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Business Practice in Socialist Hungary, Volume 2

From Chaos to Contradiction, 1957–1972

Philip Scranton

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To the memory of Éva Balogh (1936–2021), editor and principal writer for Hungarian Spectrum,
whose daily, penetrating analyses of her homeland's descent into authoritarianism
were invaluable and are irreplaceable.

Preface

This study is a successor to my 2022 analysis of business practices in Stalinist Hungary: *Creating the Theft Economy*, which reviewed the tortuous path Soviet occupiers and Magyar communists traced in their efforts to build a socialist economy and society in Central Europe, 1945–1957. Their project did not go well. Holding political and military power did not prove sufficient to win the support of more than a fragment of the nation's ten million citizens. Instead, most Hungarians coped with a situation they could little affect, evaded rules and regulations which they judged exploitive, and sought every economic means, lawful or not, to augment their inadequate wages, salaries, or farmstead earnings. The Party and the administration led by Matyas Rákosi prioritized heavy industry (mining, steel, metalworking) over consumer goods and consumption, an emphasis reflecting Soviet priorities in the early Cold War. By the time Stalin died, key ministers and officials had acknowledged that central planning, the top-down guidance of and control over all economic activity, was deeply flawed, if not impossible to manage. This was due to inadequate resources for addressing the economy's complexity, as well as the contingencies and unintended consequences that accompanied capital investment, technical change, material supply, and every aspect of agricultural practice. Hungarians had continued to use market transactions wherever feasible, cultivating an inventive array of illegal practices to address shortages, solve problems, and generate revenues in agriculture, construction, commerce, and manufacturing—the four sectors explored in Volume One.

A reformist "new course" projected in 1953 did not survive push-backs from orthodox Stalinists condemning revisionism and nationalism, but hardliners' resumption of authority in 1955 only aggravated fractures between state and nation. Nikita Khrushchev's not-so-secret report (February 1956) denouncing Stalin's crimes discredited the Maximum Leader's Hungarian acolytes, many of whom resigned, as did thousands of disillusioned Party members. Polish disturbances in summer 1956 resonated with upheavals across Hungary, forcing Rákosi's departure while rejecting Soviet domination and urging that Soviet troops return home. Explosive Budapest demonstrations in October brought the unlikely Imre Nagy to national leadership, pledging and promulgating broad reforms. Within weeks, Russian tanks and troops restored "order" by sending waves of death and destruction across the capital and the provinces. Arrests, imprisonments, and executions followed (including Nagy in 1958), but a cruel irony surfaced gradually. There was no road back to Stalinism; Rákosi's state, with its unlimited powers and its secret police, could not be set in motion again. Instead, the Soviets installed a Party-state headed by bland, unassuming János Kádár, a veteran Communist earlier imprisoned by Hungary's wartime fascists and later by Rákosi as well. His ability to negotiate the swirling rapids of Bloc policy shifts across three decades, along the way accomplishing many of the '56 rebels' goals, remain remarkable achievements in Hungary's twentieth-century political history.[1]

This volume looks closely at the enterprise dynamics that paralleled and intersected with political initiatives in the aftermath of the 1956 rebellion. The arc of the two volumes, stretching from 1945 through 1972, recapitulates the durable initiatives by ideologues and experts to create an alternative to capitalism, and in time, to Stalinism as well. It also loosely echoes the trajectory outlined in Rudolf Bićanić's mid-1960s distillation of patterns among authoritarian economic development programs featuring "a centralized, administrative and bureaucratic mechanism, led by politicians and based on experts." Bićanić, a scholar of developing nations including his own Yugoslavia, was a professor of law, economics and planning in Belgrade (1946–1968), well versed in comparative studies of "agricultural economics, foreign trade, and sociology." Two years before his untimely death, he published an inductive, empirical summary of the postwar generation's fantasies and foibles in chasing prosperity, whether under capitalist or socialist rubrics. Outlining "the black cycle of developmental policy," his analysis appeared under a surely

memorable title: "How Not to Develop a Country: An Essay in Economic Pathology."[2] Here is how it worked (or didn't).

A nation's rulers, having decided that growth is "a good thing," often initiate a four-part sequence whose elements Bićanić characterizes as the economics of Overlord, Overstrain, Underground, and Overchange. In the first phase, those in power have "a Mission" and are cheerfully overwhelmed at how "epic" their program will be. They assume a monopoly of decision-making: "The magnitude and grandeur of the task is supposed to justify all measures, excuse all errors and provide benefits for all in the end." This rather soon gives way to a second stage, Overstrain, where maximizing development "has created bottlenecks everywhere." Anticipated gains are not realized and cracks emerge between older or disfavored trades and the new, "propulsive sectors," with resources heaped on the latter so as to achieve favorable results. This generates overcapitalization at the growth edges and underfunding elsewhere, most commonly in goods for households. Such constriction "leads to a consumers' revolt which strains the whole social fabric until it ultimately bursts at the seams." In parallel, overcapitalization delivers dreadful outcomes: "Making of products which no one will buy of their own free will;… industries built in places where there are no raw materials; railways which do not have enough goods to transport to use their capacity; purchase of expensive agricultural machinery which nobody uses, etc."[3]

In tandem with these stresses, citizens realize that their needs for income, goods, security, or development are not being met; enterprises recognize comparable shortcomings in the way things work. This fosters underground practices, which Bićanić formalizes as "when aims (wants) are covered by other than legal means, by non-institutionalized actors acting in non-transparent conditions in the same environment in which overground activity is taking place." Everywhere, "the bounds of legality snap." These are "the economics of disintegration," with the populace prioritizing self-interest, particularly the elite, whose "disregard for risk and personal integrity," whose "willfulness, arbitrariness, violation and crime" imperil the entire project. Looking through practices in the USSR, the satellites, the U.S., and among Asian and Mediterranean

regions, Bićanić identifies seven practical options for impropriety: "disloyal competition" (off the books buying and selling); tax evasion; black marketeering; public corruption (official frauds, favoritism); theft and pilfering (including embezzlement and bribery); illicit capital export; and "the two plans technique" (official "for those upstairs" and operational). This Smörgåsbord of deviationist opportunities, once again, is hardly confined to authoritarian regimes, though it seems simpler to institute where democratic constraints are absent. As bottlenecks and disappointments proliferate, as underground behaviors metastasize, leaders face the prospect that their development policies are unworkable, hence the advent of Overchange. "Change becomes the slogan of the day. Everybody talks of change and all measures of development tend to be explained and justified and all errors excused—by the magic of the word 'Change.'" Struggles among the ruling cadres center on whose version of change is most promising, what values must be adopted to secure altered priorities and practices, and crucially, what must be changed and by how much (and what left alone). Defenders of the current mode of operation rest silent; "most of them will pretend to be for change," while waiting for the fever to subside so as to assert new claims to authority—a revised Overlordship perhaps.[4]

An eclectic, if officially Marxist economist, Bićanić offered a Weberian moment, an "ideal type" which identifies the principal features or aspects of a process without expecting that every exemplar will exhibit each element. So in Hungary for example, illegal capital export was a minor matter, whereas every other option in the economic crimes menu was energetically exercised. An ideal type is compelling when it triggers a surge of recognition in the reader/observer: "So that's what's going on!" From that flash, in the best cases, come fresh questions; for example, in what appears to be an Overchange phase: Who's not talking, presenting proposals, offering critiques? What can we learn about the current structure of influence by probing for silences? What resources do the quiet folks possess, either to frustrate or obstruct eager changers or to undermine the efforts they undertake once having installed new practices? Both volumes of *Business Practice in Socialist Hungary* are deeply engaged with change processes—voluntary, persuaded, coerced, unanticipated. Readers

might wish to keep Bićanić's ideal type in mind so as to avoid any simplification of efforts at building socialism or resisting it. Complexity rests near the heart of every transformation—here, first toward, then away from socialist ideals, projects, plans, and institutions. It's a non-linear, unpredictable story, and all the more useful for that.

Oak Bluffs, Massachusetts
September 2022

Philip Scranton

Notes

1. See Philip Scranton, *Business Practice in Socialist Hungary, Volume One: Creating the Theft Economy*, New York: Palgrave Macmillan, 2022, Ch. 7.
2. Rudolf Bićanić, "How Not to Develop a Country," in *Turning Points in Economic Development*, The Hague: Mouton, 1972, vi, vii, 118. The essay was first published in the Paris journal *Tiers-Monde* (1966), and was translated as Chapter V for this posthumous collection of his work, edited by C.A.O. van Nieuwenhuijze.
3. Bićanić, "How Not to Develop," 117–123.
4. Ibid., 124–131.

Acknowledgements

This study, like its predecessor, developed without the aid of research grants or fellowships, in large part because its author is an emeritus professor no longer eligible for many funding opportunities. Yet, financial support was hardly needed for the project, insofar as the vast archival collections used were wholly accessible online, without user fees or charges. Nevertheless, I must express deep gratitude one more time to the Rutgers University Libraries, whose database subscriptions, extensive interlibrary loan services, and ever-responsive staff proved indispensable to the research process. It's been over a decade since I left the University's teaching staff to focus on scholarship; and the Library system has continued throughout to ensure access to materials and support when things online don't function as expected. My deepest thanks to them all.

Unlike other monographs I've published, *Business Practice in Socialist Hungary* has not been previewed through papers/chapters offered in seminars and at conferences, thanks to the COVID pandemic and the cancellation of everything. Instead, I have shared documents and drafts with a number of colleagues whose responses and suggestions have been invaluable. They include my closest colleague, Patrick Fridenson of the Ecole des Hautes Etudes en Sciences Sociales, Paris, with whom I've been zooming every two or three weeks for several years, and Lee Vinsel at Virginia Tech and Andrew Russell at SUNY Polytechnic Institute, whose pioneering inquiries into the criticality of maintenance and repair continue to be a source of inspiration. Prof. Andrew Popp of the Copenhagen

Business School provided comments at critical junctures, which I much appreciated. My sincere thanks to each and all of them.

Those of us who continue publishing late into our careers move past the decades when acknowledgments of (and apologies to) parents, children, cousins, pets, department chairs, computer repair-persons, et al. take their place in the brief comments preceding the main sections of a monograph. Old folks like me gradually turn to acknowledge the inspiration provided by colleagues who are no longer with us. So at this juncture, I wish to acknowledge the wise good humor and incisive critical intelligence of Chris Kobrak, who published widely in business history and taught at ESCP, Paris, and the University of Toronto until his untimely death in January 2017. Chris was, after a fashion, a nineteenth-century Liberal critiquing twentieth-century institutions; we disagreed about everything but food and wine—perfect. Second, this book is dedicated to the memory of Éva Balogh, whose daily Hungarian Spectrum posts were for 14+ years a source of constant insight into her homeland's descent into "soft" authoritarianism. Having emigrated to Canada after the 1956 Soviet invasion (aged 20), she earned her bachelor's degree at Carleton, trekked to New Haven for a doctorate, and taught Central European History at Yale for eight years before venturing into the publishing world. Her sudden death in 2021 silenced a voice valued by thousands who prize democracy and truth over arrogance and deceit.

Praise for *Business Practice in Socialist Hungary, Volume 2*

"This book examines a major problem: after the failure of orthodox socialist enterprise led to Hungary's 1956 revolt, could a reformed socialist enterprise become viable? Using an enormous array of new sources, Philip Scranton shows that contradictions multiplied both on the way to satisfying the needs of society and while learning from foreign technologies and ideas. Contradictions surfaced between limited national resources and the necessity of extensive importing, between consumers' aspirations to abundance and the myriad of segmented and regulatory institutions which supported austerity, between the larger potential of agricultural co-ops and the catastrophes of nature. Contradictions also between the reform's multiple industrial and commercial initiatives and the staunch defenders of bureaucracy and control. And last, contradictions between business, planning and academic groups searching for growth/innovation and the social costs of change, threatening old guard elites. The latter torpedoed the reforms: quantity remained antagonistic to quality and stagnation became synonymous with socialism. This was the product of a final contradiction, between the spread of knowledge among new generations and the monopoly of a single political party, far from democracy. A telling lesson on markets, consumers, business and civil society, brilliantly told by Philip Scranton."

—Patrick Fridenson, *Ecole des Hautes Etudes en Sciences Sociales, Paris*

"In this second volume of *Business Practice in Socialist Hungary*, Philip Scranton continues his lifelong career trajectory of challenging existing approaches in business history and calling fellow historians to fresh perspectives. Yes, in socialist Hungary, Scranton finds many of the fabulous failures in business and industry that were famously endemic in state socialism, but there are surprises on every page; and even in the face of failures, it is astounding how much the Hungarian people managed to get done. Most of all, Scranton's history, which draws on a fascinating body of archived materials, should be heard as a rallying cry to other scholars: back to unexamined primary sources! It's there we'll find new tales."

—Lee Vinsel, *History of Technology, Virginia Tech, Virginia*

"This book is required reading for anyone who wants to understand how industrial economies work: not along the clean and rational lines of expert planning, but through the gritty realism of humans coping with hunger, poverty, ambition, and corruption. The setting of *From Chaos to Contradiction* is the widespread suffering and confusion in the aftermath of Hungary's popular uprising in 1956. Scranton documents the human, technological, and economic dramas that Hungarians endured at the crossroads of socialist visions, shambolic markets, and the tragic clash between authority and truth. It's hard to finish this study without a deep sense of sympathy—if not pity—for anyone who dreams of creating prosperity from the chaos of industrial production and ideological conflict."

—Andrew L. Russell, *Professor of History and Dean, SUNY Polytechnic Institute, USA*

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CHAPTER 1

Reassembling the State and the Economy, 1957–1967

> Cold factory chimneys outnumbered smoking ones 3 to 1. A huge plant that has converted bauxite into alumina… no longer stained the snowy fields with its reddish fumes… The Budapest City Council reported that, to meet the emergency created by the revolution, licenses have already been issued for individuals producing building materials [or] consumer goods suitable for export. This is "to revive private initiative which has long been neglected."… One of the reasons why food is still plentiful in Budapest is that the farmers are bringing it in and selling it on the open market at prices which, though fixed by the Government, are far higher than formerly.
>
> —*New York Times*, 1 January 1957.[1]

> In May 1957, I was unable to buy common brooms, because they were not manufactured. I had to go to the market places where I could buy one, two, and sometimes 20 brooms from the farmers who [made] them at home… Actually everybody was puzzled [at] how the people of Budapest managed to make a living. Nobody could live on his legal salary… There were many people working illegally at different places. Even the orders concerning the so-called work-books and other personal documents were circumvented. People had false documents or took up jobs under a false name. The newspapers wrote up such cases pretty often and there were even more cases which were not detected by the authorities.
>
> —Hospital purchasing agent, July 1957.[2]

P. Scranton, *Business Practice in Socialist Hungary, Volume 2*, Palgrave Debates in Business History,
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> There seems… to be considerable money about. Much of this money had been gained in the black market, which continues to thrive, and from bribery and corruption rife in the nationalized industries. It comes also from private trade, to which the Government of János Kádár has given some head. The number of private merchants has increased about 32 percent compared with a year ago. Also, the abolition of compulsory deliveries of foodstuffs to the state coupled with a good harvest has put money in the pockets of the peasants.
>
> —*New York Times*, 17 December 1957.[3]

On the fourth of November 1956, as Soviet tank formations rolled in to crush a popular uprising, János Kádár addressed the nation to announce a new administration. Using a broadcast frequency hosted by Radio Moscow, he accused the displaced "Rákosi and Gero clique" of outraging the working classes through its "many grave mistakes." In the same breath, he denounced "the weakness of the Imre Nagy Government" as threatening "worker-peasant power and the very existence of our country." Asserting that he was seizing the reins of state authority to defend "our socialist achievements," Kádár also acknowledged numerous shortcomings: "We know that many questions are still awaiting a solution in our country and that we have to cope with many difficulties. The life of the workers is still far from what it ought to be in a country building socialism." Outlining a 15-point program for "the restoration of peace and order," Hungary's Soviet-installed Premier closed by claiming: "Truth is on our side. We will win."[4]

The ambiguities buried in those simple, final statements animated the first of Kádár's three decades as Party and state leader. During the Rákosi years, truth had perennially been up for grabs—ideology drove policy. Struggles would continue, especially over whose version of what was happening was reliable. Party factions and rival ministries interpreted the same information in sharply different ways. Notoriously, whereas the Budapest press repeatedly voiced official optimism about socialism's progress, provincial newspapers documented the opposite—apathy toward work and violation of regulations, alongside widespread theft and embezzlement ("crimes against public property").[5] Moreover, it was far from clear who constituted "our side." Who was this "we" Kádár claimed he was representing? The Russians had selected him, after all, not the Hungarian Workers Party (which had collapsed in October);

and he would soon authorize thousands of arrests, hundreds of executions, and the dismemberment of the Hungarian Army (which had largely supported the revolt). His 15 points did include elements from Nagy's program, particularly "changing the methods of economic management, taking into consideration the capacity of the country, so that the population's standard of living may be raised as quickly as possible." Other items on that roster would never draw breath: viz., "The government will not tolerate the persecution of workers under any pretext whatever for having taken part in the most recent events," "the elimination of bureaucracy," and "workers' management must be realized in the factories and enterprises."[6] Nope, not a chance, not with mass arrests, bureaucracy's rapid restoration, and elimination of the workers' councils created during the revolt.

Looking back from the 1970s, a Yugoslav reporter summarized the situation: "Rarely had any governing group such as the one headed by János Kádár come to lead a country in a situation in which many saw nothing but despair ahead. The party was smashed, the nation without leadership, the army in collapse, the economy paralyzed, and the state mechanism stalled."[7] A June 1957 US intelligence report assessed the Kádár administration, neatly revealing the long road ahead toward a workable "we." The analyst, while hostile, captured key elements of the situation.

> The current government doesn't enjoy even that minimum independence that the Rákosi government had had. The Kádár [group] mirrors the directions given from Moscow. [It] needs to accomplish the following: A. Secure the confidence of the Soviet leaders. B. Find within the corresponding organization in the Soviet Union that person or those persons who will serve as patron(s) to the Hungarian incumbent. C. Create within the country a foundation which will permit continued political survival.

The Soviets aimed to convene a "completely reliable" administrative center, albeit one "more or less acceptable in the eyes of the outside world." Kádár met their requirements. A working-class Communist who spent the war years in Hungary, not in Moscow like so many others, he was imprisoned and tortured under Rákosi's regime and released by Nagy's successor administration. Neither a Stalinist nor a revisionist, he continued "to regard himself as a 'centrist.'" Over time, this stance would

serve Kádár well, but in 1957 factory workers plainly despised his allegiance to the Soviets. Farm folks kept their opinions to themselves—the state had extended Nagy's ban on forced deliveries[8] and allowed food prices (and their incomes) to rise. The report offered two summary points, one dead-on, the other dead wrong: "In the true meaning of the term, there is no 'policy line' in the current government. And there will be none in the future, either; for no matter how deteriorated the moral atmosphere in Hungary, no matter how much denunciation takes place, the populace will continue to reject the Kádár regime."[9] Always seeking a middle way, Kádár avoided ideological commitments well into the 1960s, when "reform" superseded both Stalinism and revisionism as policy mainsprings. He also vacillated in foreign relations, alternating between efforts to please the Russians and maneuvers to test their tolerance for national deviation. Yet, Hungarians did not "continue to reject the Kádár regime." They came to terms with it and acted accordingly, frequently striving to optimize their incomes and minimize risks, much like business people and workers in capitalist lands. Enthusiasm for building socialism was negligible, but enthusiasm for living as well as possible was palpable.

In that light, what is distinctive and defining about Hungary's post-1956 decade is that the bottom-up coping behavior millions had practiced during Stalinism[10] was now being adopted at the top. Kádár and his comrades did not spend their days formulating brilliant programs to advance socialism, but instead, picked their way through minefields—of Soviet (and Western) policy initiatives and reversals, of indifference, bitterness and resentment at home (promises made and abandoned) and of constant evidence confirming waste, failure, and stagnation. Over the years, most Hungarians nevertheless came to regard János Kádár with bemused acceptance—he was all they had, he spoke to them in person and in understandable language, and his policies made daily life better (if only very gradually). Reportedly, he even laughed at jokes that mocked him. The old Rákosi dread receded once reprisals faded after the last brutality, executing Imre Nagy in 1958, gave way to serial amnesties for political prisoners.[11]

Thirty years later, looking back from 1989 at four decades of Hungarian Communism, a team of historians and social scientists led by Ivan Berend, affirmed that the revolt little affected the basic institutions of state and economy despite substantial alterations of practice.

> The institutional and political structure, power structure, and bureaucratically-centralized and monolithic ownership structure of the Stalinist model were preserved in an essentially-unchanged form. Connected to this was the essentially-unchanged ideology which served to legitimize this model… Within this old framework, however, significant transformations occurred, primarily in the elimination of tyranny and lawlessness, in changing the dictatorial character of power, and in their gradual replacement by a future-oriented, more humanitarian utopia. But the preservation of the earlier… structures erected many taboos and prescribed strict limits for change.[12]

By 1965–1966, when debates about reforming the system morphed into the New Economic Mechanism, Kádár supported the drive to overcome central planning's structural defects by pushing authority and responsibility down to lower levels of enterprise operations and by curtailing the intrusive micro-management ministerial officials had long used to "guide" firms and farms.[13]

Before that venture could be launched, Kádár and his colleagues had foundational work to do in the late Fifties and early Sixties, as the polity and the economy both needed repair. These issues and actions will be reviewed in three clusters: Priorities, Continuities, and Changes/Transitions. Priorities highlight tasks the new regime had to accomplish so as to govern without guns. Continuities reflect those elements of state, economy, and society which rested unaffected by the 1956 upheaval—conditions and constraints that persisted. Changes/Transitions reference the perceptions and projects which triggered fundamental reviews of "socialism thus far," as well as systematic efforts to improve outcomes through shifts in policy and practice.

Priorities

Rebuild the Party and begin governing: The Hungarian Workers' Party could boast some 800,000 members in summer 1956, but 90 percent fewer after the November invasion. Most members quit the Party during and after the revolt; the most common reason for joining had been job security, not belief, but security had vaporized. Budapest workers' October defection from Stalinism could be seen "in the mass destruction of their Party membership cards, thousands of which were strewn along the streets of the suburbs, Csepel and Ujpest." As winter neared,

> the Party leaders had lived through a stupefying spectacle—the almost complete disappearance of the Communist Party—the disbanding of its membership, the collapse of its administrative network, and the decay of its local organizations. Since [October], everything had been done without and against the Party. Its grip over… every activity in the country had gone limp and lifeless.[14]

Shortly before the invasion, Kádár, Nagy, and a cluster of centrists abandoned the shell of the collapsing HWP in order to form its successor, the Hungarian Socialist Workers' Party, ideally reflecting the nation's "peculiar characteristics" while "free of Stalinism and any kind of dogmatism."[15] On 6 November, Radio Budapest broadcast news that their provisional committee (all but Kádár would later be replaced) had "started on the reorganization of the party," pledging to "isolate itself from the mistakes of the Rákosi clique… not in order to deny the achievements of the past 12 years, but to avoid the extremes of both right and left."[16] Whatever their aims, HSWP leaders instantly had to face "a manpower shortage" of staggering dimensions: those heading Party committees in enterprises and agencies had resigned (thousands had emigrated), rebellious former members had been arrested, while few replacements could be found amid the turmoil of strikes, border crossings, and reprisals.[17] Soon

> it was clear that the new Party had no hope of gaining even the modicum of enforced or opportunistic support which its predecessor enjoyed. Total Party membership on the last day of December 1956 was 103,000 in a population of 10 million. Membership was particularly low in the working-class areas of Budapest. There were only 340 Party members in the Csepel Iron Works with 38,000 workers. In another factory that employed 1,000 people there was only one Party member, where there had been 400 previously.[18]

Strenuous recruiting efforts by activists from the reconstituted Party proved "not very successful" in attracting "new blood." As well, initial appeals to former members to join "the empty ranks of the HSWP were resisted by both the workers and the intellectuals." Meanwhile the Party's rural units had never been robust. During 1957, however, the "claimed" membership rose to 400,000, at least half of whom were political functionaries (50,000), members of security forces and militias (100,000), and

government employees (50,000). Eventually, migrators from the original Party constituted over 80 percent of the HSWP's ranks, a problem in itself, as an estimated one-third of these were "old guard" Stalinists, "dogmatists." Their presence in county and local administrations created nagging problems for Kádár's ministries, because they resisted programs to incentivize production and increase goods circulation as violating core tenets of Marxism-Leninism.[19] The regime could not govern without them as it could not replace them.

Restore wrecked agricultural co-ops (TSZs[20]) and farm production: In 1956, a second campaign to expand collective farming had crested and faded, adding just 491 new TSZs to the roughly 4000 in place at the drive's outset. Their share of Hungary's arable land was only 21 percent. "Parallel to this, the numbers leaving cooperatives, and indeed of cooperatives breaking up, grew ever more quickly," leading to "a severe multilayered crisis in the agrarian sector" by the fall. Before the invasion, "more than half" of the TSZs "dissolved and about 63 percent of the land under collectivization was returned to individuals," placing 80+ percent of farmland in private hands. The next year, co-op membership shrank to 154,000, the lowest since 1950; in a two-million-strong farm workforce, 1.6 million occupied the "private sector."[21] Most ongoing co-ops were feeble, for they contained "the most impoverished segment of the farming community—former agricultural laborers and share-croppers." During the upheaval, in another episode of spontaneous strategizing, farmers undertook "multidimensional and multilayered self-organization. Villagers did not wait for central directives but took the organization of life in their communities into their own hands, at the same time formulating demands… concerning what matters required urgent action." Their agendas were "surprisingly mature and thought-through," a recent analyst judged, suggesting core issues (e.g., no forced deliveries and free market selling) that had long been evident. After 4 November, Kádár's state initially ignored their proposals, but they soon resurfaced in farm policy. In July 1957's "agrarian theses," agriculture officials stepped away from Soviet models.

> They repudiated the punitive policies of the Stalinist era and eased the burden on the cooperative and private farming sectors by abolishing compulsory deliveries, formally ending state control of sowing patterns, and adjusting agricultural prices in favor of producers. They also suspended

> forced land consolidations and permitted the purchase and sale of small landholdings.[22]

Aided by local agents, ministries worked to reconstitute defunct co-ops, making little mention of further collectivization. Even if angry families "withdrew" their donated land, they held insufficient acreage for independent farming, and could not duplicate the TSZ's access to seed, feed, fertilizer, machinery, or capital. By late 1958, 2700 co-ops again functioned, 40 percent fewer than in 1956, but a sharp increase over 1957. Their land share had fallen to just 15 percent, about even with Hungary's State Farms, centers for large-scale grain production, livestock breeding, and technological modernization. Hence, with private families holding 70+ percent of the usable countryside, "at the end of 1958, Hungary was the least collectivized of the People's Democracies, with the exception of Poland."[23]

To encourage renewed plantings and revive livestock investments, the Kádár team avoided crackdowns on market selling (and pricing) and reiterated the revisionists' judgment that agriculture had been wrongly deprived of adequate investment capital. Soon grains, vegetables, and fruit began flowing steadily to state purchasers and urban market stalls. Yet, problems from the Rákosi years returned. Resző Nyers, chair of the National Federation of Cooperatives, reported that an investigation of 300 TSZs mounted in 16 counties detected "inventory shortages" of 22 million forints in 1955, 36 million in 1956, and 26 million in 1957 [$2 million; $3.1 M and $2.4 M, at official exchange rates]. "Abuses" were universal, notably co-op officials' "unpardonable excessive expense accounts."[24] Equally disturbing, rural outmigration seemed to be accelerating; in Bács County alone, 13,000 mostly young people had exited in 1955, 15,000 the following year, and 26,000 in 1957. Analysts suggested moving small industrial plants to country towns and helping co-ops emphasize profitable vegetable plots, fruit orchards, and vineyards.[25] Finally, Machine Tractor Stations, created in 1948 to provide mechanical services to state farms and TSZs, suffered from inadequate spare parts supplies, too few "maintenance mechanics," and the perennial drift of tractor drivers to steadier, better-paid work hauling materials or goods for factories.[26] Before rural districts fully settled down, the Kádár administration launched a third round of collectivization in 1959 and 1960, pleasing the USSR.

Regain control over factories and industrial workers: During the revolt, thousands from Budapest's machinery and metalworking plants took up arms against Rákosi and the Soviets; steelworkers and others in provincial manufacturing centers like Györ, Ozd, and Miskolc also rebelled. Everywhere they created workers' councils to participate in decision-making and sustained illegal strikes for months protesting Soviet occupation, contributing sizably to an economic contraction of 21 billion forints [$1.9B, 20 percent of GNP] and an unfavorable balance of trade. Unlike farmers, most workers rejected the replacement regime, which reciprocally distrusted them, arresting some and discharging more. Reconstructing factory Party committees was thus keenly important to restoring "work discipline"; but for the first Kádár year, there weren't enough experienced cadres to fill the posts. Thus, threats and coercion had to serve amid a climate of reprisals. Suppressing the workers councils in November 1957 silenced critics from the factory floors. Carrots could come later.[27]

With plan targets in ruins, more than getting production up to speed was at stake for the new regime. Stalinist-era industry had driven relentlessly toward meeting quantity goals, but in so doing generated low-grade products—imprecise tools and shoddy fabrics—hardly welcomed abroad and tough to sell at home. Reviving manufacturing (and its crucial export revenues) thus demanded a shift toward quality which in turn depended on technology upgrades, "the re-tooling of industry." But Hungary was effectively broke. What to do?[28] Sharp wage constraints to curtail consumption and fund capital investment had been the classic Rákosi tactic; but doing that in 1958 could intensify workers' bitterness. By contrast, budget juggling was attractive—draining money out of "cultural, social and building investments" to replace aged machinery, thus improving productivity and quality. A sensible notion, but the transferrable funds proved insufficient, whereas quality gains were unlikely without altering quantity-based performance incentives. Bonuses for topping volume targets were cherished and defended, especially by managers. Adjusting them would become exceedingly complex, as quality indicators differed in each sector and no agreed-upon measurement tools existed. A second initiative involved reintroducing "production competitions," an old Stalinist ploy in which plants' work brigades strove to win honorific titles and "hero" banners by outpacing one another in beating output norms. Wrong place, wrong time. "The results were disappointing. The competitors were unwilling, competitions were slack and norms lagged behind their targets." Profit sharing next took center stage.

Ostensibly offering workers as much as a month's extra pay when plants exceeded targets, it proved a thin incentive; for in practice rewards on that scale were rarely distributed. Nonetheless, Kádárhad committed his government to lifting standards of living and consistently pursued this goal into the 1960s.[29]

The simplest tactic, raising wages, was a non-starter; with limited consumer goods production capability, this could trigger inflation—more money chasing too few goods. Instead, the Kádárists allocated capital to light industry for expanding output and improving clothing, appliances, and household goods, seeking the converse—ample goods drawing scarce money. The lure of consumption could entice workers to push production upwards. Observers local and abroad agreed by the early 1960s that this strategy was working, though not exactly as planned. Stoking desires for refrigerators and televisions fueled not only shop floor drives to score premiums but also myriad, illicit "moneygrubbing" schemes to boost household incomes. Still, "a moderate but constant improvement of living standards became a definitive characteristic of the period." By 1963, Kádár's planners determined to reorganize manufacturing's management and sectoral organization, as had their predecessors. A sequence of decrees "abolished" ministries' direct control over enterprises of all sorts, decentralizing responsibility, as "Soviet industrial reorganization" had attempted. This move created a roster of intermediate "trusts" to supervise plan fulfillment at the enterprise level, ostensibly displacing ministerial oversight. The scheme was, if not a sham, at least a diversion, for ministries retained control over "important investment programs," production coordination with Bloc partners, "fixing of prices," the "rules of accountancy," and much else.[30] To be sure, manufacturing stabilized by the early 1960s, but growth was essential.

Reduce fear and curtail surveillance: Before Stalin's death, Rákosi's security services drew on an extensive network of informants, often trapped through their own indiscretions into spying on neighbors, workers, or Party members. Predawn arrests and compulsory relocations to remote districts were standard fare. The political police (AVH[31]) clubbed and tortured prisoners to extract confessions implicating other "enemies of the state," operating scores of prisons and forced labor camps to exploit and punish their targets. Nagy's cabinet pledged to release thousands and restrain the AVH, but its capabilities were modest and its tenure brief. In 1956, Budapest rebels targeted and killed scores of AVH officers, then captured and ransacked its Andrássy St. headquarters. The