

Hungary/3
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1. The Thatcher Visit to Hungary

Despite a life-long aversion to communism, Margaret Thatcher has become the first British Prime Minister ever to visit modern Hungary. The visit (from 2 to 4 February 1984) was also her first trip to a Warsaw Pact country since her election in May 1979 and re-election in June 1983.¹ In 1975 the Kadar regime had extended an invitation to her predecessor, Labor Prime Minister James Callaghan, to visit Hungary, but it was never taken up. Budapest renewed the invitation during Prime Minister Jozsef Marjai's official visit to England in March 1983.²

It was not until mid-November, however, that Thatcher made her acceptance public, hours after the first batch of US medium-range cruise missiles had arrived in Britain, where strong popular anti-nuclear missile feelings exist. Stating that while the West could not accept a Soviet monopoly of similar missiles in Europe, she added that Britain was ready to pursue "a sensible dialogue" with the Soviet Union and its East European allies and that she was going to Hungary in that spirit.³ Besides the NATO decision to go ahead with the deployment of new medium-range nuclear missiles in Europe and the subsequent Soviet walkout from the US-Soviet arms talks in Geneva and the MBFR conventional forces reduction talks in Vienna, another impetus behind Thatcher's overtures to the Eastern bloc may have been the surprise US military intervention in Grenada in October without prior consultation with Britain; the ensuing charges by the Labor opposition that she was too subservient to the policy of the Reagan administration may also have influenced her actions.

Mrs Thatcher's trip to Hungary was not wholly unprepared, however. After his talks with Hungarian Foreign Minister Peter Varkonyi from 12 to 14 September (only five days before the visit of US Vice President Bush to Hungary), visiting British Foreign Secretary Sir Geoffrey Howe, at a press conference in Budapest, had described his discussions with Hungarian officials as "very useful" and as providing some cause for optimism and said that the maintenance of a dialogue was the most urgent factor in arms reduction talks. Despite their differing views in evaluating the international situation, the two countries could agree on the overall need to avoid nuclear war, slow down the arms race, and preserve the spirit of Helsinki. Both sides described their bilateral relations as marked by a continuing, regular dialogue that they sought to preserve, despite the worsening international situation.⁴ This visit and the presumably positive report submitted by her Foreign Secretary helped set the stage for Thatcher's own visit to Hungary. Because of the important world political developments mentioned earlier, however, her journey took on added significance and, apart from its purely bilateral aspect, acquired a definite international dimension in the wider framework of tense and deteriorating East-West relations, particularly between Moscow and Washington.

On The Eve of The Visit. The purpose of the visit and the issues to be discussed were clearly specified in advance by both parties. In separate interviews with the BBC and the London correspondent of the Hungarian News Agency (MTI), Margaret Thatcher expressed the hope that her visit would increase understanding between Hungary and Britain, adding that better understanding between nations could help promote disarmament.⁵ In a lengthy interview published in the February 2 issue of the British national daily *The Guardian*, Hungarian Prime Minister Gyorgy Lazar said that dialogue and cooperation should replace confrontation and that his country wanted to promote contacts with the West not because of some special Hungarian interest but because of its that cooperation between countries with different social systems, based on equal rights and mutual advantage, was not only possible but necessary. In a 90-minute radio interview in January about Hungary's foreign policy in the framework of its Warsaw Pact commitments, Matyas Szuros, HSWP CC Secretary in charge of foreign relations, described the Thatcher visit as a positive step toward reviving the East-West dialogue; but he also reaffirmed Hungary's continued loyalty to Moscow.⁶

The HSWP daily *Nepszabadsag* saw fit, however, to issue an implied warning to the "anticommunist" Thatcher on January 31, saying that some of the praise of Hungary in the West was, in fact, harmful, because it tried to set communist countries against one another. This criticism had also been made of Bush's speech in Vienna on September 20 in which he had praised Hungary for its more liberal economic and political policies while strongly denouncing the repressive policies of some of its Warsaw Pact allies. On January 26 Radio Budapest noted that while it still maintained its "anti-Sovietness," the British government had also stressed with increasing frequency the need to maintain the East-West dialogue and hold talks with the Soviet Union.

The Course of the Visit. Margaret Thatcher's 48 hours in Budapest were equally divided between official business and sightseeing. On Friday, February 3, accompanied by only Deputy Secretary of State for Foreign Affairs Sir Julian Bullard, her private secretary, and the British Ambassador to Hungary, she discussed current international issues with her host, Prime Minister Lazar, in a "frank and cordial atmosphere." Although the two parties' views on foreign policy differed, they expressed a common interest in the maintenance of East-West relations and the reduction of tension and also reviewed bilateral cooperation and how to increase it. Thatcher paid a courtesy call to Hungary's nominal head of state, Pal Losonczi, then had a two-hour meeting with Hungarian party leader Janos Kadar in which they reviewed current East-West issues and Hungarian-British relations. The atmosphere of the talks was described as "open and cordial."

At a gala dinner given in Thatcher's honor by Lazar, both sides restated their differing views on international affairs and chose to stress those issues upon which they could nevertheless agree. As could be expected, Lazar blamed the USA for

upsetting the military balance in Europe by deploying new medium-range nuclear missiles in some NATO countries, while Thatcher, by implication, criticized the Soviet Union for breaking off the arms talks with the USA in Geneva and emphasized the urgency to renew these talks. She agreed with her host that contentious questions should be solved through negotiation and that membership in different alliance systems did not exclude bilateral cooperation. Thatcher also stated Britain's strong belief "in certain fundamental values, such as freedom, justice, and political democracy," and its commitment to peace and bilateral cooperation with Hungary.⁸

The next day Thatcher surprised throngs of early morning shoppers by appearing at Budapest's central covered market and doing her own shopping for local produce such as paprika, garlic, cheese, and honey, to the delight of the many onlookers.⁹ At a press conference later before some 100 Hungarian and foreign journalists she said that her talks with Hungary's leaders had been "open, constructive, and valuable" and described her visit to Budapest as a "first step" toward easing East-West tension and establishing better relations among the peoples of Europe. Calling the Soviet decision to resume the MBFR talks in Vienna a "positive sign," she expressed her hope that Moscow would also return to the Geneva nuclear arms talks soon. She restated Britain's loyalty to NATO and made clear that the alliance would not reverse its current missile deployment program, which was meant to restore the balance upset by the Soviet SS 20 missile build-up in recent years. She also rejected suggestions that there were differences between London and Washington on the missile issue and other foreign policy questions. Recalling that she had been called the "iron lady," she pledged "an iron resolve" to work for the reduction of tension and spoke positively about Hungarian-British relations and Hungary's desire for more active ties with the EEC.¹⁰

The Hungarian Press. No sooner had Thatcher left than the Hungarian media was speaking of her visit as a success, both from the point of view of Hungarian-British relations and from that of its broader international context. The Hungarian side was pleased by the openness and cordiality of the talks and the sentiments expressed by the British Prime Minister toward Hungary, its history, people, and achievements. For Budapest, the visit had proved that despite the present cool state of East-West relations, a dialogue between countries with different social systems was still possible and that agreement on common aspirations, such as the preservation of peace, a return to negotiations, and the reduction of the level of nuclear weapons, was still possible. In this regard, it was said, Thatcher's personal diplomacy and the common interests of two European states such as Hungary and Britain and the expansion of their political, economic, and cultural ties could all greatly contribute to the maintenance of the East-West dialogue.¹¹ The Hungarian press also described in positive terms Thatcher's social background (the daughter of a grocer), political career, clothes, and hairstyle, and the

illustrated weekly *Kepes Ujsag* published several photographs of her with her husband and two children.

On the British side, Thatcher told the House of Commons on February 7 that her visit to Hungary had been very valuable but should not raise great expectations. Through direct personal contacts she had gained a greater understanding of Hungary and of the differences and common interests of governments on both sides of the political divide.

The British Press. As for the British press, liberal to left-leaning papers praised the Prime Minister's initiative and urged her to continue her education in how to develop personal diplomacy and contacts with the East. The conservative press cautioned Thatcher that this kind of bridge-building necessarily had its limits.

The Observer of February 5, noting "an uncanny similarity" in the public statements made by both sides in Budapest, wrote somewhat optimistically about an emerging "Anglo-Hungarian doctrine," saying "it is precisely in times of crisis that members of each alliance should act more independently, rather than huddle back into conformity." The next day *The Financial Times* called Mrs. Thatcher's trip "a minor coup de theatre" and "a positive service" done to Hungary with regard to the Hungary's forthcoming trade negotiations with the EEC.

On the whole, her Hungarian visit was received positively in all political quarters, since she had successfully defended the British and US/NATO positions on nuclear-missile deployment and taken note of Hungary's achievements without embarrassing her hosts. It is clear to all, nevertheless, that the future of East-West nuclear arms negotiations will be decided not in London and Budapest but in Washington and Moscow. British officials described the Thatcher visit as a cautious testing of the atmosphere and not an indication that Britain was about to plunge into a series of East-West summit meetings in the immediate future. While the Prime Minister expressed her readiness to go to Moscow (where no British Prime Minister has ventured since Harold Wilson's visit in 1975) she said she was in no hurry and wanted to see some tangible signs from the Soviet leaders of their willingness to improve relations with the West. At her press conference in Budapest, Thatcher raised doubts about the health of Soviet leader Yuri Andropov; and it was thought that she would dispatch her Foreign Secretary to Moscow sometime this summer after the planned visit to London this spring of Soviet First Deputy Foreign Minister Georgii Kornienko.

these plans changed abruptly, however after Andropov's death on February 9 and the announcement by Thatcher that she, together with Sir Geoffrey Howe, would personally go to Moscow to attend the Soviet leader's funeral on the 14th. (She did not attend the funeral of Leonid Brezhnev in November 1982.) This also gave the British Prime Minister an opportunity to meet for half an

hour with Andropov's successor, Konstantin Chernenko, and talk to him about the need to ease international tensions and her desire to pursue the process of improving both Anglo-Soviet and East-West relations.

Warsaw Pact Countries' Reaction. The Soviet news agency TASS briefly reported on February 3 the meeting between Kadar and Thatcher without comment; the item also appeared in the next day's issue of Pravda. The visit received sparse coverage in the Bulgarian and East German press and even less on Radio Bucharest, while the Romanian party daily Scinteia ignored it completely and played up the visit to Romania of Canadian Prime Minister Pierre Trudeau. State and party leader Nicolae Ceausescu, who had been in England in June 1978, was possibly miffed that Thatcher had chosen to go to Budapest rather than Bucharest. (In his radio interview at the end of January, HSWP CC Secretary Szuros had described Hungarian-Romanian relations as "stagnating and even regressing," except in the economic field.) The most negative reaction came from Czechoslovakia; both Radio Prague and the party daily Rude Pravo attacked Thatcher for trying to create the impression that the deployment of new US missiles had changed nothing in Europe. In the Czechoslovak view, no dialogue with communist countries could be held in the shadow of menacing nuclear weapons and Thatcher's trip had been a failure and not helpful to East-West relations.¹² Only the Polish press, after providing rather routine coverage of the visit, commented positively once it was over. For the party daily Trybuna Ludu,¹³

in the more tense situation in Europe, every step leading to better mutual understanding deserves support. This also applies to Mrs. Thatcher's visit to Hungary. This visit may be a step toward improving the European climate, which Europe needs so much.

In this respect, the Polish view fully coincides with the Hungarian one and is just the opposite of the Czechoslovaks' opinion. . . In this respect, the Polish view fully coincides with the Hungarian one and is just the opposite of the Czechoslovaks' opinion, which amounts to an implicit disapproval of Hungary's recent foreign policy moves toward the West.

These various nuances in the reactions of Hungary's Warsaw Pact allies are indicative of some of the problems faced by Budapest's new style in foreign policy, as defined last month by HSWP CC Secretary Matyas Szuros in a lengthy article in the party's ideological monthly.¹⁴ Through Szuros, the HSWP had advocated the need to harmonize the common international and the individual interests of the various communist states (instead of subordinating the latter to the former), and called for similarity in content with diversity in style and coloring in the fields of both economic and foreign policy. The Thatcher visit is the latest in a series of Hungarian diplomatic moves toward

the West and the nonaligned countries designed to demonstrate this novel diversity.

The Kadar regime, however, has continued to profess its loyalty to the Soviet Union and the Warsaw Pact, during the Thatcher visit and at the Stockholm conference on security in Europe, by blaming the deterioration of the international situation on NATO's deployment of new medium-range nuclear missiles. Unlike the Soviet Union and its more hard-line allies such as Czechoslovakia, however, it has not accused the West of preparing to begin a nuclear war and has stressed instead that such a war was avoidable and that the East-West dialogue had to be maintained and disputes had to be solved through negotiation. For example, the Hungarian party and government position on international affairs adopted by the HSWP CC in October 1983 had, on the whole, a relatively moderate and conciliatory tone and restated Hungary's desire to cooperate with every country willing to respect its social system, sovereignty, and alliance obligations.¹⁵

It remains to be seen how the Kadar regime will be able to navigate between the two sides of the political divide and expand its advantageous contacts and trade with the West while maintaining its credibility as a loyal and reliable member of the "socialist commonwealth of states," some of which are already disturbed by Hungary's unorthodox economic experiments and greater latitude -- relatively speaking -- for what the HSWP calls the "clash of ideas" in the country's social and intellectual life. The visit of Margaret Thatcher, besides upgrading bilateral relations between Britain and Hungary, may very well have also reinforced those pushing for more economic and political reform in Hungary.

Alfred Reisch

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- 1 The last time a Hungarian Prime Minister visited Britain was in June 1946, when Ferenc Nagy, of the former Smallholders' Party, accompanied by State Secretary Matyas Rakosi and the Ministers of Foreign Affairs and Justice, went to Washington, London, and Paris.
- 2 See Hungarian Situation Report/5, *Radio Free Europe Research*, 22 March 1983, item 3. Although the visit lasted five days, the British media, unlike the Hungarian, paid practically no attention to it. British Foreign Secretary Lord Carrington visited Hungary in October 1980 and his successor, Sir Geoffrey Howe, in September 1983. In November 1983 former Prime Minister Edward Heath participated in a two-day international conference on the world economy (see *Daily News* [MTI], 16 November 1983).

- 3 Reuter, 14 November 1983. Radio Budapest announced Thatcher's forthcoming visit only on 26 January 1984.
- 4 *Nepszabadsag*, 15 September 1983. Howe was also received by Hungarian party leader Janos Kadar and Prime Minister Gyorgy Lazar. He showed considerable interest in Hungary's economic management methods and current economic problems.
- 5 UPI and AP, 1 February 1984; MTI in English, 10 February 1984.
- 6 Radio Budapest, 31 January 1984, 1915-2045 hours.
- 7 *Magyar Hirlap*, 31 January 1984; *Magyar Nemzet*, 1 February 1984.
- 8 *Nepszabadsag*, 4 February 1984. Although the Hungarian media coverage of Thatcher's speech was more ample than usual, it omitted her sentence "This is no time for empty chairs in Geneva" and her remark that agreement should be reached on arms reduction measures that could be verified by the other side.
- 9 Thatcher also visited the only British World War II memorial in Hungary (at Solymar, near Budapest, where some 200 Commonwealth pilots are buried), a housing development, the art haven of Szentendre, and various churches and museums in Budapest.
- 10 Radio Budapest, 4 February 1984, 1830 hours; and *Nepszabadsag*, 5 February 1984. The British Prime Minister, who has invited the Hungarian Prime Minister to visit London, drew unusual spontaneous applause from the Hungarian press corps.
- 11 See Edit S. Molnar, "For the Continuation of Dialogue," *Magyar Hirlap*, 5 February 1984; *Nepszabadsag*, 5 February 1984; and *Nepszava*, 7 February 1984. The Budapest papers also provide on February 6 and 7 ample coverage of the worldwide reaction to Thatcher's visit, with only the Polish, Chinese, and Yugoslav reactions listed among those coming from the communist bloc.
- 12 Radio Prague, 8 February 1984, 1830 hours; and *Rude Pravo*, 8 February 1984.
- 13 6 February 1984. See also *Zycie Warszawy*, 6 February 1984. Both articles were promptly reported by Radio Budapest, 6 February 1984, 1500 hours.
- 14 "The Interaction of National and International [Factors] in the Development of Socialism in Hungary," *Tarsadalmi Szemle*, January 1984, pp. 13-21.
- 15 *Nepszabadsag*, 14 October 1983. In the same statement, the HSWP rejected any attempt to drive a wedge between Hungary and its allies, an oblique reference of Bush's speech in Vienna on September 20 on the American policy of differentiation toward Eastern Europe.

2. Hungarian British Economic and Cultural Ties

Although economic and cultural relations were mentioned in general terms during Margaret Thatcher's visit to Budapest, both sides, the Hungarians in particular, referred to the need to explore further opportunities. This is particularly true of bilateral trade which, after developing satisfactorily in the 1970s and peaking in 1981, has shown no growth since then, as illustrated by the table below:

| Hungarian British Trade, 1978-1983 (in million forint) | | | | | | |
|---|----------|----------|----------|----------|----------|----------|
| Category | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
| Imports | 5,738.5 | 5,931.3 | 6,196.5 | 7,128.7 | 6,569.3 | 7,792.2 |
| Exports | 3,572.6 | 4,294.4 | 3,218.6 | 2,928.5 | 2,907.8 | 4,171.6 |
| Balance | -2,165.9 | -1,636.9 | -2,950.9 | -4,200.2 | -3,661.5 | -3,620.6 |

Sources: *Statisztikai Évkönyv, 1978-1982; Heti Világgazdaság, 18 February 1984.*

Britain today ranks only 18th among Hungary's export partners and 14th among its import partners; among Hungary's Western trading partners it slipped back from 4th or 5th place in 1983 to 7th or 8th place. Seen from London, Hungary accounted for only 0.1% of Britain's exports and 0.08% of its imports in 1982. During 1983, however, both Hungarian exports to and imports from Britain showed sizeable increases of 18.6% and 43.5%, respectively, compared with the same period of 1982 and have again reached the 1979 level.

The trend may be considered encouraging, although the persistent trade imbalance in Britain's favor continues, this at a time when import restrictions introduced by Hungary in the summer of 1982 put an effective brake on imports from most Western countries and helped redress Hungary's trade balance with many of them. The chronic Hungarian deficit is due to a number of factors, among them the unchanged structure of Hungarian exports to Great Britain, which consist mainly of raw materials and semi-finished products (for example, chemicals and rolled goods) (36%), agricultural and food industry products (canned vegetable and fruit) (16.6%), and industrial consumer goods (textiles and leather goods, especially shoes, light bulbs, and refrigerators) (40%), with no increase in the low export (7%) of machine

industry products. About 60% of Hungary's imports consist of chemical and synthetic materials, pharmaceuticals, and textile industry raw materials and 25% of machinery.

Many trade opportunities remain untapped and there is a need for more personal meetings and better knowledge of each other's production structure. Hungary will also require more thorough market research and a quicker adjustment to British demand in order to increase its exports. Trade could also be improved by expanding cooperation agreements, 60 of which have been signed so far -- about the same number as with the Netherlands or Sweden -- but only 17 of them actually involve trade and represent a mere 10% of all bilateral trade. At present there are two independent Hungarian firms and three mixed companies in Britain engaged in trade.

British discriminatory quotas and the EEC's (with whom Britain conducts 40% of its foreign trade) agricultural policy, have caused Hungary's agricultural and food industry exports to Britain to drop from 40% to 17% of its total exports over the past decade. In an interview given on the eve of her visit to Hungary to the London correspondent of the Hungarian MTI news agency, Mrs. Thatcher, after noting that both Britain and Hungary were European countries and that the former had not been too interested in Eastern Europe until now, voiced her approval of more contact with Hungary. She mentioned three areas of British-Hungarian cooperation: relations among banks and bankers, relations with the EEC; and bilateral trade relations.¹

In March 1983 Hungarian Deputy Prime Minister Jozsef Marjai spent five busy days scurrying around London's business and financial districts in order to revive the British trade connection.² In April Sir Anthony Stuart Joliffe, Lord Mayor of London, visited Budapest and stated that British banks were willing to provide credit for joint production and Hungarian and British firms' efforts in third markets (such as the sale of Hungarian Ganz locomotives to New Zealand), in the fields of microelectronics, agriculture, and in the food industry. The Hungarian-British Joint Economic Commission met in Budapest from 22 to 24 June 1983 and agreed that bilateral trade had to be expanded; it called upon enterprises in both countries to increase their business contacts.³

Matyas Timar, President of Hungary's National Bank, was in London from September 1 to 6 to attend a meeting marking the 10th anniversary of the establishment of the Hungarian International Bank, Ltd. there. He also had talks with the Governor of the Bank of England and, like Marjai before him, with leaders of the Hungarian National Bank's major trade bank partners, such as Lloyds Bank and Barclay's Bank. During British Foreign Secretary Howe's official visit to Budapest from September 12 to 14, economic and trade matters figured high on the agenda of his talks with Hungarian officials. According to Howe, the level of British-Hungarian trade was very low and did not take advantage

of existing possibilities, and he expressed the hope that British businessmen would pay more attention to the advantages of expanding trade and economic cooperation with Hungary. According to a British paper, Howe had been interested in Hungary's unique economic management methods and, in connection with Hungary's current economic difficulties, quoted him as having said that Britain was "eager to give as much help as it could."⁴ As for the Hungarian media, they generally deplored a certain "lag" in the level and intensity of bilateral political, economic, and cultural relations compared with those between Hungary and other Western or West European countries. They also lamented the fact that Hungary's exports to Britain were only half as great as its imports from Britain and that exports were hindered by the EEC's system of discriminatory quotas.⁵

On the eve of Thatcher's visit, the Hungarian press again stressed the need to make better use of all the possibilities for expanding economic relations and trade through intergovernmental mixed commissions and mutual visits by industrial delegations; the next British one is expected in Budapest this spring. Noting the present British government's desire to give private initiative a greater role, reports pointed to a similar trend, albeit on a much smaller scale, in Hungary. The economic weekly *Figyelo* called upon Hungarian exporters to be more flexible and more competitive in British markets and to make better use of the new joint opportunities in third markets opened by Hungary's joining the World Bank in 1982.⁶ The agreement signed last fall between the British Lee Cooper firm and the Hungarian Budaflax enterprise, under which some 250,000-300,000 pairs of Lee Cooper jeans a year will be manufactured and sold in Hungary was also mentioned as a good example of bilateral cooperation.⁷

Although larger East-West issues dominated Thatcher's talks with her Hungarian hosts, she did voice her support for increasing bilateral trade on a fair quid pro quo basis:

We encourage you to study and analyze the British market and seek further possibilities. The British door is open. And we ask that our businessmen receive comparable opportunities here to compete with all comers on equal terms.⁸

More important, she came out in favor of reducing protectionist trade barriers and offered her support to Hungary in helping to promote Hungary's current negotiations with the EEC. (Budapest already has the backing of both France and the FRG in this regard and can now look forward with more optimism to reaching a general trade agreement with the community.⁹

As for the expansion of bilateral trade, Budapest is counting on the forthcoming "Hungarian Economic Days" to be held from April 9 to 13 in London and Manchester, during which 49 Hungarian enterprises will display machines, instruments, chemical and food industry products, and other consumer goods. In Hungary the

third series of "British Technical Days" opened in Budapest on February 14, with representatives from 13 British firms looking for potential Hungarian partners.

Cultural Relations and Tourism. Hungarian-British cultural contacts last year were not insignificant beginning with an exhibit of contemporary Hungarian graphic art in London and other British cities in February, followed by the London premiere of a jointly produced 10-part television film on Richard Wagner in April, six performances of the Hungarian State Opera's Ballet Company in Scotland in September, and a very successful British Film Week held in Budapest on October 10-16.⁸ The highlight of cultural exchanges was without a doubt Andrew Lloyd Webber's musical "Cats," which opened at Budapest's Madach Theater in the spring. After attending the Budapest performance in June, Webber said it had ranked among the best productions of his musical. It was given highly laudatory reviews in the Hungarian press and there is a likely blackmarket for tickets. (normal admission costs a hefty 150 forint).

There is a regular exchange of journalists and radio and television editors based on an agreement between the Hungarian radio and television and the BBC. Reuters and the Hungarian News Agency (MTI) continue to expand their long-standing cooperation that began a century ago. On the whole, the number of exchanges: round-table meetings, exhibitions, concerts, film shows, and symposiums has almost doubled. It is no wonder, therefore, that a small army of British radio and television crews and journalists descended upon Budapest on the occasion of Thatcher's visit.

As for tourism, with only 33,000 British visitors to Hungary -- compared with 78,000 from the USA, for example -- and 11,000 Hungarian visitors to Britain last year, there is still considerable room for improvement.

Alfred Reisch

- 1 *Nepszabadsag*, 1 February 1984.
- 2 See Hungarian SR/5, *RFER*, 22 March 1983, item 3.
- 3 *Nepszabadsag*, 25 June 1983. The 10 May 1983 issue of *The Financial Times*, published an eight page supplement on Hungary's economic reform and industry.
- 4 *The Guardian*, 15 September 1983.
- 5 *Magyar Hirlap*, 13 September 1983.
- 6 2 February 1984. See David Buchan's article in *Financial Times*, 18 January 1984.

- 7 *Heti Világgazdaság*, 11 February 1984; *Képes Újság*, 28 January 1984.
- 8 See *Magyar Nemzet*, 21 October 1984, and *Magyar Hírlap*, 27 October 1983.
- 9 See *Financial Times*, 16 February 1984.

3. Yugoslav Journalists Disagree over Hungary's "Economic Miracle"

Two different views of Hungary's "economic miracle" have recently appeared in the Yugoslav press. While the Slovene Janez Stanic had described the current situation in Hungary in glowing terms, the Serb Milos Corovic wrote about "the crisis period" Hungary was experiencing. Without directly mentioning Stanic's report,¹ Corovic said that "foreigners living for any length of time in Hungary . . . do not see the situation in that country as being quite as bright as described by occasional visitors."² Corovic has been Tanjug's correspondent in Budapest for many years.

In the second installment of his article,³ dealing with the "Hungarian Type of Reform," Stanic tried to explain why Hungary was the only communist-ruled country in Eastern Europe that had introduced a number of reformist measures. He said that even though the Hungarians had joined the Soviet invasion of Czechoslovakia in August 1968 to eradicate "communism with a human face," Janos Kadar and his colleagues had soon afterwards begun doing exactly the same sort of things they had helped suppress in Czechoslovakia.

It was this contradiction that had amazed Stanic during his visit to Hungary last December. He spoke about it in a special program about Hungary on Ljubljana television. He quoted Sandor Lakos, a member of the Central Committee and editor-in-chief of the theoretical party monthly *Partelet*, who explained the Hungarian party's attitude to economic reform as follows:

Certainly, the party is in power, but we must make an effort not to act solely through instruments of power. . . . We must gain the trust of the majority of the population by following a wise policy. This means that in the economic sphere the party has been concentrating only on achieving the most important economic goals. . . . The party should make it possible for various economic branches to be more independent. We think that more independence is necessary for higher productivity. This means that economic decisions must be made principally at the enterprise level.⁴

Stanic added that Lakos's views were very significant and indicated that the party had abandoned its direct command of and leading role in economic life. Should Lakos's words be taken at their face value, Stanic said,

the first direct consequence would be the disintegration of the usual system of planning, which is characteristic of the countries of "real socialism". . . . In [these countries] the pincers of obligatory planning have mercilessly squeezed enterprises that are under direct state and party control.

In Stanic's opinion, the second consequence was that the "economic technocracy" in the economy at large and in individual enterprises in particular had won the upper hand over the party's bureaucracy.

This is the most sensitive change, which is feared by the majority of the East European parties and which has caused all their reformist efforts to fail. In Hungary, however, this problem has been clarified not only in theory but also in practice. The old system of planning was crushed and it disintegrated first in agriculture and then in industry.⁵

In the Budapest enterprise for leather processing, the plant's commercial director, Gabor Borczo, "a young man without any ideological prejudices," told Stanic that the enterprise's main goal was to make a profit. Another novelty in Hungarian enterprises was that although directors were appointed by the state, they were allowed to select their assistants themselves. "This is in contrast to other countries of 'real socialism,' in which the state and party apparatuses appoint the entire team."

Stanic admitted that the problem in Hungary was not how to make a profit but rather what to do with it. It was at this point that the full authority of the state apparatus came into force through a plethora of regulations; in this case, therefore, there was much less freedom than assumed:

At the political level there is great anxiety that a social difference might emerge between workers in different enterprises. For instance, there is no reason not to pay workers in successful enterprises better than those in less successful plants. Theoretically this is possible and normal, but in practice it is unfeasible.⁶

Stanic said that Hungary's principal political and social dilemma was "how much to slacken the reins." An easing of controls, he said, would mean the much faster development of business and efficiency but would, in turn, create great social differences and upheavals. Party leaders faced an awkward dilemma: they wanted higher labor productivity; but they were also anxious that there would be serious social consequences. Stanic then

explained that the Hungarian authorities allowed factory workers to do a second shift "for their own benefit," because when they were working entirely for the state, there was no incentive for them to work efficiently and more productively.

In order to compensate for the labor shortage and to encourage harder work, enterprises allowed employees to use the plant's machinery to earn extra money for themselves. In the leather processing factory in Budapest they were working up to 60 hours overtime a month, in this way earning up to 3,000 forint a month more than their usual pay. (The average industrial wage is 5,000 forint a month.)

There is an attempt in Hungary to solve problems by encouraging workers to work more and better. We could, of course, question whether this method is the best one, particularly if it were to be introduced everywhere on a much larger scale.⁷

No communist country, Stanic said, had resolved the problem of workers' alienation from their work. "The Soviet system, which is considered to be the most correct and has created many Stakhanovites and various competitions and medals, has not achieved anything except the workers' alienation from their work," Stanic said. He saw certain failures in Hungary as resulting from the fact that this country was a member of the Warsaw Pact and that other members of the pact, above all the Soviet Union, were not ready to accept Hungarian methods.

Corovic's view is different. He claimed that the Hungarians were living beyond their means and that a period of crisis, which could not be concealed by domestic economists and politicians, had begun. He also said that the Hungarians had never forgotten the Rakosi era, characterized not only by show trials but also by empty shops; and they feared that a similar situation might arise.

Hungary's complex situation is reflected, above all, in a continual deterioration in its trade both with Western and Eastern countries; [the Hungarians] have difficulty in satisfying their trading partners as far as the quality of the goods they export is concerned; their chances of getting new credits have diminished considerably, and there has been a particularly marked drop in their imports in an attempt to revitalize the country's economy. There are so-called "structural difficulties," which arose from the fact that the economy as a whole belatedly began to adapt itself to the new and worsened conditions on the world market.⁸

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Corovic praised the Hungarian state and party leaders, who had not, he said, concealed their difficulties from the population, because it was only in this way that popular dissatisfaction could be alleviated. According to Corovic, the main objective of the Hungarian leadership was to prevent a rapid deterioration in the economic situation. If it had to come, they wanted it to emerge gradually. In other words, the current goal is not to improve the public's living standard but to prevent it deteriorating too quickly.

Slobodan Stankovic

1 See Hungarian SR/2, RFER, 6 February 1984, item 3.

2 *Borba* (Belgrade), 25 January 1984.

3 *Start*, 28 January 1984.

4 *Ibid.*

5 *Ibid.*

6 *Ibid.*

7 *Ibid.*

8 *Borba*, 25 January 1984.

4. Hungarian Meat Prices

On January 23, along with other consumer goods, Hungarian meat and meat product prices were raised by an average of 21% (24% for beef and 10% for poultry and fish).¹ The country's food shops are well stocked and meat supplies, unlike those in other allied Warsaw Pact states such as Romania and Poland, remain adequate. The new measures, however, mean that Hungarians will henceforth have to reach deeper into their pockets when they buy meat. More probably, they will be forced to eat less of their favorite meat dishes as even more domestic meat and meat products leave the country in order to earn additional hard currency needed to maintain the precarious equilibrium of Hungary's balance of payments and to service its large foreign debt of nearly \$7,000 million.

Alert Hungarian price watchers should have been forewarned about the latest meat price increases by an interview given a week earlier to the party daily *Nepszabadsag* by Miklos Villanyi, State Secretary for Agriculture and Food.² Beginning with the production side, the official noted that Hungary's meat production, which stood at 750,000 tons in 1938, had reached 1,360,000 tons by 1970 and 2,300,000 tons in 1983. In the last

15 years Hungarian meat production had grown at an annual rate of 4.1% compared with the annual world growth rate of 3.1%. As a result, he said, even though Hungary supplied only 1% of the world's total meat production, its per capita meat production -- 140 kilos -- was 4 times greater than the world average, putting it in fifth place behind New Zealand, Britain, Australia, and Argentina.³ Per capita consumption had grown from some 30 kilos in the early 1950s to 59 kilos in 1970, 74 kilos in 1980, and between 76 and 77 kilos today, almost a 30% increase in 13 years. Villanyi recalled that even in 1970 consumers at times had had to stand in line to obtain meat and that pork had had to be imported occasionally. He revealed that Hungary's favorite meat was pork (with an annual per capita consumption of over 41 kilos in 1983, a threefold increase since World War II), followed by poultry (20.8 kilos), beef (9.3 kilos), fish, and veal.

According to Villanyi, the two main tasks of agricultural production were to cover domestic needs and to increase production of export items, such as meat. Hungary consumes 67% of its meat production (2,300,000 tons in 1983) and exports the remaining 33%, mostly to Europe, North Africa, and the Near East, through the Terimpex Foreign Trade Enterprise. Meat exports account for some 20% of the country's convertible currency exports and earned the country \$900,000,000 last year -- the second most profitable export item next to buses. Animal husbandry provides over half of Hungary's nonruble agricultural sales abroad, with the country exporting half of its poultry, 81% of its mutton (with annual sales of over \$65,000,00 in 1983), and 20% of its pork output. In the past five years, the value of meat and poultry exports rose by nearly 70%, with sales of pork increasing two-and-a-half times and those of poultry nearly doubling. Hungary's share of the world's poultry exports is now 9-10%; it is the largest exporter of goose liver and the second largest exporter of hares. Exports of cattle for slaughter also bring in handsome hard currency earnings.

It should be noted that in 1983 world meat prices fell by nearly 18% compared with the preceding year. Nevertheless, the value of Hungary's meat exports rose by 8%, a feat Terimpex accomplished only by exporting considerably more meat and meat products than before. In 1984 world meat prices are expected to stabilize then rise slowly in the second half of the year, an encouragement to Hungary to export as much cattle for slaughter and meat as possible.⁴

In order to keep improving its export performance, the country needs a constant supply of meat, which in turn requires large and small producers to be as interested as the state in production. Small producers today sell three times as many pigs to the state for slaughter than all Hungarian agricultural producers did in 1950. In addition to state subsidies, the main financial incentives are procurement prices. In recent years producers' costs have risen considerably. Between 1979 and 1983 production costs for animal husbandry climbed by some 35% while

procurement prices rose by only 26%. This was done intentionally to encourage producers to reduce costs through more rational and better managed production. Nevertheless, animal husbandry's profit margin still stands at 6-8% compared with an average of 10-12% in the manufacturing branches of the national economy.

This explains why very large state subsidies were needed to keep meat and meat product prices at their pre-January 23 levels -- 6,000 million forint in 1982 and 7,300 million in 1983,⁵ according to Villanyi. Between the meat price increases of June 1981 and those at the end of 1983, price subsidies for pork rose from 22% to 28%, for beef, from 34% to 40%, and for poultry, from 28% to 33%. The latest price hikes are expected to reduce the level of state subsidies from 30-40% to 11-22%, depending on the kind of meat, and bring consumer prices more in line with production costs.

How the meat price increases are likely to affect consumption can be looked at from two different perspectives. In 1979, when meat prices rose by 30%, consumption fell by 2%. In 1980 consumption rose by less than 1% compared with 2-4% annually in the years prior to 1979. A 1% drop in overall meat consumption is expected for 1984 but not in the case of poultry, the consumption of which, having been rising by 3.5-8% a year, is still expected to grow by 2% a year despite the price hikes.⁶

Unfortunately, wages have not kept up with prices in Hungary. For example, while in 1975 an average industrial worker could buy 72 kilos of leg of pork with his monthly wages, his current wages can buy him only 42 kilos of pork. The new price may be closer than the old one to the actual production costs, but if it was economically justified to nearly triple the price of pork in nine years, how will the government be able to justify the fact that average industrial wages during the same period merely doubled? Nominal wages are to rise by an average of 4-5% this year compared with a projected annual inflation rate of 7-8%, which means that real wages will drop by 3-4% in 1984. Although it was reported earlier that no further price hikes would be necessary this year, the Chairman of the National Material and Price Office has just stated that another small central price increase was still due this year.⁷ The regressive trend is better illustrated by the following table:

| Increase in the Price of Leg of Pork | | | | | |
|---|----------|----------|----------|-----------|----------|
| | 1975 | 1978 | 1980 | 1981 | 1984 |
| Price of one kilogram leg of pork in forint | 39.00 | 58.00 | 78.00 | 88.00 | 110.00 |
| Average industrial monthly wages in forint | 2,817.00 | 3,512.00 | 3,948.00 | 4,184.00* | 4,633.00 |
| Kilograms of pork purchasable with average monthly wages | 72.00 | 60.00 | 50.00 | 47.00 | 42.00 |
| Value of one kilogram of pork in working hours** | 2.75 | 3.25 | 3.75 | 4.00 | 4.30 |
| * Average monthly wage in 1980 increased by 6% | | | | | |
| ** The slight decrease of the working week that occurred in the period has been taken into account | | | | | |
| Source: <i>Statistical Yearbooks 1975, 1978, and 1980</i> ; and <i>Havi Statisztikai Közlemények</i> , 11/1983. | | | | | |

The objectives of the Kadar regime are clear: it wants to keep meat supplies undisturbed, maintain an adequate and not wasteful consumption at the 1983 level, and increase meat exports to earn much-needed hard currency. Deputy Prime Minister Istvan Sarlos, a member of the HSWP Politburo, made no bones about this when he stated that higher prices would force Hungarians to buy less and enable the government to export more; at the same time, he promised that there would be no shortages.⁸

Since the meat price hikes were announced, a media campaign has been under way to convince consumers to eat more eggs, cheese, and dairy products and to remind grocers and butchers to provide better quality products for the higher prices and also to stock their shelves with far more less expensive meat products. All this is presumably to allow the state to convert the more valuable chunks of Hungarian beef, mutton, veal, and poultry into hard currency to keep the country solvent.

Alfred Reisch

- 1 On the latest consumer price increases, see Hungarian SR/2, RFER, 6 February 1984, item 1.
- 2 "About Meat Production, Meat Consumption, and Meat Exports," 14 January 1984.
- 3 Another article claims that Hungary ranks fourth with 133 kilos, behind Denmark, Holland, and Argentina. Pal Romany, "Quantity, Standard, Judgment," *Valosag*, January 1984, pp. 19-21.
- 4 *Nepszava*, 21 January 1984. Hungary has an accord with the EEC for the annual sale of 20,000 tons of mutton to it.
- 5 Total price subsidies in the 1983 national budget amounted to a whopping 65,400 million forint, which the state hopes to reduce to 53,000 million this year.
- 6 *Otlet*, 26 January 1984. On the 10% meat price increase of 1981, see Hungarian SR/10, RFER, 15 July 1981, item 1.
- 7 Radio Budapest, 3 February 1984, 0645 hours. The January 23 price hikes will account for 2.8% of this year's inflation rate, the additional small one for 0.5%, and increases in unregulated, so-called "free" prices, for most of the remainder.
- 8 MTI (in English), 23 January 1984.

5. Riddles of the 1984 Budget and Plan

Official Hungarian statistical data about economics are generally believed to be the most reliable among those of the CMEA countries. Nevertheless, evaluating information about even the Hungarian budget and plan is a virtually hopeless endeavor, partly because the figures are too aggregative -- a common form of manipulation -- and partly because of bookkeeping "tricks" that move sums from one category to another. (According to unconfirmed information, there is a tendency even in draft budgets distributed to members of the Hungarian National Assembly (HNA) to play down certain elements of defense expenditures.)

The only more or less detailed comparison of 1983 and 1984 budget revenue and expenditure estimates in the Hungarian press appeared in an economic weekly¹ and contained figures for 1983 that differ from those announced a year earlier.² One can only surmise that the estimates were modified in the course of the year. Reports in the daily press on the 1984 budget debate during the HNA session of 22-23 December 1983 provided very incomplete information on the subject. Some figures were mentioned here and there and usually buried deep in the text. Only the party daily published a comparative chart for 1983 and 1984 but

expressed the results in percentage terms only.³ Some figures in the trade union daily differed greatly from corresponding ones published elsewhere. All this seems to indicate that the authorities, while not wanting to conceal the pertinent information completely, are trying to make access to detailed information as difficult as possible.⁴

It is not easy to establish the differences between the original and the "corrected" 1983 budget estimates, because their itemization is different. For example, the public's social security and pension contributions, which were labeled enterprise contributions (which formally they are) were listed separately in the new budget version (see Table 1).

| | Original | Corrected | Difference |
|------|----------|-----------|------------|
| 1.1 | 2.357 | 2.357 | 0.000 |
| 1.2 | 2.357 | 2.357 | 0.000 |
| 1.3 | 2.357 | 2.357 | 0.000 |
| 1.4 | 2.357 | 2.357 | 0.000 |
| 1.5 | 2.357 | 2.357 | 0.000 |
| 1.6 | 2.357 | 2.357 | 0.000 |
| 1.7 | 2.357 | 2.357 | 0.000 |
| 1.8 | 2.357 | 2.357 | 0.000 |
| 1.9 | 2.357 | 2.357 | 0.000 |
| 2.0 | 2.357 | 2.357 | 0.000 |
| 2.1 | 2.357 | 2.357 | 0.000 |
| 2.2 | 2.357 | 2.357 | 0.000 |
| 2.3 | 2.357 | 2.357 | 0.000 |
| 2.4 | 2.357 | 2.357 | 0.000 |
| 2.5 | 2.357 | 2.357 | 0.000 |
| 2.6 | 2.357 | 2.357 | 0.000 |
| 2.7 | 2.357 | 2.357 | 0.000 |
| 2.8 | 2.357 | 2.357 | 0.000 |
| 2.9 | 2.357 | 2.357 | 0.000 |
| 3.0 | 2.357 | 2.357 | 0.000 |
| 3.1 | 2.357 | 2.357 | 0.000 |
| 3.2 | 2.357 | 2.357 | 0.000 |
| 3.3 | 2.357 | 2.357 | 0.000 |
| 3.4 | 2.357 | 2.357 | 0.000 |
| 3.5 | 2.357 | 2.357 | 0.000 |
| 3.6 | 2.357 | 2.357 | 0.000 |
| 3.7 | 2.357 | 2.357 | 0.000 |
| 3.8 | 2.357 | 2.357 | 0.000 |
| 3.9 | 2.357 | 2.357 | 0.000 |
| 4.0 | 2.357 | 2.357 | 0.000 |
| 4.1 | 2.357 | 2.357 | 0.000 |
| 4.2 | 2.357 | 2.357 | 0.000 |
| 4.3 | 2.357 | 2.357 | 0.000 |
| 4.4 | 2.357 | 2.357 | 0.000 |
| 4.5 | 2.357 | 2.357 | 0.000 |
| 4.6 | 2.357 | 2.357 | 0.000 |
| 4.7 | 2.357 | 2.357 | 0.000 |
| 4.8 | 2.357 | 2.357 | 0.000 |
| 4.9 | 2.357 | 2.357 | 0.000 |
| 5.0 | 2.357 | 2.357 | 0.000 |
| 5.1 | 2.357 | 2.357 | 0.000 |
| 5.2 | 2.357 | 2.357 | 0.000 |
| 5.3 | 2.357 | 2.357 | 0.000 |
| 5.4 | 2.357 | 2.357 | 0.000 |
| 5.5 | 2.357 | 2.357 | 0.000 |
| 5.6 | 2.357 | 2.357 | 0.000 |
| 5.7 | 2.357 | 2.357 | 0.000 |
| 5.8 | 2.357 | 2.357 | 0.000 |
| 5.9 | 2.357 | 2.357 | 0.000 |
| 6.0 | 2.357 | 2.357 | 0.000 |
| 6.1 | 2.357 | 2.357 | 0.000 |
| 6.2 | 2.357 | 2.357 | 0.000 |
| 6.3 | 2.357 | 2.357 | 0.000 |
| 6.4 | 2.357 | 2.357 | 0.000 |
| 6.5 | 2.357 | 2.357 | 0.000 |
| 6.6 | 2.357 | 2.357 | 0.000 |
| 6.7 | 2.357 | 2.357 | 0.000 |
| 6.8 | 2.357 | 2.357 | 0.000 |
| 6.9 | 2.357 | 2.357 | 0.000 |
| 7.0 | 2.357 | 2.357 | 0.000 |
| 7.1 | 2.357 | 2.357 | 0.000 |
| 7.2 | 2.357 | 2.357 | 0.000 |
| 7.3 | 2.357 | 2.357 | 0.000 |
| 7.4 | 2.357 | 2.357 | 0.000 |
| 7.5 | 2.357 | 2.357 | 0.000 |
| 7.6 | 2.357 | 2.357 | 0.000 |
| 7.7 | 2.357 | 2.357 | 0.000 |
| 7.8 | 2.357 | 2.357 | 0.000 |
| 7.9 | 2.357 | 2.357 | 0.000 |
| 8.0 | 2.357 | 2.357 | 0.000 |
| 8.1 | 2.357 | 2.357 | 0.000 |
| 8.2 | 2.357 | 2.357 | 0.000 |
| 8.3 | 2.357 | 2.357 | 0.000 |
| 8.4 | 2.357 | 2.357 | 0.000 |
| 8.5 | 2.357 | 2.357 | 0.000 |
| 8.6 | 2.357 | 2.357 | 0.000 |
| 8.7 | 2.357 | 2.357 | 0.000 |
| 8.8 | 2.357 | 2.357 | 0.000 |
| 8.9 | 2.357 | 2.357 | 0.000 |
| 9.0 | 2.357 | 2.357 | 0.000 |
| 9.1 | 2.357 | 2.357 | 0.000 |
| 9.2 | 2.357 | 2.357 | 0.000 |
| 9.3 | 2.357 | 2.357 | 0.000 |
| 9.4 | 2.357 | 2.357 | 0.000 |
| 9.5 | 2.357 | 2.357 | 0.000 |
| 9.6 | 2.357 | 2.357 | 0.000 |
| 9.7 | 2.357 | 2.357 | 0.000 |
| 9.8 | 2.357 | 2.357 | 0.000 |
| 9.9 | 2.357 | 2.357 | 0.000 |
| 10.0 | 2.357 | 2.357 | 0.000 |

(continued)

The most significant change of the revenue side was that enterprise contributions were raised during the year and the size of external sources of income was slightly larger than originally planned. The decrease in revenues from government-financed exports is probably derived, at least in part, from increases in taxes and fees that is to say from the public as for

Table 1

| Differences Between Original and "Corrected" 1983 Budget Estimates | | | |
|--|---------------------------------------|--------------|-----------------|
| Revenues | Original (in 1,000 million forint) | Corrected | Difference % |
| Enterprise contributions plus social security contributions from the public | 379.0 | 385.2 | + 1.6 |
| From budget-financed bodies | 35.9 | 43.8 | +22.0 |
| International credits and other sources | 12.0 | 13.5 | +12.5 |
| Total | 523.5 | 539.2 | + 3.0 |
| Expenditures | Original (in 1,000 million forint) | Corrected | Difference % |
| Investment | 55.6 | 57.2 | + 2.9 |
| For budget-financed bodies | 165.6 | 171.2 | + 3.4 |
| International and other expenditures | 46.5 | 40.3 | -13.3 |
| Total | 533.7 | 546.2 | + 2.3 |
| Budget deficit | 10.2 | 7.0 | -31.4 |
| Source: <i>Magyar Hirlap</i> , 4 February 1984; <i>Heti Világgazdaság</i> , 14 January 1984. | | | |

The most important change on the revenue side was that enterprise contributions were raised during the year and the size of external sources of income was slightly larger than originally planned. The increase in revenues from government-financed organizations is probably derived, at least in part, from increases in taxes and fees, that is to say, from the public. As for

expenditures, the planned decrease in investment was not fulfilled. This applies not only to state and local council budget-financed investments but also to all investments of "socialist organizations" (enterprises, cooperatives, etc.). Between 170,000 and 172,000 million forint in investment was planned, but the actual amount was 187,000 million forint.⁵

The 1984 budget submitted by Finance Minister Istvan Hetenyi was approved by the HNA on 23 December 1983, later than in previous years. An official explanation for this was that

the sources of information used as indicators of national and international economic trends are more uncertain than in previous years; as a result, the bodies in charge of drawing up the budget estimates needed more time than usual to review [these matters] before reaching a decision.⁶

In view of this uncertainty, it is doubtful that the approved budget will remain valid until the end of the budget year (see Tables 2 and 3 below).

(continued)

Table 2

| Comparison of Planned Revenues in 1983 and 1984 (in 1,000 million forint) | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 1983 | % | 1984 | % | % Change |
| Enterprise contributions: | 362.00 | 67.17 | 376.70 | 66.89 | + 4.00 |
| Profit and income taxes | 103.50 | 19.20 | 107.00 | 19.00 | + 3.40 |
| Social security contributions | 58.00 | 10.76 | 85.00 | 15.09 | +46.55 |
| Producers' sales tax | 94.20 | 17.47 | 83.80 | 14.88 | -11.00 |
| Consumer sales tax | 83.10 | 15.41 | 88.50 | 15.71 | + 6.50 |
| Population contributions: | 36.80 | 6.82 | 40.80 | 7.24 | +13.30 |
| Taxes and fees | 13.60 | 2.52 | 14.90 | 2.65 | + 9.60 |
| Social security and pension contributions | 23.20 | 4.30 | 25.90 | 4.60 | +11.60 |
| Income generated from budget-financed bodies: | 43.80 | 8.12 | 46.50 | 8.26 | + 6.20 |
| Income from operations, prices, and fees | 38.60 | 7.16 | 41.00 | 7.28 | + 6.20 |
| Social security contributions | 5.20 | 0.96 | 5.50 | 0.98 | + 5.80 |
| International credits and other sources | 13.50 | 2.50 | 10.70 | 1.90 | -27.00 |
| Total | 539.20 | 100.00 | 563.20 | 100.00 | + 4.50 |
| Budget Deficit | 7.00 | | | 3.50 | -50.00 |
| Source: <i>Heti Világazdaság</i> , 14 January 1984. | | | | | |

Table 3

| Comparison of Planned Expenditures in 1983 and 1984 (in 1,000 million forint) | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 1983 | % | 1984 | % | % Change |
| Investment | 57.20 | 10.47 | 56.10 | 9.90 | - 1.90 |
| Supplementation of the credit fund for the Hungarian National Bank | 10.80 | 1.98 | 16.50 | 2.91 | +52.80 |
| Enterprise subsidies | 94.20 | 17.25 | 90.70 | 16.00 | - 3.70 |
| Price subsidies | 65.40 | 11.97 | 51.20 | 9.03 | -21.70 |
| Expenditures on budget-financed bodies | 171.20 | 31.34 | 178.80 | 31.55 | + 4.40 |
| Of which: | | | | | |
| Social and health organizations | 26.90 | 4.92 | 28.60 | 5.05 | + 6.30 |
| Educational, cultural, research, and sport organizations | 48.90 | 8.95 | 52.10 | 9.19 | + 6.50 |
| Defense and other armed forces | 32.80 | 6.01 | 33.80 | 5.96 | + 3.00 |
| Economic, administrative, law, and public order organizations | 62.70 | 11.48 | 64.30 | 11.34 | + 2.60 |
| Social security expenditures | 107.00 | 19.59 | 119.60 | 21.10 | +11.80 |
| International financial expenditures and other | 40.30 | 7.38 | 53.80 | 9.49 | +33.50 |
| Total | 546.20 | 100.00 | 566.70 | 100.00 | + 3.80 |
| Source: <i>Heti Világgazdaság</i> , 14 January 1984 | | | | | |

A few days later the Council of Ministers approved the 1984 plan. According to the official statement:

The improvement of the national economic equilibrium, the preservation of international solvency, and the maintenance and improvement of our achievements [the standard of living] are the main objectives for 1984. The economic policy measures that promote these major goal will be more durable than previous measures. The 1984 national economic plan bases the improvement of our economic equilibrium on increased efficiency, a better production structure, and an improved export ability, along with a reduction in costs.⁷

The main targets of the 1984 plan are shown in Table 4.

Table 4

| Comparison of 1983 and 1984 Plan Targets (1983=100) | |
|---|-------------|
| Domestic Net Material Product* | 101.5-102.0 |
| Domestic expenditures | 98.5-99.0 |
| Industrial production | 101.5-102.0 |
| Construction output | 97.0-98.0 |
| Output of agricultural products (1982=100) | 100.0-101.0 |
| Population consumption | 100.0-100.5 |
| Per capita income | 100.0 |
| * National income produced | |

The total value of investments planned for 1984 is 180,000 million to 183,000 million forint, 4,000 million to 7,000 million less than what was achieved in 1983 but about 10,000 million more than what was planned in that year.⁸ Much of the investment (105,000 million) will be financed by enterprises and cooperatives. This does not mean, however, that the actual role of these organizations will become more important in investment decisions. What really happens is that important investments that shape the production structure are initiated by the government and financed by means of credit and budget assistance, as a result of "collective budget decision-making."

Current, continuing investments, which are well over 100,000,000 forint, make up 85% of the total 1984 investment plans -- a substantial amount. Three-quarters of these investment expenditures originate from government decisions, while 20% are indirectly influenced by the state, and only 5% result from independent initiative and financing.⁹

Although the investment rate in Hungary is relatively higher than that of the European OECD countries, according to economists it cannot be allowed to decrease further, since any decrease has a much greater negative effect on the economy than a similar decrease in Western investment rates. This is because the OECD countries attain higher economic growth than Hungary for each dollar invested. Nevertheless, some Hungarian economists argue that even if investments decrease, a significant increase in income can be derived from the following measures:

Redistribution of resources to areas of higher profitability. The subsequent changes needed to bring this about are: the withdrawal of capital from areas of low efficiency; the creation of conditions for freer movement of capital among enterprises; the encouragement of an atmosphere that would promote this; the establishment of commercial banks; and increased enforcement of economic rationality in governmental administration.

Better exploitation of existing production capacities.

Better use of idle private savings and private initiative, for example, through small ventures.

International comparisons show that in developed countries there is rapid technical progress despite the recession and that the decrease in investment rates is accompanied by a significant alteration of the production and investment structure.¹⁰

There is little chance, however, that Hungary could turn in this direction under the present decision-making structure; and in some areas its backwardness can even be expected to get worse. An economist of the older generation argues that efforts must be concentrated primarily on improving the underdeveloped infrastructure.¹¹ According to indices created to measure the infrastructural development of 29 European and non-European developed countries, Hungary's relative position deteriorated in the 1970s. It ranked 20th in 1960, 21st in 1968, and 22nd in 1974, overtaken by Ireland and Spain.¹²

The situation has not improved since then and the Hungarian press complains daily about infrastructural problems. The number of telephones in Hungary, for example, is one-third of that of

Bulgaria, one-fourth of that of Czechoslovakia, not to mention Western countries. According to optimistic estimates, Hungary's telephone network will reach the 1970 level of moderately developed European countries by the year 2000.¹³

It is clear that Hungarian leaders realize these problems, but, because of their plan and budget priorities and their concern about international solvency and the domestic living standard, their efforts are directed elsewhere.

The 1984 budget has two noticeable features: a further increase in the burdens placed upon enterprises and a decrease in subsidies. Finance Minister Hetenyi stated before the National Assembly that enterprise and prices subsidies would be 18,000 million forint less than in 1983.¹⁴ The budget expenditures show that a considerable part of the price subsidies will be eliminated, without any significant change in the amount of enterprise subsidies. Table 5 illustrates this tendency of the past few years.

Table 5

| Comparison of Subsidies, 1978-1984 | | | | | |
|------------------------------------|--|--------|-------------------------------------|--------|---|
| Year | Total Amount of Subsidies (in 1,000 million forint) | | Share of Budget Expenditures (%) | | Consumer Price Index (Preceding Year=100) |
| | Planned | Actual | Planned | Actual | |
| 1978 | - | - | - | - | 104.6 |
| 1979 | 134.2 | - | 32.7 | - | 108.9 |
| 1980 | 127.1 | 131.8 | 29.7 | 29.2 | 109.1 |
| 1981 | 143.7 | 144.5 | 29.8 | 30.0 | 104.6 |
| 1982 | 152.9 | 147.2 | 30.1 | 29.7 | 106.9 |
| 1983 | 159.1 | 159.6 | 29.8 | 29.2 | 107.4 |
| 1984 | 141.9 | - | 25.0 | - | 107.0-108.0 |

Source: *Heti Világazdaság*, 3 September 1983 and 28 January 1984.
See also Hungarian SR/19, *RFER*, 27 December 1982, item 2.

What is clear is that price hikes have had no effect on the total amount of subsidies. The planned decrease in subsidies was not even realized in the year of the biggest price increases in 1980. Again in 1981, when the most significant price increase was that for meat (10%), something that had primarily been heavily subsidized, the total amount of subsidies grew considerably. If the 1984 plan is fulfilled, it will be the first time in the history of Hungary's "socialist" command economy that enterprise subsidies will have decreased.

The existence of subsidies, that is, the centralization and redistribution of enterprise incomes, is one of the major obstacles to rational economic management. In a book about the general phenomenon of shortages (the book itself was evidence of the problem as it was sold out a few days after its publication), economist Janos Kornai wrote that shortages were caused by, among other things, the "softness of budgetary limits" of enterprises.¹⁵ This softness means that because of central redistribution, enterprise activity is only slightly limited or curtailed by the income at the disposal of the enterprise itself.

In a recent article Kornai and one of his colleagues compared hypotheses about the "softness" of budgetary limits with actual experience, on the basis of financial data from every Hungarian state enterprise between 1975 and 1980.¹⁶ They found that the extent of central redistribution of state enterprises' income was considerable. Actual disposable profits were, by fiscal means, detached from and bore no relation to "original profits."¹⁷ Enterprises operating at a deficit, for example, paid profit shares. No clear correlation can be observed between profit sharing, on the one hand, and original and actually disposable profits, on the other. The effect of redistribution was a leveling off of profits and profitability. The survival of enterprises was almost guaranteed, however inefficient they might be. The liquidation or merger of an enterprise depended neither on the original nor on the effective profitability of previous years.

After the serious deficit problems of 1982, the only major target of the 1983 plan was the improvement of the international balance of payments. During 1982 there had been times when the Hungarian economy was "in a state of clinical death," as admitted by a Secretary of the HSWP CC.¹⁸ The 1984 plan couples the same target with the maintenance of the present -- already decreased -- standard of living. The main difficulty for Hungarian foreign trade and therefore a problem for its balance of payments is the continuous deterioration in the country's terms of trade (see Table 6).

Table 6

| Changes in the Terms of Trade, 1972-1982 | | |
|--|-----------------------------------|--------------------------------------|
| | Ruble Foreign Trade Account | Nonruble Foreign Trade Account |
| 1973 | 99.7 | 102.4 |
| 1974 | 99.3 | 120.1 |
| 1975 | 109.0 | 129.2 |
| 1976 | 111.5 | 121.2 |
| 1977 | 114.9 | 126.0 |
| 1978 | 117.3 | 124.9 |
| 1979 | 119.5 | 126.4 |
| 1980 | 120.8 | 124.7 |
| 1981 | 125.9 | 122.1 |
| 1982 | 129.7 | 123.3 |

Source: *Heti Világazdaság*, 26 November 1983.

The Hungarian economy is very much dependent on energy and raw material imports. Until now Hungarian leaders stressed this as the sole reason for the deterioration in the terms of trade. Of late they have begun to acknowledge another, more important reason:

Although current oil and raw material prices are decreasing, our terms of trade continue to deteriorate. The reason for this is the quality of our own work and the lack of competitiveness. We must realize that not only an oil price-explosion has taken place but also a technological "explosion," which we ignored for a long time. As a result, our competitiveness decreased, the modernity and quality of our products became inadequate, and the possibility to market our products narrowed, since we lost traditional markets or were able to market only with price reductions.¹⁹

The Hungarian power elite is watching the deterioration in the standard of living with growing anxiety. One can expect, therefore, that they will take their promise about stabilizing the living standard more seriously than in previous years. This could lead either to a growing anxiety about the short-range risks of reforms, whatever they may be, or to the realization that urgent changes are needed to achieve long-range results. Central Committee Secretary Ferenc Havasi has admitted that the party found itself on the defensive concerning the problem of maintaining the living standard: "Financial equilibrium superimposed upon internal discontent cannot possibly be stable just as affluence based on indebtedness cannot be permanent."²⁰

Steps taken to preserve the average living standard often cause the situation of disadvantages, low-income groups to worsen as price subsidies decrease and sales taxes increase (for example, the sales tax on spices is 58%, on fruit brandies, 72-84%, on tobacco and cigarettes, up to 65%, and on cars, 51% of the total price).²¹ The general increase in prices and income differentials among the public does not itself represent a problem. In Hungary's present economic situation this becomes more and more difficult to avoid as the liberalization of the economy advances. (Of course, liberalization in itself contributes only indirectly to the solution of social problems, whether in Eastern Europe or in countries with a market economy.) The real problem in Hungary is that the other changes necessary for liberalization (such a reform of the structure of decision-making and of the regulatory system, the broadening of workers' rights, and their participation in enterprise decisions) are advancing very slowly if at all. The sociologist Elemer Hankiss placed the problem in perspective by posing the following questions:

Among the many economic changes that have taken place, only the change in prices proceeded relatively smoothly and without difficulties. Was this not simply due to the fact that the groups most hurt by the [price] measures were not able to protect their interests? On the other hand, is not the stalling on other, further-reaching measures -- structural change, independence of enterprises, the working out of market mechanisms, the abolition of the system of tacit directives, the separation of political and economic administration, and so on -- due to the fact that these [changes] threaten the interests of those who are in a good position to defend their own interests?²²

Tibor Kovacsy

1 *Heti Világgazdaság*, 14 January 1984.

2 See Hungarian SR/19, *RFER*, 27 December 1982, item 4.

3 *Nepszabadság*, 23 December 1983.

- 4 *Nepszava*, 23 December 1983.
- 5 *Magyar Hirlap*, 4 February 1984.
- 6 *Heti Vilaggazdasag*, 14 January 1984.
- 7 *Nepszabadsag*, 28 December 1983.
- 8 *Ibid.*
- 9 Ivan Belyacz, "The Regulation of Investments," *Gazdasag*, no. 4, 1983, pp. 62-76.
- 10 Denes Horvath, "How Long Can Investments Be Decreased?" *Figyelo*, 16 January 1984.
- 11 Robert Hoch, "The Importance of Developing the Infrastructure," *Gazdasag*, no. 4/1982, pp. 7-24.
- 12 Eva Ehrlich and Gyorgy Szilagyi, "Our Infrastructure in International Comparisons (1960-1974)," *Kozgazdasagi Szemle*, February 1980, pp. 187-207.
- 13 Radio Budapest, 16 February 1984, 1200 hours.
- 14 *Magyar Hirlap*, 23 December 1983.
- 15 Janos Kornai, *Shortage* (Budapest: Kozgazadasagi es Joi Kiado, 1980).
- 16 Janos Kornai and Agnes Matits, "On the Softness of Budgetary Limit — on the Basis of Enterprise Data," *Gazdasag*, no. 4/1983, pp. 7-30.
- 17 The "original profitability" is the hypothetical profitability that would result if there were no imposts and no subsidies at all.
- 18 Ferenc Havasi on Hungarian television on 22 December 1983, Hungarian TV Monitoring, 14 February 1984.
- 19 Adam Juhasz, *Bekes Megyei Nepujsg*, 6 January 1984.
- 20 Ferenc Havasi at the 7 December 1983 session of the HSWP CC, *Partelet*, January 1984, pp. 3-12.
- 21 *Heti Vilaggazdasag*, 28 January 1984.
- 22 *Ibid.*, 27 November 1982.

6. Unorthodox Hungarian Art Exhibit Closed

On 6 February 1984 the Bibo Press, a group of Hungarian emigre publishers in Vienna, reported the story of an interesting but unfortunately short-lived art exhibit that took place last

month in Budapest. Held at the Club of Young Artists, it was entitled "Hungary Can Be Yours," an allusion to the Rakosi-era slogan. "The country is yours, you are building it for yourself." The exhibit opened on January 27 only to be closed down three days later by the authorities.

The exhibition's purpose, according to its organizer, graphic artist Gyorgy Galantai, was to assemble young artists' works -- mainly photomontages and graphic compositions -- that represented their views of Hungary. Work was submitted by 44 young Hungarian artists living in the country and by foreign artists of non-Hungarian origin living in 21 countries: Austria, Australia, Belgium, Brazil, Bulgaria, Canada, Czechoslovakia, Denmark, France, the FRG, the GDR, Great Britain, Italy, the Netherlands, Panama, Poland, Spain, Sweden, Switzerland, Uruguay, and the USA. All entries had to be approved by an officially appointed two-man jury (including an official of the Hungarian Communist Youth League), which refused to give such approval. Even though Galantai had no official green light, the club was entitled to exhibit for three days without an official jury's approval. It could, however, admit members only, each of whom was allowed to invite one guest. (According to unconfirmed reports, however, a committee of critics and art historians had given its prior approval.)

The art show had two themes. "International Hungary Seen from the Outside," which presented the works of foreign artists, and "Hungary Seen from the Inside." One example of the former was a map of Hungary wrapped in tinfoil like chocolate and entitled "Life is Sweet There." A young Hungarian artist, however, exhibited a map of Europe with the border of Hungary lined in black, its capital, Budapest, not in its proper place but shifted far to the northeast, in Moscow's direction. Another showed a map of Hungary on which the frontier was composed of nails, each 20 centimeters long. Yet another showed Hungary wrapped and tied with a rope, entitled "Committed [literally 'roped' in Hungarian] to the Cause of Socialism." The traditional friendship between Hungarians and Poles also provided a theme for works in the exhibition. One showed the well-known slogan "Hungarians and Poles: two good friends who fight and drink wine together" in Polish and beneath it the words "We fight together, 1956-1981!" in Hungarian.

A more detailed review of the exhibit was probably provided by Hungarian television reporter Gyorgy Balo. It is not known, however, if his footage and commentary were actually presented on television. The opening on January 27 was attended by some 300 people, including representatives of the Ministry of Culture, the Budapest Municipal Council, and the Interior Ministry, guests who probably influenced the premature closing of the exhibit.

Those attending could listen to "Art Pol-Radio," a sound-montage, the theme of which was Hungary. Its title was probably a reference to the "Political Art" exhibit shown by the Inconnu

[unknown] group of young artists founded in 1978 in the provincial town of Szolnok; the members of this dissident group also belong to the Studio of Young Artists and as such freely exhibit their work. The group includes young artists who are followers of so-called action art with a political content. They create "objects," organize public "happenings," and are connected with Mail-Art, part of the International Correspondence Group. The Inconnu group has held several exhibitions in Hungary, and its works have also been shown under the auspices of Mail-Art in several international exhibitions in the Netherlands, Italy, the USA, and the FRG.

One of the group's founders, graphic artist Tamas Molnar, has been singled out for particular harassment by the authorities because of his artistic and political stand. In January 1983, he was told by his employer, the Szolnok County Movie Enterprise, where he worked as a designer, that his contract would not be renewed. Molnar has been living since then from the occasional sale of his works and from organizing art exhibits and designing scenery for films. According to reports received by the Bibo Press, the group suffered much harassment during house searches conducted on 30 December 1983 and 1 January 1984 during which the police confiscated works of art and manuscripts and illustrations for the eighth issue of the samizdat journal *Beszelo*.¹ The police also interrogated members, their families, and one of the group's leaders. Molnar was informed that proceedings against him would be started for suspected violation of the press law, and his confiscated work was destroyed despite his appeals. The story of the inquiry and documents pertaining to it were published by the members in a statement entitled "Political Art":

The Inconnu group declares that it will consider every kind of official atrocity committed for political reasons the concrete form medium, and manifestation [sic], of political art. Political aggressiveness of this type . . . will be used by it as an art medium and the eventual materials, objects, and documents deriving from it, as art objects.

They included as an example a photograph of a search warrant with a rubber stamp designed by the group and the words "Work of Art" printed across the photograph. Considering that the Inconnu group was included in the "Hungary Can be Yours" exhibition, it came as no surprise that the authorities disapproved of the art show and closed it.

Eva Lengyel

1 AP and UPI (Vienna), 25 January 1984.

CORRECTION TO: Hungarian SR/2, 5 February 1984

Page 10, third sentence of last paragraph should read:

As it became more and more difficult to increase exports, the role of restrictive measures grew.

- end -