateral problems between the two countries. Relations had developed quite well, and co-operation was "not at all bad". He made it plain, however, that he regretted that our relations had not been able to move to a higher political level, and said that Hungary would welcome such a development. The Prime Minister, Mr. Lázár, also told Mr. Parsons that it would be good and useful if there could be more frequent exchanges of Ministerial visits. I hope, my Lord, that Her Majesty's Government will be able to make some proposals in this sphere before too long.

The outlook

19. Hungarian foreign policy is likely to continue on established lines. In 1980 Hungary will probably try to play a leading role in attempting to mobilise opposition to NATO's TNF modernisation plans. In addition to diplomatic channels, they will no doubt exploit inter-Party and other contacts, notably with the Social Democratic and Labour Parties in Europe, youth and trade union movements, etc. Despite this there can, I think, be little doubt that—perhaps in contrast to that of some of her allies—Hungary's foreign policy is genuinely peace-loving and favours the prolongation of détente. After all, Hungary has been on the losing side in every war in which she has participated in modern times. They feel vulnerable. As Hungarian Ministers reminded Mr. Parsons recently, it would only take one nuclear package virtually to destroy their country. They also pointed out that the Hungarians have more than enough on their hands in trying to preserve their standard of living.

20. In March 1980 the 12th Congress of the ruling Hungarian Socialist Workers Party will be held. This is likely to bring a few personnel changes in leading Party and State posts, although we cannot yet be sure what these will be. In any case, existing policies are unlikely to be changed much. Both at the Congress and during the year generally, attention is likely to remain focused on economic problems, especially as it will be the last year of the current Five-year Plan. There will be constant calls for more efficiency, economy and productivity. Efforts will be made to hold imports down below their 1979 level, and to increase exports by 10 per cent. More scope will be created for enterprises and individuals to be rewarded by their performance. There may be some further signs of disenchantment as living standards remain at best stable for another year. Even though another 100,000 cars will come on to the road, some of their new owners will not be able to afford to drive them very far.

CONFIDENTIAL

21. As long as Kádár pursues his present policies as leader, dissent will be kept, and indeed will keep itself, within bounds. Few people here will wish to rock the boat too dangerously. They have been well prepared to accept that a period of comparative austerity is ahead and this is expressed in a recent Hungarian joke. It runs as follows:

"The Hungarian government receives a letter from the Vatican saying the Holy See is very much pleased with the way things are shaping up between Church and State in Hungary and this has persuaded the Vatican to declare the 4th of April, Hungary's National Day, a Church holiday. The official Hungarian reply: "Thank you very much indeed. In return we have decided to turn all of 1980 into a Lenten Year of fasting."

22. I am copying this despatch to Her Majesty's Ambassadors at Vienna, Prague, Bucharest, Belgrade, Warsaw, Moscow, East Berlin, Sofia and to the UK Permanent Representative on the North Atlantic Council.

I am Sir

Yours faithfully

M. W. ATKINSON.

CONFIDENTIAL

ENH 014/11

(4)



Foreign and Commonwealth Office

London SW1A 2AH

20 February 1980

M Atkinson Esq
BUDAPEST

R

Mr Michael

Mpa

ANNUAL REVIEW

1. Many thanks for your comprehensive Annual Review, which I have submitted and sent for printing. I am sorry that we had to perform a little surgery on it but the word limit is imposed very strictly.
2. The major Hungarian preoccupations are naturally with their economy, which is facing increasing problems. The results announced at the Central Committee meeting in December give a more disappointing picture of the economy than the despatch perhaps suggests. Although the targets for 1979 had been set low, to allow for international economic problems, they were not reached. National income increased by only 1-1.5% instead of the projected 3-4%, and the shortfall in agriculture will probably cost the economy about four billion forints.
3. These disappointing results seem to us to bring into question whether the Hungarians can maintain the present standard of living for the vast majority of the population. At the same time the small class of very rich which now exists in Hungary will be much less vulnerable to these economic difficulties, and the rift between the two groups is bound to grow wider. Given the recent reports of factory stoppages over Hungary's economic policies it will be interesting to see whether the authorities can persist with these policies without the sort of worker discontent that put the New Economic Mechanism into cold storage for a while in the early 1970s.
4. You mention in your paragraph 8 the lack of major organised dissident groups in Hungary. However, a comparison of the relatively small numbers involved in the protest in 1977 on behalf of Charter 77 with the number and wider range (and high standing in many cases) of the signatories to the VONS protest letter, shows how the number of sympathisers in Hungary who are willing to give open commitment to such causes is growing. Although we agree that the majority of signatories of the recent protest letter have emerged unscathed, there have been reports that some who refused to retract or clarify their signatures have lost their jobs. This protest over the VONS trial, together with complaints about the situation of the Hungarian minority in Slovakia, cannot have improved relations with Czechoslovakia, which, we believe, continue to disapprove strongly of Hungary's relatively liberal policies and

CONFIDENTIAL



.2.

unorthodox economic system. We would welcome any reports on this relationship.

5. It seems clear that the Hungarians hope that, once the reaction to the invasion of Afghanistan has died down, they will be able to keep their foreign policy more or less on established lines. The cancellation of Puja's visit to the FRG, obviously on Soviet insistence, is naturally a blow to this hope, but the Hungarians will be able to count on full understanding in the FRG of the reasons. We have noted that the Guidelines for the forthcoming XII Party Congress give even more emphasis to the maintenance of peace and detente than those for the last Congress in 1975.

James am

Christy

C L G Mallaby
Eastern European & Soviet Department

cc:

PRAGUE

.2.

CONFIDENTIAL

ENVH 014/11

3

Mr Fergusson ✓

Mr Bettinson

M. J. J. 18/2.

ANNUAL REVIEW FOR HUNGARY 1979

1. I submit Budapest's Annual Review, written by Mr Atkinson as Charge d'Affaires. I have made three excisions from the text, with Mr Atkinson's agreement, in order to meet the word limit.

MJA

2. Against a background of increasing economic problems, the Hungarian authorities have managed during 1979 to maintain the country's creditable standard of living and to pursue further their distinctive programme of economic reform. They are taking pains to prepare the public for belt-tightening ahead. Mr Atkinson makes a strong appeal for a high level British visit to Budapest.

3. I have sent Mr Atkinson's despatch for printing and have written to thank him.

C L G Mallaby

15 February 1980

C L G Mallaby
Eastern European and
Soviet Department

8/14/2.

ENVH 014/1

Reference

(2A)

Mr Facey
EESD.

Wpa

HUNGARY: ANNUAL REVIEW 1979.

1. You asked for my comments on Mr. Atkinson's Annual Review for 1979.
2. The despatch is pretty comprehensive and my comments are generally confined to the economy, whose problems are discussed mainly in paragraphs 9-11. I feel the results announced at the Central Committee meeting in December were rather more disappointing than the despatch suggests. Despite some improvement in flexibility and in efforts to meet market demands, the increase in efficiency and competitiveness has not been satisfactory. Targets had after all been set rather low for 1979 because the Hungarians were rightly expecting problems due to the international economic situation and to some deficiencies in the domestic management of the economy. Despite this, results were still below the targets, esp. in industry and construction. National income increased by only 1-1.5% instead of the projected 3-4%, a drop caused by lower agricultural production due to bad weather and to a slackening in industrial growth. Mr. Atkinson says little about agricultural difficulties caused by 1979's extraordinarily bad weather. Agricultural production was well down on 1978 and is expected to be on a level with 1977. Grain crops were estimated to be 2 million tons below the 1978 figure of 5,600,000 tons.

Indeed the shortfall in agriculture will probably cost the economy about 4,000 million forints a all.

2. Paragraph 9 of the despatch states that it ~~is~~ has been officially admitted that the country now has to work harder to preserve the existing standard of living. As Mr. Atkinson says, consumer prices rose in 1979 9% against a projected 4.7%. Average earnings rose by 7.5-8%, but real wages were probably down by 1-1.5%.

~~Text~~ In 1980 real income is to stagnate at the 1979 level. The Central Committee statement issued in December gave, unusually for Hungary, no data on annual real wages for 1980.

This fact, together with ~~the~~ ^{an} expression of hope that real wages, on a national average, will rise by 0.5% over the figure for the 2nd half of 1979, gives rise to the suspicion that wages may very likely drop in comparison to 1979 as a whole. Meanwhile consumer prices are to rise by 3.7%. This ~~rise~~ ~~is~~ will probably be aggravated

by the effects of some of the new economic regulators announced in November 1979: one of these affects services which hitherto, with the exception of certain essential services like transport and laundries, etc, are now to be included in the "free" rather than "fixed" range of prices. While not entirely free, they ~~will~~ are likely to lead to a further rise in the cost of living, as 40% of public consumption in Hungary consists of services. Other new economic regulators which came into effect in January 1980 concern wages. Above-average remuneration is to

be granted

3

be granted

only to the extremely efficient and hard-working, both in regard to organisations and individuals. All these facts seem to indicate that it will be very difficult to maintain the present standard of living for the vast majority of the population. At the same ~~time~~ time there is now a small class of very rich in Hungary who are not vulnerable to these changes. The rift between the 2 groups is found to grow wider.

If the numerous ^{jections} criticisms over the present Hungarian economic policies prove correct, it will be interesting to see if the Hungarians persist with these policies without the sort of worker discontent which put the New Economic Mechanism (NEM) into cold storage for a while in the early 1970s.

4. Mr. Atkinson mentions in paragraph 8 the lack of a major organized dissident group in Hungary. A comparison of the relatively small numbers involved in the last protest in 1977 on behalf of Charter 77 with the number and wide range (and very high standing in many cases) of the signatories to the VONS protest letter, shows how the movement is growing. It is true to say however that much of the organisation behind dissident activity in Hungary is actually carried out outside the country. JÁNOS KONDÉ of the 'IRODATOMI ÚJSÁG' (the Paris Emigré Hungarian newspaper) seems to be the moving spirit, aided by various other emigrés. It is KONDÉ who produces in Paris the rather erratic series of printed samizdat for re-circulation in Hungary.

Although

Although I agree with Mr. Atkinson that the majority of the signatories of the recent protest letter have emerged unscathed, there have been rumours in the press that some who refused to retract have indeed been dismissed from their employment. If true, perhaps Soviet or Czechoslovak pressure is behind this deviation from the usual Hungarian practice. The protest letter signed by the philosophers Kis and BENCZE was much stronger in tone than the other letters. It attacked the Czechoslovak authorities by name rather than by implication and referred to Hungarian participation in the 1968 invasion of Czechoslovakia. This, together with complaints about the situation of the Hungarian minority in Slovakia cannot improve relations between the 2 countries, as Czechoslovakia, like the GDR, is known to disapprove strongly of Hungary's 'liberal' policies and market-oriented economic system. It seems to add a new element of difficulty to relations between Warsaw Pact members, for relations between Romania and Hungary have scarcely improved over the past year.

5. I would however agree with all Mr. Atkinson has to say on Hungary's foreign policy. The Afghan crisis presumably occurred too late to be included in the despatch, but I am sure that the Hungarians still hope that they will be able to keep their foreign policy on its established lines (para post 19). The Hungarian reaction in support of Soviet activities in Afghanistan was very slow to start but eventually they had to join

their allies (except Romania) in congratulating the new régime and reporting the Afghans' invitation to the Soviet Union to enter the country. Apparently the Foreign Minister's visit to West Germany has had to be cancelled as a show of solidarity with the Russians, but the Hungarians no doubt hope for a calmer atmosphere in order to continue their pursuit of bilateral relations with non Warsaw Pact countries. The Guidelines for the coming XI Congress make clear that the main concern of Hungary's foreign policy is the preservation of detente. Far more emphasis has been given in the new Guidelines than in those for the last Congress in 1975 to the necessity for the Party to do everything to help maintain peace in the future.

15 JUL 1980

AmBzule