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HUNGARIAN COMMUNISM TODAY

STAFF REPORT

TO THE

SUBCOMMITTEE ON EUROPEAN AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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CONTENTS

	Page
Letter of transmittal	1
I. Hungary before 1956	7
II. Failed revolution and beyond	11
III. Hungary today:	
A. Kadar and the framework of authority	19
B. Ideology under stress	24
C. Human rights	27
D. Hungary and Eurocommunism	31
E. Kadar's recent foreign policy activism	33
F. U.S.-Hungarian relations	34
G. Hungary and the future of East-West trade	41
IV. Summary and recommendations	47
Appendix: Selected sections of the Trade Act of 1974	51

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C., November 20, 1977.

Hon. JOHN SPARKMAN,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During August, in my capacity as Chairman of the Subcommittee on European Affairs, I traveled to Eastern Europe to study current developments in Hungary and Czechoslovakia, two Warsaw Pact countries where efforts to chart an independent course in the postwar years were brutally quashed by Soviet force. Today, though they share that common experience, Hungary and Czechoslovakia have emerged at opposite ends of a spectrum. In Hungary, during the two decades since its Revolution was suppressed, there has occurred a quiet evolution, which has brought that country general recognition as being the most liberal, in terms of personal freedoms and economic practices, of all nations in the Warsaw Pact. By contrast, Czechoslovakia today continues as the captive of its Stalinist heritage; there, though nearly a decade has passed since the Kremlin overturned Alexander Dubcek's courageous attempt to shape a Communism free of such practices, police state methods remain the order of the day.

The inherent vulnerability of Communism to such political repression is, of course, well known and at the very core of the dispute between East and West in Europe. Less understood—because there has been little practical experience with the process—is the potential for countries in the Warsaw Pact to *liberalize* their political and economic practices. It is for that reason that I focused during my trip on Hungary, which has carried the process of liberalization to remarkable lengths. Where this process will now lead is a fundamental question, but I believe that, in an important sense, to know Hungary's future would be to know a great deal about the future of Europe.

This staff report, which was prepared at my direction, does not venture a prediction about that future, but it does effectively outline some of the forces which have shaped Hungary and the considerations which now guide its leaders. If it was true in 1956 that Hungarians sought to change their world by taking Hungary out of its Soviet orbit, it seems true today that, having failed then at great cost, Hungarians are now resigned to remaining in the Soviet sphere but are proceeding nonetheless to improve their lives dramatically. Their success in doing so, I conclude, derives from the pragmatic gradualism of their approach and their willingness to forego a public examination of

fundamental principles, which could again unleash forces of ideological and civil strife. In Czechoslovakia, Dubcek sought to change his society by revolutionary action—not by repudiating Soviet hegemony, which ironically was an idea he accepted, but by a thorough re-evaluation and overhaul of the rigid, dogmatic system he had inherited from his Stalinist predecessor, Antonin Novotny. The upheaval that this effort excited in Czechoslovakia, and the fears that were engendered in the Kremlin, brought him down. It was, like the Hungarian Revolution, an episode of heroic action and pathetic conclusion.

Dubcek's fate in 1968, and their own in 1956, offered a lesson that Hungarians have learned well. Whether they have learned it too well, and comprised too much, I hesitate to judge. But at least against the criterion of practical success, they cannot be faulted. Always looking ahead, maintaining a dutiful acquiescence to the imperatives and rhetorical principles of Soviet foreign policy, they have focused inward and made their country a better place. Yet to visit Hungary and Czechoslovakia today is to be inescapably surrounded by a feeling of the tragic, arising mainly perhaps from the stark contrast between the two, but also from a sense of the dreams of people in both countries that have yet to be fulfilled.

While in Hungary, I met with a variety of government officials and journalists, who offered warm hospitality and conversation which alternated between the frank and the tactful. For reasons which are probably a mixture of national character and political necessity, Hungarians have developed to an art the ability to convey meaning by indirection. As one Hungarian put it, "Americans believe that we are not fully free to speak and write. What you should understand is that we have learned to compose sonnets instead of prose."

I appreciated the insights these meetings afforded me, and also the assistance provided by our U.S. ambassador in Budapest, Phil Kaiser, and his embassy staff. Counseling me also was John Ritch of the Foreign Relations Committee staff, who accompanied me on the trip and who prepared this report for the use of the Subcommittee on European Affairs.

Having asked that the report include conclusions and recommendations, I should emphasize that the views expressed do not necessarily represent the position of any member of the subcommittee.

Sincerely,

JOSEPH R. BIDEN, Jr.

HUNGARIAN COMMUNISM TODAY

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On the cold Budapest morning of November 4, 1956, tanks of the Red Army—withdrawn a week earlier in an apparent act of Soviet concession—returned in reinforced strength to crush a rising and nearly full-scale rebellion by the Hungarian people against the tyranny of their own recent past. Still clouded in mystery, and probably lost to history forever, is the full story of Janos Kadar's role in those events. Clear only is that the role involved a decisive turnabout. A lifelong Hungarian Communist newly appointed as his Party's first secretary, Kadar had spoken out boldly as the crisis neared its climax, declaiming against Soviet pressure and championing his nation's "glorious uprising." Yet only days later, as the imposition of Russian force yielded carnage and Hungarian defeat—and the fatal kidnapping of Hungary's revered Prime Minister, Imre Nagy—Kadar was to be borne willingly into power as the chosen instrument of Soviet repression. That this same Janos Kadar, reviled then as a traitor by millions of his countrymen, would eventually earn their genuine esteem, while gradually producing in Hungary a uniquely liberal Communist regime, was a future that few then could readily have imagined.

98-450 O - 78 - 2

I. Hungary Before 1956

In January 1919, more than four years and eight million deaths after the European powers had drifted suicidally into the destruction of the old order, the victorious Allies convened in the outskirts of Paris to redesign the continent. For the previously decrepit and now ruined empire of Austria-Hungary, to which more than a million soldiers had just given their lives, the price of defeat was dissolution. Within the sprawling Dual Monarchy, Hungarian territory had comprised roughly half, extending from the Adriatic coast in the southwest through Slovakia in the north, and reaching eastward across Transylvania almost to the Black Sea to encompass altogether some 20 million subjects of a dozen different races. In Paris, as the English, French, and Americans proceeded through negotiations that were to culminate a year later in the Treaty of Trianon, two-thirds of Budapest's domain was assigned to the new or altered states of Czechoslovakia, Romania, Austria, and Yugoslavia.

During the early months of 1919, bitter at the way the Western powers were blithely carving up their country, Hungarians overcame traditional antipathies and momentarily looked east for support. In Russia, where the Czar lay dead, the Bolsheviks had used the few months between revolution and armistice to indoctrinate with Communist principles as many captured Austro-Hungarian soldiers as possible. Of these, two who had been sent home to lead the Hungarian proletariat were Matyas Rakosi, whose star was to ascend many years later, and Bela Kun, who now, amidst desperate confusion, was borne suddenly to power on a wave of hope that, all else appearing futile, perhaps a man with Lenin behind him might save Hungary's integrity. Among Hungary's largest class, a destitute peasantry, Bela Kun's promise to break up the old estates also spawned hope—but only briefly, as it soon became clear that the new Communist government's aim was not to redistribute land but to collectivize agriculture, and forcibly if necessary. Within weeks, Bela Kun's reign had become the Red Terror; and when the Allies successfully abetted Kun's overthrow in August of the same year (a success they would fail to match in similar efforts against the Bolsheviks in Russia), few Hungarians could lament the loss.

Nor, however, was there promise in what followed. With the failure of the try for revolution, Hungary's aristocracy deployed a national army of counterrevolution to salvage what remained of the status quo; a White Terror replaced the Red; and by early 1920 a rigid right wing regime had been established under the regency of Admiral Miklos von Horthy—a sadly symbolic leader for a defeated and disappointed nation which no longer had access to the sea. For the entire period between the wars, Horthy was to sit stably in place, presiding over an immobile, stagnant society and a succession of au-

thoritarian governments which easily resisted any instinct to reform Hungary's archaic pattern of feudal life.

Although the 1920's and 1930's saw a small class of aristocrats and landlords continue to dominate Hungary as they had for centuries, the country's few thousand Communists gained little in strength or organization. Illegal and hounded by Horthy's secret police, the Party held scant appeal to a population where Catholic conservatism, combined with dislike of the Russians and memories of Bela Kun's grim rule, easily dampened most fires of revolutionary fervor. For the enthusiastic young Communist Matyas Rakosi, within whom such fires did burn, any possibilities for action were soon preempted. Having fled to Moscow after the fall of Kun, he returned to Hungary in 1924 hopeful of building the Party, but by the following year was in prison, where he was to remain for the next fifteen years, reading and waiting.

In 1931, though it was accomplishing little beyond an occasional terrorist bombing, the Party did gain at least one new adherent: nineteen-year-old Janos Kadar, who now began the slow and uncertain climb up the Party's clandestine ladder. The danger in such an ascent came not least from within the Party itself, which, being responsive to Moscow, was subject to periodic bouts of interneccine bloodletting at Stalin's whim and instigation. No measure of Stalinist perversity, however, proved able to overcome the faith, shared by Party comrades throughout Eastern Europe, in the word of the master. For Hungarian Communists, the height of confused obedience came in 1939 when Stalin, having allied with Hitler, ordered the suspension of all subversive activity against Horthy, who too was a Nazi ally. Though strange and inevitably brief, the Stalin-Horthy rapprochement did benefit Matyas Rakosi, who was released from jail in 1940 and allowed to return to Moscow, while his Hungarian comrades stood indolent at Stalin's direction.

In 1941, Hitler's invasion of Russia ended the false friendship of left and right, freeing Hungarian Communists to oppose Horthy once again. But they did so now with even less effect, for Hitler's expansionist new order, and the Horthy regime's close relationship to it, appealed to many Hungarians as the most promising development in a generation—long-delayed justice after the humiliation of Trianon. From the Munich Agreement, contrived by Hitler in 1938, Hungary had regained a sizable part of Slovakia, and still more the next year after the Nazis occupied the Czech-lands. In 1940, Hitler's munificence had brought Hungary the return of Transylvania (which, with its population of Hungarian Magyars, had been perhaps the bitterest loss of 1920) and in 1941 a part of northern Yugoslavia. All in all, Hungary's territory had nearly doubled in the space of three years.

The euphoria of acquisition ceased only in 1944 when, with the tide of war turning, Hungary itself was occupied by the Nazis, who quickly swept away the Horthy regime and used a new government of Hungarian fascists to unleash a reign of terror that focused on the country's Jews. Though terrible, the last gasp of the new order was brief. Before year's end, the Red Army had begun pouring across the eastern border, and by the spring of 1945, after two months of street-to-street fighting had devastated much of the ancient capital of Budapest, the Germans were driven out. Liberated from fascism, Hungary was now to find that the price was a permanent presence of Russian troops.

Hungarian Communists had been led during the war years jointly: by Janos Kadar, whose diligent work for the Party had earned him a few brief spells in jail and a perch atop the secret hierarchy, and Laszlo Rajk, a charismatic intellectual who had fought with the International Brigade in the Spanish Civil War. Hungary's Communists in exile had meanwhile congregated in a Moscow hotel where, presided over by Matyas Rakosi, they had sat the war out plotting the Party's future. Thought by all concerned to be politically superior because of their close ties to the Kremlin, the Moscow Communists returned to Budapest within days of its liberation to put their plans to action. Prison-educated and now a fiery orator, Rakosi assumed the Party's leadership, while Kadar and Rajk took places among his top deputies.

In October 1945, free elections yielded a Hungarian republic and a parliamentary coalition in which the Communists were a small minority. But Stalinism had arrived in Hungary with the Red Army, and the new framework of democracy was to prove a fragile target. Beginning with only twelve thousand supporters, but working in close alliance with Soviet occupation authorities, Hungarian Communists took immediate control of the institution that had for years been their scourge—the nation's police force—turning it (and even many of its old fascist members) quickly and ruthlessly into the Party's private instrument. It became, as Rakosi later recalled, "a reliable sharp weapon in the fight for a people's democracy." Within two years, the combined knives of intimidation, murder, parliamentary bullying, election rigging, and deceit had slivered all opposition. In 1947, under approving Soviet eyes, Matyas Rakosi took complete control.

Once in power, the Communists' most obvious and immediate aim was to overturn the Hungarian class structure, which had been little affected either by fascism or the country's aborted try at democracy. Now semifeudalism was to be transformed instantly into socialism, through an all-embracing national plan. Where necessary, implementation would employ the same tools of intimidation and compulsion that had brought the Party to power.

The social transformation which soon resulted was made no less revolutionary by the brutal methods involved. Actively discriminated against, former members of the aristocracy and bourgeoisie—those who had not fled the country—took their places as second class citizens, while thousands of Hungarian workers and peasants were promoted into positions of authority in a vast new Party apparatus, which quickly extended its tentacles into every crevice of the nation's life. Meanwhile, in accord with current ideology, Rakosi moved swiftly and forcibly to imitate the Soviet model of heavy industry and collectivized agriculture.

Stalinist economics, however, was to prove no more successful in Hungary than in Russia. As collectivization drove peasants off the land into hastily built factories, the country's previously low industrial production rose dramatically and steadily for several years. But the appearance of progress came largely from the pace of industrialization—the rate at which new labor was being brought to the factories—and not from any rationality of plan or purpose. As time passed, despite the constant glorification of their class, workers and peasants were to find that their real incomes remained unimproved and

indeed that the country's urbanization had forced them into living conditions even more execrable in many cases than those they had previously known. Nor was a sound foundation being set for future gains, for the quality of industrial goods was low and investment in infrastructure almost nonexistent. Not, however, until the mid-1950's would the reality of Hungary's essential economic stagnation finally penetrate the dogmatic myth of progress.

Throughout Eastern Europe, the postwar years before Stalin's death saw thousands persecuted and killed, but in no country was the terror more grim or indiscriminate than in Hungary, where Communist and non-Communist alike fell victim to the Party's axe. In 1948, neighboring Yugoslavia's defection from the Soviet camp supplied a convenient rationale for suppressing all Hungarian dissent; and against a backdrop of rapidly intensifying Cold War, charges of "Titoist" and other foreign-inspired treachery became a standard Rakosiist instrument for eliminating not only opponents but also potential rivals. Within months of the Party's seizure of power, Rakosi's compulsive search for new enemies had begun to degenerate into a full Hungarian reenactment of the macabre totalitarian ritual of imprisonment, torture, fake trials, and execution that Stalin had already made famous. In 1949, no less impeccable a Communist than Laszlo Rajk was arrested as a Titoist, forced to confess, and hanged. Two years later, his wartime comrade Janos Kadar fell victim to the same process,[1] though Kadar was to manage after prolonged torture to survive.

Having depended in part on the link with his master, Rakosi's power weakened in 1953 when Stalin's death yielded a new Kremlin leadership less committed to Stalinist principles than Rakosi. Almost immediately, Khrushchev and Malenkov directed a change: Rakosi could remain as Party chief but must relinquish the premiership to Imre Nagy who, though schooled in Moscow with Rakosi, had demonstrated in practice a decidedly more moderate view. With Nagy's appointment began a limited attempt at economic reform and political rehabilitation, one product of which was the release from prison of Janos Kadar. But like neighboring Czechoslovakia, Hungary was not to be easily de-Stalinized; and in early 1955, after the good intentions of his "New Course" had brought little accomplishment or reform, Nagy fell from power as Rakosi regained ground. Janos Kadar meanwhile began a second climb up the Party ladder, building a reputation as a man of the center—not overly sympathetic to Nagy's conciliatory gradualism but opposed to the brutal Stalinism of Rakosi, whom he now quietly hated.

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[1] A compounding irony, according to some historical accounts, was that Kadar had earlier helped to elicit Rajk's false confession "in the interests of the Party." As described, Kadar's successful persuasion of the torture-weakened Raik was a scene involving all of the nightmarish totalitarian logic that Arthur Koestler had portrayed a decade earlier in *Darkness at Noon,* his classic novel based upon the Soviet experience of the 1930's.

II. Failed Revolution and Beyond

Like the nearly simultaneous revolt in Poland, the Hungarian uprising in 1956 grew directly from Khrushchev's shattering denunciation of Stalin at the 20th Soviet Party Congress in February that year. What Khrushchev was demanding was an end to some of the starker techniques by which Stalin and his admirers had governed the Soviet Union and Eastern Europe. As this message resounded into the Soviet world, what many Hungarians heard was a signal, long awaited, that the time had come to remove all of the men and methods associated with the last eight years. Their first response was as Khrushchev intended: an echoing attack on Stalinism and a demand for basic reform. The hero of the reformers was Imre Nagy, a man as widely trusted as Rakosi was now despised. Their goal was to return him to power.

But once begun, the tide of change in Hungary was not to be easily controlled. Through the spring and summer of 1956, demands for reform, which had begun with writers and intellectuals, grew increasingly vociferous, even among Party militants. The rising refrain was not only that Hungary's future must be entirely different but that, as a beginning, the truth about the past must be entirely told. By June, in what amounted to a near-direct repudiation of Rakosi, the Hungarian Communist Party had passed a resolution rehabilitating Laszlo Rajk; and his reburial with honor was planned. In July, at Khrushchev's order, Rakosi was dismissed. He was replaced, however, not by Nagy, as many now passionately wanted, but by Erno Gero, a Stalinist closely associated with the horrors of Rakosi's reign. During the following weeks, Gero's half-hearted efforts at reform did little to quell the gathering storm; and when Rajk was reburied in Budapest on October 6, no less than 150,000 Hungarians assembled in solemn attendance to honor a man betrayed by the country and cause he had sought to serve. For Hungarians bent on thorough change, Rajk's funeral set a mood of determination and unity which was not to be appeased and which, within weeks, was to be manifested in act of revolutionary will.

For Khrushchev, though he himself had launched the process, the logic of reform had a dangerous potential: for if Stalinism had been imposed on Hungary by the Soviet Union, then the best interests of Hungary—even a communist Hungary—lay in finding her own path. Gradually, as summer passed to autumn, the force of this logic was felt. On October 22, thousands of copies of a resolution adopted by Hungarian students began circulating in Budapest. Its essence was more anti-Rakosiist than anticommunist, but the right of Hungary to follow Yugoslavia and now Poland to greater independence was clearly its inspiration. Its points were those now widely accepted by Hungarians seeking change: the removal of all Stalinists from the Hungarian Party and the election of new cadres; the trial of Rakosi and

his cohorts; the rehabilitation of victims of past trials and the return of Hungarians deported to the Soviet Union; multi-party general elections; unconditional freedom of opinion and press; the withdrawal of Soviet troops and a remodeling of the economy according to Hungary's own needs; and the immediate return of Imre Nagy to power.

It was to demand, among other changes, Gero's dismissal and his replacement by Nagy that Hungarian students demonstrated in mass on October 23. Their assault that evening on the National Radio building in Budapest produced a direct clash with Hungarian secret police, who epitomized the Rakosiist Hungary they wished to overturn. The violence brought an immediate and favorable result. Nagy indeed became prime minister, and began to plan some of the reforms people demanded.

A second result, however, now emanated from a Kremlin grown increasingly fearful of the direction of events. Seeking to impose an element of restraint, Khrushchev ordered the Red Army mobilized. But moving Russian troops from their camps some forty miles away into Budapest itself produced a provocative rather than stabilizing effect. The menacing prowl of Soviet tanks provided a clear enemy; and for the next two weeks, a defiant cry for change—and independence—was taken up by Hungarians of all classes and ages. It would be suppressed only after a sporadic but intense battle with Russian forces and their own secret police had cost at least 20,000 Hungarians their lives.

Serious bloodshed began on October 25, when Hungarian secret police massacred some six hundred demonstrators in Parliament Square. Dispatched to Budapest to foster order, special Soviet envoys Anastas Mikoyan and Mikhail Suslov recommended a further pacifying shift in Hungary's leadership: Gero, still Party chief, resigned to be replaced by the now fully rehabilitated Janos Kadar, a known anti-Rakosiist. Though acceptable to the Kremlin and at first conciliatory, Kadar was, during the intense days ahead, to display a determined militance against the Russian interference—until his notorious reversal.

Through October's last week, amidst random street fighting, revolutionary fervor rose. On October 30, borne by popular enthusiasm, Prime Minister Nagy announced that "in the interests of further democratization the Cabinet has abolished the one party system." He declared that Hungary would return to the post-1945 coalition system based on free elections, and publicly appealed for a withdrawal of Soviet troops. That same day, belying Soviet fears, Khrushchev's envoys promised Nagy that, having gained confidence that his government could now resolve matters for itself, the Russians would indeed withdraw. This promise, and the subsequent movement of tanks out of Budapest, soon proved an outright deceit.

Two days later, on November 1, reports from Hungary's northern and eastern borders confirmed that, far from withdrawing, the Red Army was being reinforced with some 75,000 soldiers and 2,500 tanks. In emergency session, Hungarian leaders agreed upon an ultimatum: that unless the Red Army really did leave, Hungary would declare its neutrality and withdraw from the Warsaw Pact.[1] Meeting shortly thereafter with Soviet ambassador Yuri Andropov[2] to deliver this

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[1] The Warsaw Treaty Organization had been created the previous year.
[2] Today Andropov is head of the KGB.

message, an irate Kadar reportedly announced: "I am a Hungarian and I will fight your tanks with my bare hands if necessary." Later, in a radio broadcast with Nagy to report the decision to their countrymen, Kadar spoke in the same vein, extolling the "glorious uprising" which had shaken off the Rakosiist regime. On the same day, Hungarian rebels, having laid sèige to secret police headquarters, slaughtered its leaders as they finally emerged.

In a radio broadcast in the early morning of November 4, Prime Minister Nagy reported to his countrymen what many of them already knew: "Today at daybreak Soviet forces started an attack on our capital, obviously with the intention to overthrow the legal Hungarian democratic government. Our troops are fighting. The Government is in its place." On the same morning, while Nagy sought to rally resistance, another voice was heard in a broadcast from a Soviet-controlled area. Astonishingly, it was that of Janos Kadar. Mysteriously missing for more than two days, Kadar now announced the formation of a new Hungarian government which "in the interests of our people, our working class and our country" had requested the Soviet army "to help in smashing the dark reactionary forces and restoring order and calm to the country." Unappreciative of such help, thousands of Hungarians took to the streets to battle against Russian troops.

The application of full Soviet power, however, left the outcome little in doubt. After three days of intense fighting, active armed resistance by Hungarian civilians and troops loyal to Nagy had been crushed, and the Hungarian Revolution was at an end. On November 7, transported by Soviet convoy, Kadar returned to Budapest to assume Hungary's leadership.

Neither then nor later was the complete story of Kadar's reversal ever to emerge. Under what circumstances he went over to the Soviet side, and what force of evidence, opportunism, or compulsion influenced him, have remained matters of speculation. In the years which followed, he was seldom to discuss the Revolution, referring to it only obliquely as the "national tragedy." As he took power on November 7, 1956, his assertion was that a movement he had originally endorsed as being anti-Rakosiist had become not only anti-Soviet but anticommunist as well; he had thus concluded belatedly and regretfully that Russian force was necessary to prevent a counterrevolution. Unpersuaded and passionately bitter after the euphoric hope of recent months, millions of Hungarians now bore him a hatred reserved for few men.[3]

The iniquity of Hungary's plight was now epitomized in the fate of Imre Nagy who, with Soviet victory, had found refuge at the Yugoslav embassy in Budapest. Beginning with his broadcast of November 4,

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[3] A current publication of the Hungarian Government ("A Brief History of Hungary") gives the following summary account of the Revolution: "On October 23, 1956, following the demonstration of a youth organization, a 'spontaneous' uprising took place. It was 'spontaneous' according to Western historians and Hungarian writers in exile. In fact, the leaders of the uprising very expertly directed attacks on strategic points such as the main radio station and military barracks in the capital and in the provinces. At the end of October many lynchings occurred, a number of Communists were killed or arrested and right-wing armed groups held the towns under control, while fascist parties were organizing openly. In view of this, the Communist members of the government asked for the intervention of Soviet troops, stationed in Hungary in accordance with the terms of the peace treaty, and the Revolutionary Workers' and Peasants' Government was formed under Janos Kadar on November 4."

98-450 O - 78 - 3

Kadar had sought to make clear that he wished a reconciliation with Nagy, but from his diplomatic sanctuary, Nagy rejected all such offers, requesting instead freedom to leave the country. On November 22, after Kadar had finally pledged safe passage, Nagy emerged from the embassy enroute to Yugoslavia. Once outside, however, he was immediately abducted by Soviet troops and flown to Rumania. There, along with Pal Maleter, who had commanded Hungarian troops loyal to Nagy, he was to be held for eighteen months, tried in secret, and then murdered. By then, in Hungary, Nagy had been branded unequivocally the leader of the "counter-revolution." His memory has never since been rehabilitated, and he is rarely spoken of in Hungary today.

Installed in power, Kadar duly performed his assigned task of aborting the embryo reforms of the Nagy Government; and for several years after the Revolution's suppression, Hungarians could have found little to choose between Kadar's policies and those of Rakosi. After a brief period of recrimination, during which thousands of Hungarians were arrested and thousands more fled to the West, Hungary returned to the narrow mold of Soviet orthodoxy. Those seeking to praise Kadar could have said only that, overall, his regime was far less vindictive than it might have been. But if Kadar's goal then was to do more—to create a Hungarian socialism truly and broadly supported—it was a dream necessarily deferred. The lingering concerns of a watchful Kremlin, the intrigues of neo-Stalinists in his own Party, and the sullen hatred of his countrymen afforded scant room for a policy of progressive innovation.

In October 1961, however, new room was created when Khrushchev's second major reformist initiative triumphed over hard-line dogmatists at the Twenty-Second Soviet Party Congress, weakening further the vestiges of Stalinism in Moscow and Eastern Europe. Already, despite the stern discipline of his regime, Hungarians had recognized in Kadar a man who, unlike Rakosi, used the power of the state reluctantly and not as a personal political weapon. Now, with his position secured by five years in office and ties to Khrushchev that had grown unusually close, Kadar was situated to begin in earnest the process of Hungarian reconciliation and reconstruction. In December, Kadar took immediate advantage of Khrushchev's success by proclaiming an "alliance policy" which quickly became synonymous with a single slogan: "Whoever is not against us is with us." For Hungarians, Kadar's reversal of the basic Stalinist/Rakosiist theme held, in its implied tolerance for diversity, the hopeful portent that their country might eventually be ruled through a consensus achieved by persuasion rather than coercion.

Slowly that possibility now began to be realized, as Kadar undertook a quiet, steady battle against those in the Party who inclined toward continuing the arrogant and vengeful methods of the past. In overcoming opposition to the broad-based "alliance" he envisioned, Kadar relied heavily upon Khrushchev's support and a policy of extreme gradualism, but by 1963 he had laid sufficient groundwork to grant amnesty to nearly all of those imprisoned or exiled after the Revolution. A few months later, in another sign of confidence, Kadar ended Hungarian jamming of international radio broadcasts, including the Voice of America and Radio Free Europe. In late 1964, when Khrushchev's fall gave momentary hope to Kadar's Stalinist enemies,

Kadar moved quickly to solidify a relationship with the Kremlin's new leaders, undoubtedly taking comfort that, although more conservative than their predecessor, they did not appear bent on reversing Khrushchev's generally tolerant approach to Eastern Europe. From this point on, the policy of gradual liberalization begun by Kadar in 1961 was to proceed without jeopardy.

The Revolution's shattering defeat followed by Kadar's meliorist policy of consensus-building meant that, for the foreseeable future at least, Hungary's basic political question had been answered. The country would be ruled by the Communist Party within a framework set by Soviet consent. But Hungary's basic economic question remained. As early as 1957, Kadar's advisers had counseled that the economy's stagnation was attributable in large part to the irrationalities resulting from total central planning and had recommended a move toward decentralization. At the time, however, the idea of an economy governed by thousands of individual decisions—by a market of sorts—was still a dangerous heresy; and not until a decade later did Kadar undertake a significant try at economic reform.

Announced in 1966 and collectively known as the New Economic Mechanism, Kadar's reforms were proposed in response to the double pressure of domestic demand for more and higher quality consumer goods and the need for Hungarian manufactures to become competitive in the world market. By now the old system of central planning and control had shown itself so completely unable to meet this mounting pressure that it had lost the support of even the Party's most stalwart traditionalists. Economic development had been unbalanced; the technological level of industry and agriculture remained low by world standards; the standard of living had risen only marginally; and trade with the West faced a growing deficit. A particular problem was the stagnation of agriculture which, because it had spurred a migration to the cities by the country's youth, now threatened to be a permanent condition.

The essence of the New Economic Mechanism was an abandonment of obligatory production targets for individual enterprises and a decentralization of pricing, investment, and marketing decisions to the level of the individual enterprise. In introducing the NEM, the government stressed that the reforms should not be interpreted as a return to capitalism and that the dominant feature of the economy—state ownership of the means of production—was not to be altered. Overall planning on a five-year basis would continue; the economy would simply be steered by indirect fiscal tools rather than directives reaching every production unit.

When fully implemented on January 1, 1968, however, the NEM augured little less than an economic revolution within Hungary's communist system. Individual enterprises were now permitted to produce what and how much they chose; sell it at whatever price they could get; buy parts and materials from any source; introduce technological changes as they saw fit; raise or lower the employee force according to the enterprise's needs; and pay higher wages if necessary to attract and retain good workers—all for the sake of a profit at least partially shared by those who worked in the enterprise. In addition, special incentives in the form of low-interest loans and tax

rebates were now available to encourage enterprise managers to use their new freedoms to increase production for export.

By permitting a more rational scheme of motives and decisions, the reforms of the New Economic Mechanism soon proved an unquestioned success in raising the quality and quantity of Hungarian output.[4] Still lacking, however, was the technology necessary to make a range of Hungarian products internationally competitive and to support a significant growth in Hungary's overall output. Thus, in 1970, despite an already adverse balance of payments, Hungarian planners began implementing a strategy of sharply increased imports of Western machinery and equipment as the means to acquire an advanced, diversified industrial base. Investment in Western technology, it was expected, would soon enable Hungary to increase its exports of sophisticated products[5] back to the West and also, through higher domestic productivity, to sustain a steady increase in Hungary's standard of living.

The decision to undertake a substantial import expansion rested on three assumptions:

The first was that, in the short run, exports to the West could be increased sufficiently to generate much of the hard currency necessary for such imports, at least enough to maintain the soundness of Hungary's international credit rating. This belief derived from confidence in the growing success of the NEM, particularly those reforms relating to the stimulation of exports.

The second assumption was that, in the long run, the commodity composition of Hungarian exports to the West, traditionally weighted toward agricultural commodities and industrial raw materials, could gradually be reoriented toward manufactured goods. Such a transition was perceived as necessary because of Hungary's limited capacity to expand commodity exports and the slackening of prices for such exports as compared to manufactured goods.

The third assumption of the strategy was that Hungary could continue to rely upon her CEMA[6] trading partners, especially the Soviet Union, to supply the bulk of Hungary's fuel and raw material requirements in barter trade on advantageous terms. This was expected because prices in CEMA trade were fixed for entire five-year plan periods; and since prices for Hungarian exports to the U.S.S.R. (consisting primarily of machinery, equipment, and consumer goods) had increased during the 1960's more rapidly than Hungarian raw material imports, the prices applied in CEMA trade during 1971–75 could be expected to reflect even more favorable Hungarian terms of trade with the U.S.S.R. than ever before.

In its initial stages, the new trade-based development strategy enjoyed remarkable success. From 1971 to 1973, Hungarian imports from the West rose by nearly 80 percent, with much of the increase representing investment in high technology capital goods. Exports to the West meanwhile rose even more—by 90 percent—a differential which

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[4] The social consequences of the NEM reforms are discussed later, in the section "Ideology Under Stress."

[5] For example, power-generating, electronic, and food-procesing equipment, scientific instruments, and pharmaceuticals.

[6] Also known as COMECON, the Council for Mutual Economic Assistance is the coordinating organ for Soviet-bloc economies. It comprises Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, and the U.S.S.R.

reduced Hungary's hard currency trade deficit with developed countries from $240 million in 1971 to only $50 million in 1973. (Vis-a-vis her CEMA trading partners, a still greater success was registered, as exports rose over 80 percent and imports less than 50 percent.) Thus, as hoped, technology acquisition was occurring without a worsening problem of debt. Also according to plan, the commodity composition of Hungarian exports to the West began to shift from agricultural products and raw materials to consumer goods and semi-manufactures.

Inevitably, the dramatic surge in Hungarian foreign trade did involve one liability: it substantially increased the country's already extensive dependence on external sources of supply and markets. Naturally wealthy only in possessing large bauxite reserves and capable of producing only half of its energy requirements, Hungary had already been heavily dependent on the Soviet Union for the import of such raw materials as fuels, iron ore, lead, zinc, and cellulose. Now, with the trade growth of the early 1970's, Hungary had become not only more trade dependent in general than any other East European country—with a full 50 percent of output going to exports—but also more dependent on trade with the West. As a share of national output, Hungarian exports to the West were now nearly 25 percent higher than for any other East European country.

Unfortunately, just as the development strategy appeared a consummate success, this increasing trade dependence began to coincide with the onset abroad of precisely those adverse developments to which the Hungarian economy had become vulnerable. Beginning in 1973, high rates of inflation in the West produced sharp increases in the prices of Hungarian imports from developed countries. Still worse, beginning in 1974, the growth in Hungarian exports began to slow appreciatively as Western recession slackened markets. The result was that hard currency deficits with the West, down to $50 million in 1973, rose to an unprecedented $640 million in 1974 and still higher in 1975. Moreover, what began to become clear was that Hungary's export increase to the West in 1971–73 had resulted less from any increased competitiveness of Hungarian goods in hard currency markets than from a surge in Western demand, primarily in sectors in which demand historically has fluctuated sharply.[7]

Nor were Hungary's sudden problems confined to her trade with the West. Compounding these difficulties was a change in CEMA pricing procedures, placed into effect in 1975, under which prices of raw materials rose markedly relative to those of manufactured goods.[8] The effect was to increase the amount of Hungarian goods and financial resources needed to sustain the same volume of imports, primarily raw materials, from CEMA trading partners. This increased drain-off into CEMA trade was clearly evident in 1975 when Hungarian exports to the U.S.S.R. rose to nearly 40 percent of total exports, higher than at any time in more than a decade.

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[7] Exacerbating the downward fluctuation in 1974 were protectionist restrictions by the European Community on Hungarian agricultural exports, including an embargo on Hungarian beef.

[8] A Soviet initiative, the change moved CEMA prices closer to world market levels. Because the Soviet Union is the major supplier in CEMA of oil, which has paced world inflation, the effect was to shift CEMA terms of trade in favor of the Soviet Union.

Surprised by the suddenness and magnitude of the deterioration in her terms of trade with both Western and CEMA trading partners, and recognizing that these losses were probably not temporary, Hungary's political leadership engaged during 1975 in a wide-ranging debate over the continued viability of the basic development strategy. For the Party's orthodox wing, Hungary's recent experience proved the need to refocus on trade with CEMA countries, thereby reinsulating Hungary from Western economic tides. The Party's reformist wing countered, however, that Hungary's deteriorated terms of trade had come about for reasons exogenous to Hungary and could be overcome only by continuing rather than abandoning the basic strategy—so that by 1978–80 Hungary's major investments in Western machinery could begin to produce manufactured goods competitive in the West, thus righting Hungary's trade imbalance.

The debate's outcome, reflected in the terms of the 1976–80 Plan which emerged, was a reaffirmation of the NEM reforms and the need to expand trade with the West. It was also agreed, however, in concession both to Party conservatives and to reality, that Hungary's adverse circumstances would require a much more austere approach regarding domestic consumption and investment and the conservation of foreign currency. To accomplish this, the Plan introduced a complex variety of new measures to improve the cost-effectiveness of investment in export-oriented enterprises; to limit investment for domestic consumption; to restrict imports, particularly luxury items; and to insure that increases in personal income, unless justified by increased productivity, would be subjected to prohibitive taxation. In addition, the Plan provided for a selected shift of some trade, principally agricultural exports, away from hard currency areas to CEMA countries—a necessary concession to the need to buy CEMA raw materials at sharply increased prices.

A central feature of the government's retrenchment plan was regulated price increases in food and a number of consumer products. Adroitly, however, Kadar chose to announce the increases in advance, and then to phase their implementation. The first round of price hikes, affecting sugar (up 50 percent), went into effect in December 1975. A second round, effective the following month, covered building materials (up 22 percent), paper and paper products (up about 15 percent), and a number of services. The third—and in terms of its impact on family budgets, the politically most sensitive—went into effect on July 1976, when the prices of various meat products were raised by an average of 30 percent, the purpose being to shift consumption away from meats exportable for hard currency.

Although price regulation had long been a tool of Hungarian policy, the introduction of such extraordinarily severe price hikes provided a remarkable test—which it passed with ease—of the Kadar regime's ability to win acceptance of, or at least acquiesence in, its economic policies. In glaring contrast during the same period were events in Poland, where price increases suddenly announced by the Gierek regime were met with rioting by Polish workers, causing the entire policy to be rescinded within days. Against this background, the quiet effectiveness displayed by the Hungarian government contributed to Kadar's growing international reputation as a leader in close touch with his nation's problems and able to shape events with a steady hand.

III. Hungary Today

A. Kadar and the framework of authority

Today, while most of its East European allies show signs of serious economic and political discontent, Hungary continues to enjoy relative domestic tranquility—a calm attributable, by all evidence, not to police repression but rather to the wide popular acceptance of Janos Kadar's regime. Though at 65 Kadar himself may be something short of a beloved patriarch, there is little question that, whatever the feelings of his countrymen in 1956, he has now earned their respect as an adept technician of power whose caution and consistency have, over the period of two decades, transformed Hungary's Communist system into a far less oppressive and far more successful agent of economic modernization. No challenger to Kadar appears on the horizon, and in the event of his death or retirement, any successor would be unlikely to chart a different course.[1] Without exception the key posts in the Hungarian leadership are held by moderates loyal to Kadar; there is no evidence of significant rank-and-file unhappiness with his policies; and the one remaining chasm between government and people is now being bridged by Kadar's growing accommodation with the Catholic Church.[2]

This is not to say that Hungarian life has taken on a perfect harmony. Indeed there is every appearance that, barely beneath the surface, Hungarians feel a deep resentment at the everpresent Soviet shadow, a real and perhaps growing measure of ideological alienation,[3] and a repressed but powerful desire to reassert Hungarian nationhood. But in counterpoise to these feelings is a sense of realism born of experience, and the popular legitimacy of Kadar's rule is no less genuine for being built on the average Hungarian's practical assessment that, given Hungary's circumstances, things could hardly be better and could easily be worse. How their country might fare under a realigned international system is apparently, for most Hungarians, a wholly theoretical question. Their poet Gyula Illyes once wrote that "to be a Hungarian is difficult, but not impossible"; and today Hungarians seem to feel that the Kadar regime is doing the difficult about as well as it can be done.

Although Kadar's "alliance policy" has broadened political participation and his New Economic Mechanism has decentralized economic control, the dominant role of the Party in shaping Hungarian life remains essentially unaltered. Under Kadar's reign, however, the Party's exercise of power has grown increasingly subtle and civilized. From the beginning, Kadar made clear that he loathed the cult of personality which Rakosi had practiced to excess and that, under his leadership at least, terror would not again be used as a political

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[1] The advent of strong outside (Soviet) pressure to change direction and "de-liberalize" Hungary could, of course, conceivably lead to policy changes; and indeed there has been evidence in the Soviet press of some disapproval of Hungary's consumer-oriented social and economic order. Weighing strongly against the development of such pressure, however, is the fact that, whatever its domestic policies, Hungary preeminently satisfies the Soviet interest in stability. In this regard, the recent unrest in Poland and other East European countries has probably, if anything, strengthened the position of Hungarian leaders in relation to the Soviet Union.

[2] See discussion under "Human Rights."

[3] See discussion under "Ideology Under Stress."

weapon. The Party would rule through the development of consensus instead of by fear. Toward this end, Kadar has overseen the Party's expansion from fewer than 100,000 in 1956 to about 750,000 today; and since 1962, when its Stalinist tendencies were apparently laid to rest, a number of organizational reforms have been introduced to enhance intra-Party democracy. For his own part, Kadar has studiously sought to cloak himself in the guise of anonymous bureaucrat—even after 21 years, most Hungarians know little about him—and the Party is now run as a political organization rather than a secular religion. Today, when a Party member is purged, as periodically happens, the cause is usually "laxity in exercising responsibilities" or "behaving like a petty monarch," not "Titoist treachery"; and the penalty, instead of death or prison, is simply expulsion.

To guide national policy, the Party exercises direct appointive authority over 90,000 governmental posts and a generally respected advisory right over 350,000 other posts. In addition, senior Party members administer the 800,000 member Communist Youth League and the 100,000-member Patriotic People's Front, the latter being an umbrella organization of various Party and non-Party groups which conducts most of the nation's formal political activities, including elections to the National Assembly. Candidates for the Assembly, competing every four years in 352 single-member constituencies, need not be in the Party—at present, about one-fourth of the Assembly's members are not—but must endorse the PPF program which, in practice, the Party has shaped. Interestingly, although only one candidate emerges in most districts, Hungarian election law does allow multiple candidacies—meaning actual ballot-box competition—and the elections of 1971 and 1975 saw several dozen districts so contested, occasionally with the Party candidate losing. It would probably be a serious misreading, however, to discern in this the beginnings of a pluralist revolution. According to the national constitution as revised in 1972, the Assembly is "the supreme organ of representation of the people" and its committees have indeed become somewhat more active in the preparation of certain legislation, but its law-making function is still largely ritualistic and its sessions in the beautiful National Parliament building on the Danube usually last no more than ten days a year.

In keeping with the NEM's spirit of decentralized decisionmaking, Hungary's system of local government was reformed in 1971, and the elected councils gained greater autonomy, responsibility, and financial independence. Here, ideology is less important than at the national level, and only about one-half of council members belong to the Party.

Apart from the Party and the governmental system which it governs, a number of other organizations serve to aggregate and articulate sectoral interests. The Hungarian Chamber of Commerce represents the enterprises; and the National Association of Cooperative Farms provides a forum for the increasingly affluent and diverse co-ops. For a large percentage of the nation's workers—about 4 million out of a total population of 10.5 million—the principal organizational activity is membership in a trade union, all of which fall under the umbrella of a National Council. Although still not as assertive as their Western counterparts, Hungary's unions have at least evolved from

their earlier role as mere "transmission belts" for Party guidance from above. A new national Labor Code specifies a number of union rights, including that of veto over management decisions, and the Party is now pressing to achieve even greater worker participation in enterprise management (though the Yugoslav model of actual worker management has been categorically rejected). An interesting omission in the Code is any mention of the right to strike, an indication that such action is no longer ideologically taboo. But although walk-outs have now actually occurred in neighboring Poland, strikes in Hungary appear to be unlikely anytime in the near future—on the evidence that thus far Hungarian unions have been somewhat timid in exercising even those rights explicitly granted.

Overall, then, Hungary's institutional framework provides a kind of administrative pluralism, wherein all sectors are represented, heard, and accommodated, but the Party alone continues to provide the major arena of power and decision.

A fundamental question of Hungary's future is what possibilities for further evolution this framework provides. Since the early 1960's, when Kadar issued his famous dictum that "all who are not against us are with us," the Party has overseen a steady liberalization in Hungary's economic, political, and social life. But, even with the reinforcing influence of expanding contracts with the West, is this progress toward an open society likely to continue? While a Western observer is inclined to assume that the principal constraint will be the proximity of repressive Soviet power, it is probably equally important to recognize also certain *internal* characteristics—within Hungarian society—across which these outside pressures will play and which may themselves impede further liberalization.

The first and most obvious constraint—yet one sometimes overlooked by Western observers encouraged by the extent of Hungary's liberalization—is that Hungary today, more than simply having a Communist government, has a Communist system which has attained legitimacy through popular acceptance by a large segment of Hungarian society. The uprising of 1956, though commonly remembered in the West as a revolt against Soviet domination, grew in fact out of a profound domestic discontent with, and rebellion against, the brutally repressive regime of Rakosi. Today, with that brutality long ended, no comparable ferment exists, nor is any in prospect. By all appearances, it is now widely understood—and accepted—in Hungary that the regime's major policies will be devised and carried out by a dedicated, narrow segment of Hungarian society. Nor, within this segment, are significant departures likely. To be sure, a certain range of views is permitted, but their variety is circumscribed by an official ideology which it is the Party's *raison d'etre* to preserve and beyond the bounds of which few transgressions will therefore be tolerated. In the unlikely event of any transgression—unlikely because the boundaries are widely recognized and seldom tested—the full power of the state can still be brought to bear, and without reversion to the Stalinist methods of terror which, and perhaps only which, could generate new ferment. Now, for most cases, a mere reminder is sufficient; in the extreme, an effective remedy for excessive dissidence or independent-mindedness is expulsion from the Party, with the consequent loss of influence, or removal from desir-

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able employment, with the near certainty that comparable employment will not become available.

Two well known examples—oft-cited because there are in fact so few—are the case of the new-left "Lukacs [4]-school" and of the sociologists Konrad and Szelenyi. The Lukacs-school incident, which occurred in 1972–73, involved several leading Party intellectuals who argued too zealously in favor of a "Lukacsist" interpretation of Marxist ideological tenets. When the official view prevailed, all were expelled from the Party and dismissed from their jobs in various institutes of the Hungarian Academy of Sciences; and those among them who have remained steadfast continue to face difficulty in publishing their professional articles. The other episode, in 1974, arose because the two Hungarian sociologists produced scholarly work underlining too precisely the inequities in Hungary's modern urban socialism. Both were arrested, detained for brief but intensive interrogation, and then released. Szelenyi has now emigrated; Konrad remains. These incidents illustrate—for the benefit of Hungarians and Westerners alike—two things: first, that the brutal police state of the 1950's is no longer in operation; second, that criticism of the regime which appears too fundamental will still be dealt with, through other means available to those in power.

In addition to the constraint on political liberalization inherent in a Communist state, several ancillary constraints can also be identified, relating to the nature of the economy as it has now evolved. Notwithstanding the setbacks of the mid-seventies, the New Economic Mechanism has clearly succeeded in increasing Hungarian prosperity over the last decade by decentralizing decision-making so as to allow local managers greater autonomy in the choice of production supply, product design, output volume, and pricing. It now appears in retrospect, however, that 1972 marked a turning point in the trend toward decentralization. By then it had become clear that local decision-making oriented toward short-term profit could have some of the same liabilities as overly centralized control—among them, erratic quality and an irrational pattern of investment—and central planners moved once more to exert greater influence. While local autonomy has by no means been ended—and was indeed reaffirmed as a result of the great debate over the NEM in 1975—it now appears that something of an equilibrium has been reached, in which the central planning technocracy will play a significant, and perhaps even slightly increasing role, as Hungary continues to industrialize. It is important to remember that the decentralized decision-making of the NEM was adopted to improve production, not to foster liberalization as an end in itself; and it seems safe to say that efficiency, and not local autonomy, will remain the major criterion of Hungary's central economic planners and the bureaucracies of Hungarian government.

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[4] A Hungarian who died in 1971. George Lukacs is considered by many to be Eastern Europe's greatest contemporary philosopher. A central idea in Lukacs' large and diverse body of writings is that Communism in any country should be adapted to that country's unique circumstances, and should aim for a kind of genuine democracy in which each worker is afforded maximum control over his life and work. From his perspective, Hungary has erred both in following too closely the Soviet model of development and also in aping the Western infatuation with consumer durables and economic incentives. By Lukacs' standards, Hungary (like most nations) has achieved little effective democratization.

Still another economically related but politically significant constraint on liberalization is formed by the attitudes of those outside the Party and the central planning *apparat*. In the years of the NEM, the government has followed an implicit policy of allowing people to earn according to their skill, ability, or talent—both through wage differentials and through the phenomenon of "moonlighting," which takes place on a mass scale. As a result, a prosperous group has developed—consisting of writers, shopkeepers, managers, scientists, doctors, and a great many entrepreneurial peasants—which can be properly thought of as Hungary's new middle class. Not surprisingly, the members of this class, like their counterparts in the West, have become oriented toward taking full advantage of the material possibilities of their affluence—through better cars and clothes, second homes in the country, and regular vacations abroad. Indeed, for those who can do so successfully, the opportunity to pursue such benefits appears to have become a central value—a consuming interest, as it were—which few appear willing to risk by any display of political dissidence. Thus Hungary's middle class appears to have struck an implicit bargain: open or at least tacit political support for the regime in exchange for the benefits of a modest prosperity.

If the middle class has thus been largely neutralized as a source of pressure toward liberalization, Hungary's working class—through its union membership—may actually have become something of a conservative force *against* further liberalization. Although cautious in asserting their rights, Hungary's unions have been much less shy in asserting their resentment—at the considerable income differentials which have allowed Hungary's middle class to emerge. Indeed a principal union goal now is to curb differentials and to redistribute income in favor of the average worker. As a result, the unions constitute a constant force in the direction of limiting the freedoms already available under the New Economic Mechanism. Thus neither the middle class, politically neutralized by its affluence, nor the conservative unions, focused on increasing the worker's share of that wealth, appear to constitute significant forces for political liberalization.

Finally—and ultimately—there is the obvious constraint on political liberalization imposed by the Soviet Union, both by way of bilateral dialogue and, even in its absence, by the residual Hungarian fear of active Soviet intervention. Although other, stricter East European regimes might wish the Soviet Union to be even less tolerant than it is of the example set by Hungary's model of "liberal Communism," there exists little doubt, least of all in Hungary, that there are limits to Soviet tolerance. The inability to know exactly where these limits are—and the desire to maintain a low silhouette on the horizon of Soviet concerns—thus constitute powerful additional deterrence to any moves toward further political liberalization or an independently-formulated foreign policy. Like its middle class, which seems pleased to trade political acquiescence for a certain economic liberalism, the entire Hungarian regime appears willing to trade acquiescence to Soviet hegemony for a considerable measure of freedom from outside interference in Hungarian life.

B. Ideology under stress

While finding its New Economic Mechanism to be remarkably successful in promoting national productivity, the Hungarian regime has been far from comfortable with the social consequences of the NEM. Throughout the Rakosi years and the first decade under Kadar, a major government theme was to eliminate all vestiges of Hungary's old class system and to instill, by exhortation and economic fact, a sense of equality among all Hungarians. Though this was accomplished less by uplifting the masses than by suppressing those who had prospered, the result nonetheless was a leveling of Hungarian society as old class distinctions slowly dissolved. That too great an emphasis on quality could, however, be a recipe for national stagnation was apparently recognized by Kadar as early as 1962, when he reestablished a merit system for university entrance and abolished the class criteria that had favored applicants from peasant and working class families with little regard to ability. But it was not until implementation of the NEM reforms in 1968 that the regime, overriding those in the Party's orthodox wing who stressed egalitarianism above all else, explicitly accepted the idea of economic profit—both enterprise and personal—and also that idea's ideologically significant corollary, which was the likelihood of sizable income differentials in Hungarian society. Though such differentials soon fulfilled their promise as a gauge and motivator of economic efficiency, their desirability as a social phenomenon was to remain in question.

Clearly the most pronounced consequence—economic and social—of the NEM reforms has been a vast improvement in the status of the Hungarian peasant, through an invigoration of agriculture and of rural life in general. Before the NEM changes, a typical peasant on a collective farm divided his time between the collective, from which he gained subsistence, and a private plot, from which he might squeeze a tiny personal profit. The effect of the New Economic Mechanism was to loose the collective itself as an engine of profit which, if successful, its members could share. Brought to the countryside, the NEM's concept of enterprise autonomy meant that each cooperative would now have wide reign in electing its own management and producing and pricing as it saw fit. The result was not only a sudden spur to rational agricultural activity but also a diversification into other areas of production as well. Freed of the obligation to meet fixed agricultural targets, peasants on a large number of collectives set up light-industrial workshops, manufacturing any product for which there appeared a market. Indeed, even though owned by the state, many collectives soon took on the character of a capitalist firm in a state of growth—hiring new workers, paying wages gauged to skill and incentive, and expanding production into areas of opportunity. Operating with none of the bureaucratic restraints which still impeded urban factories even under the NEM, collectives found themselves able to market products and provide construction services at prices that most state-run factories simply could not match. All in all, it was a demonstration calculated to warm the heart of an American entrepreneur. On some collectives, the process of diversification in fact proved so successful that before long agricultural production actually dropped to secondary import.

By the early 1970's, with the phenomenon of the aggressively profit-making collective by then widespread, rural Hungary's economic stagnation, which only a few years earlier had seemed incurable, was at an end; and indeed a reverse migration had begun—of industrial workers back to the village. Today, as a consequence of this rejuvenation, more than one-third of all collective farm members in Hungary are under 30, and the overwhelming majority possess a vocational skill.

Inevitably, by their very nature, such economic gains in the Hungarian countryside could not be evenly distributed. Nor could they occur without social consequences. Of numerous examples of the collective-as-business, the most notorious has been in Solvadkert, a small wine-growing village of some 8,000 inhabitants located 100 miles south of Budapest. Here, taking full advantage of the new system's potential for personal and group initiative, several dozen collective members soon became Hungarian "millionaires"—with annual incomes of over one million forint, or $50,000, a figure many times the average worker's salary. While they and others grew increasingly prosperous, however, still others in the town gained only marginally. The result is that Solvadkert, like many other Hungarian villages, has once again become a place of sharp contrast between rich and poor. As with anywhere in the world, the difference is reflected in homes, cars, vacations, and personal possessions. The development of such disparities in wealth, along with the covetous material interests displayed by those whose income has increased substantially and the resentment felt by those whose income has not, is now perceived by Hungarian social critics as a significant national problem: "the embourgeoisement of the village." Yet if economics poses the inherent dilemma of being poor together or seeing some rise faster than others, citizens in rural Hungary appear little in doubt about their choice. As a consequence, the typical Hungarian village thrives today with income differences but also with unprecedented wealth.

In urban Hungary meanwhile, although the economic consequences of the NEM have been less dramatic overall, a similar pattern has developed. In part, those making gains have done so through the institutions of the state; the successful industrial manager and the worker in a profitable enterprise, for example, have both been rewarded. But in still larger measure, advances have taken place outside state institutions—in private economic activity which the regime, in the marketplace spirit of the NEM, has done little to deter. Most in demand on the private market are skilled laborers. Owing to the scarcity of housing in general, the growing demand for second homes in the country, and the severe inadequacies of state-run home repair services, a bricklayer, carpenter, plumber, or painter who chooses to "moonlight" can, by charging what this free market will bear, make many times his normal wage. As a result, moonlighting in these professions is pervasive.[5] Similarly employed in a variety of odd second jobs is a large percentage of intellectuals and administrators, who have found ways to augment during off-hours their modest incomes from official state employment. Altogether, so widespread and profitable has moonlighting now become that it is not uncommon for a Hun-

[5] Even Kadar is reputed to have had his home repaired on a "moonlight" basis.

garian with a skill to earn more—and sometimes considerably more—from second sources than from his regular job. Also benefitting from the free market, though more obviously, are many small shopkeepers and restauranteurs, who operate under arrangements that permit earnings in proportion to sales and thus reward the entrepreneurial spirit.

While recognizing the substantial productive value of moonlighting (and also the impossibility of preventing it), the regime remains concerned nonetheless about its consequences. One concern relates to economic efficiency. Though the moonlighter is by definition meeting an economic demand, he often does so through neglect of his regular duties. Every Hungarian, even if not involved in a second job himself, knows from personal experience the truth underlying the many jokes in circulation about the bureaucrat or laborer who takes it easy on the job so as to be rested when the time comes for his real work: the moonlight activity that provides him the big increment of income and satisfaction. When this occurs, the moonlighter is contributing energy and economic efficiency to the private market but at a cost to the operating effectiveness of the state institution where he is regularly employed. Moreover, in some areas, moonlighting has a self-fufilling quality. A carpenter, for example, who can peddle his services privately for a large gain is unlikely to have much interest in energetically performing the same work for the state at a much lower wage. And with the state thereby unable to maintain a cadre of competent, hard-working carpenters performing efficiently on a public basis, the private demand for the moonlighter is accentuated. Thus, in a kind of Gresham's law of Marxist economics, privately-sold services tend to dominate and debilitate those supplied by the state.

A second concern expressed by Hungarian officials relates to the self-aggrandizing mentality which motivates, and is in turn nurtured by, the spread of moonlighting activity. "Money-grubbing" has thus become an issue raised frequently by those in the Party who believe that the NEM reforms, however successful in narrow economic terms, have had the dangerous effect of setting Hungary on a course down the slippery slope of consumerism. Though Kadar is clearly identified as the NEM's principal sponsor, the issue does not appear to be raised by way of a veiled attack on his leadership, but rather in expression of what is felt by many to be a genuine Hungarian dilemma. Indeed, as early as 1972, Kadar himself declared the resurgence of the petit bourgeois spirit to be the most harmful phenomenon with which the country had to deal.

If all Hungarians were equally successful at money-grubbing, the issue would perhaps be a matter of rarified ideological debate. But the regime's concern is a more practical one. For it is not only in the village but throughout the entire country that the NEM has produced great differences in wealth. While skilled laborers, shopkeepers, and industrious intellectuals have been able to double and triple their incomes within the tolerant framework of the NEM, many others have not. For a worker on the assembly line, a seamstress, a postal employee, a pensioner, a secretary, a middle level administrator, a sales person or clerk, or anyone else dependent upon payment by the state, an inability to participate in a particularly successful enterprise or to sell a skill on the moonlight market has meant remaining relatively station-

ary while others have sailed ahead. What the regime is thus confronting is a re-emergence in Hungary of a kind of class consciousness, and the social alienation which results from it.

The "have's" of Hungary today are not a class in the Marxist sense; they have not inherited their wealth and they share with all Hungarians the same relationship to the means of production. Nor are they a class of the kind now found in the Soviet Union, where a bureaucratic ruling elite has taken for itself the preponderance of the society's material benefits. In Hungary, though many Party officials are among them, the *nouveaux riches* are far more diverse, their economic station less likely to be dependent upon a position in the hierarchy and more likely to be a function of what skill or talent they have taken to the marketplace and what reward they have taken away. Most closely perhaps, they are a class in the traditional American sense: Whatever they are, they became during the life of this generation—by making it. In the United States, of course, differences in wealth have been consistent with the national ethic, which has generally stressed the principle of equality in *opportunity*. For a Communist regime which claimed its legitimacy as the deliverer of equality in *result*, the emergence of economic classes poses the fundamental problem of reconciling national myth to practice.

While it would go too far to infer that Hungary today is subtly abandoning the principles of socialism for the individualistic spirit of capitalism, there is reason to believe that certain basic changes may, nearly imperceptibly, be occurring in the nature of the regime. The central question is the future role of the Party, which for years demanded disciplined allegiance on the basis of a simple ideological imperative: thwarting foreign influences, the Party would overturn the exploitative system of the past and bring a new, just prosperity. Today, with much of this having been accomplished, however circuitously, the Party is no longer an agent of social transformation—at least in the sense of destroying the exploiting class. And as the Hungarian standard of living continues to rise, as income differences become an accustomed fact, as the economy grows more complex through the assimilation of higher technology, as personal liberties grow, and as contacts with the West expand, the old ideological imperatives will seem increasingly bizarre and the discipline and influence of the Party will be increasingly tested. The paradox is that through its tolerance and openness to change the Party has brought Hungary further and faster perhaps than any other country in Eastern Europe, but in doing so, the Party has now unloosed trends that will severely strain its own adaptability.

C. Human rights

A visitor to Hungary finds nothing to belie Hungary's reputation as the most advanced of all Warsaw Pact countries in terms of basic human rights. Since the early 1960's, when Kadar began implementation of his "alliance" policy of seeking pluralist cooperation, Hungarian life has apparently been relieved of the Stalinst horrors of terror and torture that so blighted the country before. And to the knowledge of U.S. officials, Hungarian jails have been virtually free of political prisoners for years.

Civil and political liberties.—An assessment of the freedoms of thought, speech, and assembly in Hungary today is complicated by the fact that virtually all of Hungarian society appears to have assimilated certain premises relating to what is and is not permissible. Active censorship is therefore almost entirely unnecessary; there is in its place simply a general *understanding* that one does not criticize the leading role of the Communist Party, or the major premises of domestic policy (such as public ownership of the means of production), or Soviet or Hungarian foreign policy. How this understanding arose is complex, but its basis is the now common perception that the Kadar regime is providing its citizens as open and prosperous a society as Hungary's circumstances in the world will allow, and that any spread of criticism relating to fundamentals would not only be futile but would risk a return to darker days of repression and even violence. Seeking to explain this phenomenon to me in a private conversation, one of Hungary's leading intellectual figures said this: "Blood, you know, is a very strange juice. It washed over us in 1956, and we are different now because of it. We have learned to live with ambiguity. Perhaps it is a sign of maturity . . ."

Whether one chooses to call it a sign of maturity or a tragic national compromise, the generally accepted limit on public discourse today sets a framework which governs Hungarian society. Within that framework, however, considerable freedom is allowed. Intelligent reporting, analysis, and criticism of Hungarian life are profuse in the country's journals and media, and there is liberal access to Western books and periodicals. In addition, due to Kadar's termination of the jamming of foreign radio broadcasts in 1964, Hungarians are able to listen to a full range of international short-wave stations, including the Voice of America, Radio Free Europe,[6] the BBC, and Deutsche Welle of West Germany. Local television from neighboring Austria and Yugoslavia is also easily received in much of Hungary, and widely watched. Importantly, the availability of such diverse international media, beyond providing a healthy variety of viewpoint to Hungarians, has had the inexorable effect of gradually inducing Hungary's own media to become more accurate and informative as they have competed with outsiders for the attention of the Hungarian audience.

Religion.—The question of freedom of worship in Hungary was one that Kadar has necessarily had to address squarely, for the country's deep-seated Christian tradition meant that the "alliance" policy on which he embarked in 1961 could never fully succeed without an eventual accommodation between church and state, which had been at odds since the Communists' accession to power.

Although Hungary was not unlike other East European countries in experiencing a curbing of the church's role under Communist rule, the Rakosi years in Hungary produced a particularly ugly and bitter religious persecution. In 1949, many members of religious orders were deported, religious instruction was abolished, all Catholic schools were closed, and the vehemently anti-Communist Joseph Cardinal

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[6] Although the Hungarian Government still officially considers the U.S.-funded Radio Free Europe to be aggressive and subversive in its purposes, there is less a stigma than a sense of naughtiness attached to listening. A Budapest nightclub act was recently able to elicit a big laugh on cue simply by playing the musical notes of RFE's radio identification tones, which the entire audience obviously recognized.

Mindszenty, Hungary's Catholic primate, was subjected to torture and a mock trial resulting in his sentencing to life imprisonment. Thereafter, relentless harassment, and occasionally prosecution, of Hungarian bishops and clergy caused a steady attrition in the church hierarchy, a pressure which continued until the Revolution.

The denigration of church institutions did little, however, to change the underlying fact that almost two-thirds of Hungarian citizens continued to be nominally Catholic and almost one-third nominally Protestant—desirous, that is, of participating in at least such basic church ceremonies as baptism, marriage, and burial. Moreover, a core of about one in six Hungarians remained committed to active church membership. True national reconciliation, then, meant that a place for the church must be found.

As it happened, Kadar's desire to pursue church-state accord during the 1960's was mirrored by Pope John XXIII who, recognizing the reality of Communism in Eastern Europe, was interested in practical agreements that would allow bishops to be appointed, rites to be celebrated, and religious instruction to be given. The process of reconciliation was complicated, however, by the person and posture of Cardinal Mindszenty who, freed during the Revolution, had taken refuge in the U.S. Mission in Budapest when the uprising failed, and then defiantly refused to leave his country. Nonetheless, in 1964 Hungary and the Holy See were able to negotiate a protocol which, though limited in scope, was the first such agreement between the Vatican and a Communist government. It provided for the appointment—with state approval—of bishops to vacant Catholic dioceses, oaths of allegiance to the state by the clergy, and the continued functioning in Rome of a state-supported Hungarian theological college.

In 1971, Hungarian-Vatican relations relaxed further when Cardinal Mindszenty, after fifteen years in the American Embassy, was persuaded to leave Hungary. Following a three-year residence in Vienna, where he continued to hold his title as primate of Hungary, the Cardinal was removed from that position by Pope Paul—an action which earned the Pope considerable criticism but which did lead, the following year, to the Hungarian government's approval of a number of new bishops. Shortly thereafter, Cardinal Mindszenty died, and in 1976 his previous secretary, Laszlo Lekai, was appointed as Hungary's new Catholic primate. Later that year, the last of Hungary's twenty-two ecclesiastical positions was filled.

This year, in June, a bench mark on the path of church-state accord in Hungary was created by the Rome meeting between Kadar and Pope Paul, the first time a pope had officially received the secretary of a ruling Communist party.[7] In the Pope's words, that event symbolized "the completion of a slow but uninterrupted process which, in the last 14 years, has little by little brought closer the Holy See and the Hungarian People's Republic." As a result of this process, though a full diplomatic exchange has not yet occurred, the Hungarian Government today appears to have progressed further than any other in the Warsaw Pact in establishing normal relations with the Vatican.[8]

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[7] The only other East European Communist leaders previously received by the Pope were Nicolae Ceausescu of Romania and Todor Zhivkov of Bulgaria, both heads of state.

[8] Some observers have speculated that Hungary has delayed establishment of full diplomatic relations in order to forestall an expected negative reaction from Moscow. Outside the Warsaw Pact, two Communist countries—Cuba and Yugoslavia—maintain full diplomatic relations with the Vatican.

This progress does not—and indeed could not—mean that the individual Hungarian citizen now experiences full religious freedom, for there are in any Communist regime, no matter how liberal, inevitable social penalities attached to religious belief. Most obvious is the mutual exclusivity of religious practice and membership in the Communist Party, which remains Hungary's ruling institution. More subtle are myriad acts of social discrimination in such important areas as job promotion. Though publicly condemned by the government and not always easy to identify, such practices derive from a general sense that religion, though tolerated by the government, certainly does not have its active support. Clear evidence is the government's stipulation that religious education classes can be held only twice weekly and that religious orders shall not carry out social ministries.

Such restrictions, and the government's role in approving appointments to the Church hierarchy, constitute what some Catholics outside Hungary label "an invisible network of controls" which gives lie to any claim of religious freedom. Nonetheless, there is unquestionably in Hungary today a growing spirit of church-state collaboration which augurs further progress. Recently Hungary's formal head of state, President Pal Losonczi, paid an unprecedented official call on Cardinal Lekai; Mrs. Janos Kadar attended a special church service marking Pope Paul's 80th birthday; and the prominent periodical *New Hungarian Quarterly* featured a long article reflecting on the common humanistic roots of Communism and Christianity and the possibility that, when properly practiced, the two can exist in harmony. Whether harmonious co-existence on terms approved by the state inevitably denigrates the church is a religious question. But for better or worse, one and a half million Hungarian Catholics are living and actively practicing their religion, and their weekly Catholic newspaper, *Uj Ember* (New Man), publishes some of Hungary's best authors and has a circulation of 70,000 which is still going up.

Emigration and travel.—Although rather restrictive on paper, Hungarian policy on emigration is generally liberal in practice, particularly as regards family reunification. On paper, the law prescribes that only Hungarians who are 55 years of age or older may emigrate, and then only to join close relatives abroad. Further restrictions concern persons whose leaving would be against "state interests," those trying to join a close relative who is abroad illegally according to Hungarian law, and military-age males. The law also provides, however, that the Hungarian Interior Minister can, in "well founded" cases, make exceptions to the normal rules; and it is this waiver authority, frequently exercised, which allows the flexibility that actually characterizes Hungarian emigration policy.

In cases where family reunification is involved, flexibility is indeed the rule rather than the exception. Almost invariably, wives and fiancees of permanent residents and citizens of the United States are permitted to leave even if they are younger than 55; and parents of U.S. citizens emigrate routinely. When the U.S. Embassy in Budapest does become aware that a family reunification problem has arisen, it is generally either because the U.S. sponsor is abroad illegally under Hungarian law (having left illegally, or having departed only with permission to visit abroad for a stipulated period and then remained

away) or because the prospective emigrant is a military-age male who has been unable to obtain the necessary special dispensation from military service. Overall, however, problem cases are infrequent. At any one time, the U.S. Embassy is usually dealing with fewer than a dozen; and U.S. officials report that the Hungarian Government has been generally receptive to requests for reconsideration on humanitarian grounds. On average, the United States is now issuing 100 family-reunification immigrant visas annually.

Of comparable importance to emigration is the question of foreign travel, and here too Hungarian policy, viewed against Warsaw Pact standards, is distinctly advanced. While the preponderance of travel by Hungarian citizens takes place in Communist countries—for reasons both of proximity and hard-currency availability—large and increasing numbers of Hungarians are now visiting the West, primarily as tourists. For such travel, an estimated 85–90 percent of Hungarian applicants periodically receive exit visas, although in the interests of hard-currency conservation a complicated scheme is employed to modulate the frequency of visits to the West by any one individual. Altogether, over 300,000 Hungarians now visit Western countries annually, a figure which includes a large number of younger, working-age persons and entire family groups—a reflection of the regime's confidence that its citizens will willingly return. For family reunification visits, the policy is sufficiently liberal that last year the U.S. granted over 7,000 temporary visas for that purpose alone. And with regard to neither travel nor emigration visas does Hungarian policy show evidence of discrimination on such grounds as profession, religion, or ethnic origin.

D. Hungary and Eurocommunism

No recent event has better demonstrated the style of Hungarian foreign policy, and implicitly the factors shaping it, than the rhetorical dispute within the Communist world over Eurocommunism. Typically, the Kadar regime has tried to avoid being drawn into the matter at all. But as the issue has shown itself to be one of considerable sensitivity to the Kremlin, Hungarian leaders have lined up dutifully with the Soviets. Whether prodding from Moscow has been required, and whether the Hungarian regime's heart has been in it, are matters of speculation. In the sense that Hungarians do have a direct interest in opposing anything which could disturb Soviet self-confidence, the Hungarian disagreement with the Eurocommunists is surely genuine. In voicing it, however, Hungarian officials have employed the moderate phrasing and conciliatory style characteristic of the Kadar regime. A sampling of Hungarian statements on ideological principles which are at issue in this debate is instructive:

The validity and general applicability of the Soviet experience, a principle the Kremlin obviously finds palatable and significant. An important part of the Eurocommunists' claim of being different, however, is their rejection of the idea that Soviet practices and experiences are universally relevant. Kadar's qualified way of dealing with this principle was typified earlier this year when he affirmed that the Soviet Communist Party's "vast theoretical and practical experience" has been an "inexhaustible treasure-store" of "special importance"—*for Hun-*

gary. Thus, while dutifully loyal to the Soviet Union, Kadar avoided a fight with others.

The dictatorship of the proletariat, a concept which the Soviets like and the Eurocommunists do not. The Hungarian approach has been to avoid using the term—perhaps in recognition of the political liability it is for the Eurocommunists—while clearly remaining in support of the principle it represents: a hold on power by the Communist Party. Diplomatically seeking the common ground, Kadar has affirmed that in any country "Communists must safeguard the revolution," while at the same time he has wished West European Communist parties success "with or without the dictatorship of the proletariat."

Proletarian internationalism, a phrase which is supposed to stand for cooperation among Communist parties, but is understood to imply a willingness to heed Soviet advice. The Soviets are for it; the Eurocommunists against. On this delicate point, Kadar has been careful to demonstrate unqualified Hungarian devotion and was indeed the only East European leader to belabor the principle's importance during the June 1976 Conference of European Communist Parties in Berlin. (After Kadar earned credit with the Soviets for defending the phrase, the Eurocommunists succeeded in having it deleted from the Conference's final document.)

Overall, Hungarian officials must assess the Eurocommunist phenomenon in two regards: its effect on the Soviet Union and its effect on their own countrymen. As to the former, some Hungarians will privately concede that Eurocommunism would indeed have a favorable effect if it succeeded in causing the Soviet leadership to acknowledge more explicitly the legitimacy of "separate roads to socialism"; not yet having accepted this idea, Soviet conservatives still sometimes criticize the Kadar regime for its unique practices. But Hungarian leaders appear more attuned to the *dangers* which Eurocommunism presents, for its emphasis on the priority of national interests could well make the Soviets more sensitive, rather than more tolerant, toward unorthodoxies in East Europe. That is why, in the final analysis, Eurocommunism is a test of Hungarian loyalty to Moscow that Kadar would not consider failing. To do so would throw out of balance the implicit but fundamental Soviet-Hungarian understanding, wherein Kadar has swapped loyalty in foreign affairs for Soviet toleration of Hungarian innovations at home.

As to the possible effect of Eurocommunism within Hungary, similar concerns obtain. Kadar must sense that Eurocommunism could conceivably present a challenge to his 20-year effort to reconcile his countrymen to the "geopolitical realities" which dictate Hungary's close relationship to the Soviet Union. Eurocommunism's affirmation of the "separate roads" concept is one thing; quite another is its sometimes blatant, and always implicit, anti-Sovietism and its advocacy of a Western way. To the degree that this aspect of Eurocommunism strikes a sympathetic chord among Hungarian nationalists, the Kadar regime can only fear that a romantic, eventually self-destructive yearning for independence might again emerge.

E. Kadar's recent foreign policy activism

A desire to satisfy these still powerful nationalistic impulses, while remaining true to Hungary's basic pro-Soviet alignment, may in fact partly explain the recent upsurge in Kadar's international activities. Within the last ten months, having traveled to the West only once before,[9] Kadar has made official visits to three West European countries (Austria, Italy, West Germany) and there are indications that he might soon visit a fourth (France). This sudden burst of travel by a man who had previously sought to avoid international attention has caused some observers to speculate that Kadar, in keeping with Hungary's expanded Western trade, may have begun to maneuver Hungary into a more independent, Western-oriented foreign policy. An analysis of the actual events, however, suggests instead the less spectacular conclusion that for Kadar this activism is probably something of an end in itself, useful in domestic terms. Simply by raising his own and Hungary's international profile, he may well be seeking a safe outlet for Hungary's resurgent national pride.

Austria (December 1976).—Coming almost exactly twenty years after he assumed power, this was Kadar's "first official" bilateral visit to a noncommunist country. In Kadar's discussions with Chancellor Kreisky, economic matters dominated, as the Hungarians sought assurances that Austria's special relationship with the European Community and the European Free Trade Association will not make Hungarian goods less competitive on the Austrian market.[10] On another subject, when the Austrians renewed the standing request for an elimination of tourist visas, Kadar was reportedly more responsive than in the past, but continued to emphasize the practical problems such a step would pose for Hungary.[11] Other issues related to the Helsinki accords and the Belgrade review conference also figured prominently in the discussions.

Italy (June 1977).—This was Kadar's first visit to a NATO country. Here, as in Austria, Kadar's discussions focused on Helsinki-related and economic issues. During his meeting with Prime Minister Andreotti, Kadar reportedly made the appropriate points regarding the need to avoid confrontation in Belgrade, expressed concern about "political exploitation" of the human rights issue, underlined the importance of SALT, argued against broadening the Belgrade discussions, and reiterated the Warsaw Pact position on the MBFR force reduction talks. Afterwards, he met with other Italian political leaders, including the Communists. From the Hungarian viewpoint, the highlight of the trip was probably Kadar's call on the Pope, a major benchmark in the Kadar regime's prolonged rapprochement with the Church which undoubtedly enhanced Kadar's popularity at home.

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[9] In 1960, Kadar visited the U.N. in New York, where he was besieged by angry Hungarian-American demonstrators during his entire stay. (Hungarian officials still assume this to have been CIA-instigated.) In 1973 and 1975, Kadar also visited Finland, with which Hungary has a special relationship based upon common linguistic roots. The 1975 trip was to attend the Helsinki summit meeting, which capped the Conference on Security and Cooperation in Europe.

[10] Austria is Hungary's second largest Western trading partner (after West Germany); and Budapest has been concerned that such actions as the elimination of certain customs fees between Austria and the EC—effective in July of this year—will hinder Hungarian exports to Austria.

[11] See discussion of Hungarian emigration practices and dilemmas under "Human Rights" and "U.S.-Hungarian Relations."

West Germany (July 1977).—This visit to Hungary's principal Western trading partner consisted almost entirely of atmospherics, abetted by a considerable amount of favorable West German publicity. During discussions with Chancellor Schmidt, Kadar reportedly focused almost entirely on economic affairs, confining his political comments to a Soviet-line criticism of the U.S. approach to human rights and SALT.

While these trips served to reaffirm the Kadar regime's already sound relations with three countries that account for more than half of Hungarian trade with the West, it is likely, as indicated earlier, that the principal impact was probably seen by Kadar almost entirely in domestic terms. In the past, he has sometimes been criticized by Western-oriented Hungarians for staying too far in the shadows of Soviet foreign policy. By emerging as an international figure in his own right, even though one who articulates a clearly pro-Soviet view, Kadar may hope to solidify his domestic support in the face of Hungary's current economic difficulties and the political challenge of Eurocommunism, while channeling Hungarian nationalism in a safe direction. In addition to the trips West, Kadar recently entered into negotiations with Romanian President Nicolae Ceausescu on behalf of the large Hungarian minority in Romania; and renewed Hungarian efforts to retrieve a national treasure, the Crown of St. Stephen, from the United States (see separate discussion of this). These efforts, along with his well publicized travels, constitute a policy well calculated to appeal to his countrymen's patriotism without endangering the Soviet confidence in Hungary's political reliability upon which the Kadar regime's domestic freedoms ultimately depend.

F. United States-Hungarian Relations

General.—After the Communist accession to power in 1947, Hungarian relations with the United States deteriorated owing to the nationalization of American-owned property, poor treatment of U.S. citizens, restrictions on the U.S. Legation in Budapest, and the harrassment of its personnel. Later, the Hungarian uprising and its aftermath subjected relations to further strain, so that during the period 1956–66 the Legations at Budapest and Washington were headed by Charges d'Affaires. In 1966, however, after both missions were raised to Embassy status and an exchange of ambassadors was agreed upon, bilateral relations began a steady improvement which paralleled Hungary's gradual liberalization. By 1970, the two countries had agreed upon a mutual lifting of travel restrictions on embassy personnel. In 1972, successful negotiation of a Consular Convention provided enhanced protection for U.S. citizens in Hungary; and in 1973, a Claims Agreement provided for the settlement of all outstanding private claims and most U.S. Government claims against the Hungarian government. Over the past year, further negotiations have produced both a final settlement on the remaining U.S. official claims [12] and also an Exchange Agreement which will have the effect of formalizing and significantly expanding bilateral cultural and scientific exchanges. In addition, dis-

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[12] Completed Hungarian payment of all debt arrearages had the effect of removing U.S. restrictions, imposed by provisions of the Johnson Act, on Hungarian borrowing in American capital markets, and led directly to the opening in September this year of a Hungarian National Bank branch in New York City, the first such representation from a Warsaw Pact country.

cussions between the U.S. Embassy in Budapest and the Hungarian Foreign Ministry have resulted in significant progress on a number of family reunification cases as well as a reciprocal easing of terms and conditions governing visa issuance for diplomats and travelers.

The Crown of St. Stephen.—An issue still outstanding, and of considerable symbolic importance, surrounds continued U.S. possession of the Crown of St. Stephen. Awarded by Pope Sylvester II to Hungary's first Christian king in the year 1001, the Crown acquired profound national as well as religious significance over the centuries as the central element in the coronation of virtually every Hungarian monarch, including the last, Emperor Karl, crowned in 1916. During the Horthy regency between the wars, the full St. Stephen regalia—Crown, orb, scepter, robe, and sword—were enshrined in the ancient castle in Budapest, overseen by a Crown Guard. As the war came to threaten Budapest in late 1944, however, the regalia were taken by the Guard into western Hungary, and eventually in 1945 into Austria, where they were deposited with U.S. military occupation authorities for safe-keeping. Under that control, the Crown and other regalia remained in Germany until the fifties, and then were transferred to the United States. Today, the regalia are commonly understood to be stored at Fort Knox.

The reasons for U.S. retention of the Crown are political rather than legal. Since taking possession, the United States Government has always acknowledged the regalia to be Hungarian property, but has continued to find any decision to return the regalia politically inopportune. The Communists' seizure of power in 1947, and later the defeated uprising in 1956, resulted in a stream of Hungarian refugees to the United States, who now form a constituency largely in opposition to the Crown's transfer to Hungary's Communist government.

Those opposing the Crown's return have advanced three arguments. The first, and least persuasive, is that the regalia of a monarch would not be safe with, or at least properly treated by, a Communist government. For anyone who has recently visited Budapest, and observed the care with which Hungary's fine architectural heritage (all from the days of monarchy) is now being restored, this argument simply lacks cogency. Nor does it make sense that the Hungarian Government would continue to emphasize the Crown's return if it did not attach great importance to this national treasure and intend to treat it with the respect warranted. There are indeed indications that the Hungarian Government has already decided that upon return the regalia would be enshrined in the National Museum in Budapest.

A second argument is that returning the regalia, which symbolize the Hungarian nation, would confer legitimacy on Hungary's Communist regime, still perceived by many as being a "puppet" under Soviet control. Yet, in truth, the question of legitimacy is now largely moot. At the United Nations, after being placed on the agenda in 1956, the issue was settled in 1963; and from the American perspective, agreement to exchange ambassadors with Hungary in 1966 represented an official U.S. decision to deal with the Hungarian Government as legitimately representing that nation. There seems little basis for the assertion that transferring the regalia to Hungary would now confer added legitimacy, and indeed some irony in the supposition that a Communist government would find legitimacy in accepting a monarch's crown.

Finally, there are those whose opposition focuses on the person of Janos Kadar as the betrayer of the 1956 Revolution, and who argue that the Crown's return should be delayed at least until his successor is in power. Based as it is on the deep emotions of those who fought against Soviet power in 1956, this argument cannot be refuted rationally. It can only be said that, whatever his role then, Kadar today appears to be accepted by most Hungarian citizens as a legitimate leader who has brought Hungary social peace if not independence, stability if not political freedom, and unprecedented wealth if not an egalitarian utopia. And it can be said further that, in an important sense, Kadar himself is irrelevant to the issue, in that the Crown belongs to the Hungarian people and its return would be to them.

Recognizing that the Crown represents the heritage of Hungary, even those opposing its transfer appear to agree that under no circumstances should it be linked to concessions by the Hungarian Government, for the reason that any attempt to bargain in this way would denigrate the Crown itself. Nor would such a tactic conceivably be successful, for it would be an affront to Hungarian dignity. Neither, however, does there any longer appear much wisdom in the long-standing American position, which is that the Crown would be returned *at some point* in the course of gradually improving U.S.-Hungarian relations. This too is an offense to Hungarian sensibilities—though one of a lesser sort—and has become, if anything, more of an impediment than an invitation to an improved bilateral relationship.

Gauging the importance of the Crown to Hungarians is, of course, difficult. But among older Hungarians particularly, and also among the country's intellectuals and its seven million Catholics, there is clearly an awareness of the issue and a general desire that the Crown be brought home. Given this pervasive feeling, the United States would appear to have little to gain from retention. One elderly and astute Hungarian with whom I spoke recommended that the Crown be first transferred to the Pope, who could then present it again to Hungarians nearly a millennium after his predecessor Sylvester first gave it to their king. This, noted the Hungarian, would satisfy political problems on both sides at once: the U.S. Government could avoid domestic difficulties and Hungary could avoid the discomfort of possibly appearing to Moscow to have achieved too warm a relationship with the United States. While the old Hungarian is correct in saying that no one's interest would be served if the United States sought to capitalize on the Crown's return, such a roundabout tactic appears to be unnecessary. Having held the Crown for three decades in safekeeping, it seems reasonable to conclude that the United States should now—quietly and with respect, directly and without delay—return it to the Hungarian people.

Most favored-nation status.—Also symbolic, but having practical economic significance as well, is the question of most-favored-nation (MFN) status [13] for Hungary, an issue of considerable sensitivity and not a little resentment among Hungarian officials. Before 1974, U.S. legislation denied such regular trade status to all Communist nations, with the exceptions of Yugoslavia and Poland (against which dis-

[13] Although generally understood, it bears emphasis that the term most-favored-nation status does not connote preferential treatment but rather nondiscriminatory treatment—that is, the levying of import tariffs equal to, and not higher than, those imposed on regular trading partners.

crimination had been dropped in timely efforts to expand economic ties between those countries and the West). The Trade Act of 1974 ended this blanket prohibition, replacing it with specified conditions under which discriminatory tariffs against Communist countries could be dropped and without which further export credits and credit guarantees could not be provided.[14] While complicated in its details, the provision was simple in its salient point: discriminatory tariffs would continue, and a block on credits and guarantees would be imposed, against any Communist country (except Yugoslavia and Poland) denying its citizens the opportunity to emigrate or imposing more than a nominal tax on a citizen for emigrating or desiring to emigrate.

The President was, however, authorized to waive this stipulation and grant MFN status and participation in credit programs to any Communist country if he had received assurances from that country's government that its emigration practices would, in the future, "lead substantially to the achievement" of the free emigration objective. In employing the waiver authority, which was made subject to a Congressional veto, the President was required to report these assurances to Congress along with his stated judgment that a waiver would in fact promote freer emigration, and then to renew the waiver annually.

In mid-1975, for the first and thus far only time, the waiver authority was used—for Romania—following President Ford's visit to Bucharest and his receipt, via the State Department, of the assurances called for in the Trade Act. Thereafter, by available measures,[15] Romanian emigration did in fact increase. Having previously been lower than 500—often much lower—annual Romanian emigration to the United States rose immediately to a point somewhat above the 1,000-per-year level, where it has remained since. Completely open Romanian emigration, however, is still a distant prospect. At present, for example, the American Embassy in Bucharest is aware of some 2,000 Romanians who have applied—as yet unsuccessfully—to emigrate to the United States.

Meanwhile, in its response to the Trade Act, Hungary—unlike Romania—dutifully followed Moscow's lead, making clear that, as a matter of principle if nothing else, it would not conform to the stipulation on free emigration, nor even provide such assurances as would allow a waiver. In their resulting situation, however, Hungarians could not fail to find distasteful irony. Having achieved a society from which relatively few wished to emigrate, and having adopted emigration practices at least as open as any in Eastern Europe,[16] they now found themselves denied expanded trade opportunities by a U.S. policy aimed at freeing unhappy East European citizens—all while Romania, with fewer domestic liberties, significantly greater emigration pressure, and stricter emigration practices, was being granted U.S. trade benefits on the basis of a promise to do better.

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[14] The text of pertinent portions of the Trade Act appears in an appendix to this report. Although the Trade Act used the more self-explanatory phrase "nondiscriminatory treatment," the term "MFN treatment" remains in common use.

[15] Full data on emigration from East European countries is impossible to obtain, but reasonable estimates can be based upon immigration statistics in major destination countries, such as the U.S. and West Germany.

[16] See earlier discussion on "Human Rights."

Nor, perceiving this anomaly, could Hungarian officials discern a practical remedy. From their perspective, adoption of an entirely open emigration policy remained out of the question, for international as well as domestic reasons: not only might it seriously aggravate Hungary's hard-currency problems and perhaps encourage the departure of a small but talented portion of Hungarian manpower; it would also—and this alone was sufficient reason—be a clear violation of the Soviet imperative for the maintenance of controls on the Warsaw Pact frontier. And while providing "assurances" remained an option which Hungarian officials could consider, it too bore significant liabilities— not just the sacrifice of principle and national dignity involved in capitulating to the U.S. requirement, but also the political risk involved in deviating from Moscow policy in order to expand relations with the United States. Ceausescu, ensconced behind the Warsaw Pact frontier and with a repressive grip on Romania's domestic life, might adopt a more independent stance, confident of Soviet tolerance. On the frontier and more liberal at home, Hungary was bound to proceed more cautiously. And even this concern aside, what genuine assurances of improved performance could Hungary provide when it was already approaching the practical limits of liberalizing its policy?

Having contemplated their predicament for two years now, Hungarian officials miss few opportunities to complain—though politely—to a visiting Senator about a discrimination which they regard as unfair. While critical of the Trade Act in itself, they appear even more critical of its application. They ask exactly what Romania's "assurances" to the U.S. were and why Romania should have received trade benefits simply for yielding slightly to an emigration pressure which is still many times greater than Hungary's. They are not at all coy about their desire to see Hungary receive MFN status from the United States—expanded exports to the American market and investment on credit in American technology obviously support Hungary's development strategy—but given their circumstances, they appear not to know how to do it. The best solution, one Hungarian official noted sardonically, was for Hungary to clamp down on emigration and then be awarded MFN status after providing assurances that it would become more liberal.

Estimating what economic benefits Hungary would actually derive from MFN status is subject to considerable error, but one just-completed study [17]—using advanced statistical techniques to predict how MFN would have affected the recent pattern of trade—found that, over the period 1974–75, MFN status would have increased Hungarian exports to the United States by roughly $30 million per year. Of this increase, according to the study, nearly half would have been in garments of various kinds, which are now essentially blocked to the U.S. market, while major items currently being imported, such as canned hams and agricultural machinery parts, would not have been significantly affected. Altogether, as the following table indicates, the projected increase represents roughly a doubling of U.S. imports from Hungary. Although seemingly dramatic, this increase would, in terms

[17] "The MFN Impact on U.S. Imports from Eastern Europe," by Helen Raffel, Marc Rubin and Robert Teal, a paper in the Joint Economic Committee's compendium *Eastern European Economies Post-Helsinki* (1977).

of overall Hungarian trade, represent only a marginal difference—constituting less than a 1 percent rise in total Hungarian exports, and only a very small percentage gain in exports to the West.

UNITED STATES-HUNGARIAN TRADE, 1972-76

[Millions of dollars]

	1972	1973	1974	1975	1976
U.S. exports	22.2	32.8	56.2	76.1	63
U.S. imports	12.7	16.4	[1] 25.4	34.6	49
Total turnover	35.5	49.2	81.6	110.7	112

[1] This does not include a special shipment of gold coins which accounted for an additional $50,000,000 of total U.S. imports from Hungary in 1974.

For the United States, given the size disparity between the two economies, the economic effects of granting MFN to Hungary would inevitably be even more modest. On the import side, due to the vastness of the American market, even the substantial projected increase in sales here of Hungarian-made clothing would constitute no more than ½ percent of total U.S. clothing imports. Nor, because of the relatively tiny Hungarian market, could the export effect for the United States be anything but small. At the very outset, however, the United States could expect a removal of the retaliatory tariffs that Hungary has imposed on American products since 1968. And such a reduction in tariffs, along with the renewed Hungarian eligibility for U.S. credits and credit guarantees that would accompany MFN, would clearly support some expansion of U.S. exports. Whereas Hungarian imports from the United States now consist largely of food, an expanded import level would probably reflect Hungary's intense interest in technology. Thus, increased American exports to Hungary could be anticipated in a variety of high-technology items such as agricultural machinery, pesticides and herbicides, and sophisticated food processing equipment.[18] To some extent, this could represent a shift away from purchases in Western Europe, with which Hungary already deals on a more normal basis in terms of credit and tariffs.

That neither Hungary nor the United States has a major economic stake in the MFN question serves to accentuate its dominant political dimension, and suggests a review of the purposes behind the legislative provisions which govern the overall MFN issue.

Two purposes can be imputed to the MFN-emigration provisions of the Trade Act of 1974. Though mutually exclusive in concept, the two together accounted for the provisions' broad Congressional support. Purpose No. 1, based upon a hope that Soviet bloc countries were in fact so anxious for expanded economic relations with the United States that they would yield to pressure, was to elicit an actual increase in emigration as the price of trade. Purpose No. 2, based upon a recognition that Soviet bloc countries were unlikely to conform to the emigration stipulations, was to perpetuate previous barriers to economic relations—thereby limiting Warsaw Pact access to the financial and

[18] While expanded exports of other high-technology products could also be expected, certain items such as computers and integrated circuits would, of course, continue to be affected by American export control restrictions even after the granting of MFN.

technological benefits of interaction with the American economy—and to do so in a way which highlighted a major deficiency of those regimes.

For those guided by Purpose No. 1, experience under the Trade Act to date has not been rewarding. Indeed, apart from the modest Romanian concessions on emigration described earlier, the effect if anything has been counterproductive—and certainly so with the Soviet Union, toward which the provisions were primarily focused. Emigration from the U.S.S.R., which had expanded significantly in the early 1970's, was sharply and blatantly curtailed immediately after—and clearly in response to—passage of the Trade Act, and there is now only limited hope of imminent change, at least in response to the Trade Act's stipulations. A "hang tough on emigration" policy does, of course, continue to hold considerable Congressional support, but on the evidence thus far, this approach appears more likely to serve only purpose No. 2, which is not to accomplish emigration but rather to deny trade.

For those holding Purpose No. 2, of course, the Trade Act's provisions have been eminently effective. Warsaw Pact emigration practices have been cast in an unfavorable light and, with the exception of Romania, barriers to expanded trade have been kept in place. Indeed the Soviet Union was eventually moved to repudiate a major 1972 U.S.–U.S.S.R. trade agreement which had been conditioned upon the granting of MFN.

Whether experience has confirmed or disproven the validity of the Trade Act's emigration provisions must eventually constitute a fundamental, and almost surely prolonged, American debate. Defenders of the provisions will reaffirm original positions. Opponents will advocate expanded U.S.-Warsaw Pact trade as a means for building an East-West relationship of common interest which will not only increase U.S. security but also gradually open doors for the increased transit of people and ideas.

In this debate, proponents of the Trade Act's provisions will perhaps stand their stronger ground in defending its application to the Soviet Union. For while necessarily conceding that Soviet emigration has been curtailed, they can claim that, at least, significant economic benefit has been denied to our superpower adversary and that, possibly, concessions on emigration will eventually be obtained. They will hold weaker ground, it appears, in arguing that the Trade Act has served U.S. interests in regard to Hungary. For reasons already discussed, Purpose No. 1—an actual expansion of emigration—has at most only marginal relevance to Hungary and is not apt to be served by the Trade Act's stipulations. Nor does Purpose No. 2—the denial of trade—appear to have validity in the Hungarian case. On the one hand, the increase in trade resulting from MFN status, while beneficial to Hungary, would simply not, by best projection, be of *substantial* economic benefit—either as regards the volume of trade or the transfer of technology, most of which is already available from European sources. On the other hand, to the degree that some normalization and expansion of bilateral relations would ensue, it would seem clearly to be in the American interest.

That interest derives directly from what can surely be agreed to be a fundamental U.S. purpose in Europe: which is a steady, peaceful dissolution of what remains of the Communist monolith through cre-

ation of a network of mutually beneficial relationships joining individual East European countries with the nations of the West, including the United States. When enacted, the Trade Act's provisions were ostensibly consistent with such a selective, disaggregated U.S. approach toward the East European nations. But in practice, the opposite has been true: a generalized barrier has been retained which has hindered the U.S. ability to pursue expanded bilateral relations with individual Warsaw Pact countries. This must, in any fair evaluation, be considered a significant liability of the MFN-emigration provisions.

Nor is there a better case in point than Hungary, which has largely overcome her Stalinist legacy and is now governed by a regime more legitimate perhaps than any other in the Warsaw Pact. If there would be foolish futility at one extreme in seeking to liberate Hungary from the Soviet sphere overnight, there would appear to be perversity at the other in repelling an opportunity to further the *gradual* expansion of Hungarian relations with the West. Whether normal U.S.- Hungarian trade relations must await a revision of the Trade Act, or whether a mutually acceptable "assurances" formula will be found, it appears that granting MFN status to Hungary, however this can be accomplished, would now serve United States interests by eliminating an unproductive aggravation and facilitating a broadened Hungarian-American relationship.

G. Hungary and the future of East-West trade

Although the MFN issue holds importance as a symbol of the premises governing U.S. policy toward Hungary, far more important in shaping Hungary's economic relations with the West, including the United States, will be the answer to a fundamental question concerning the entire East-West economic relationship: Is there in fact a basis for a sustainable, two-way flow of trade between the industrial democracies and the Soviet bloc? At present East-West trade is in trouble less for political reasons than because the answer to this question is seriously in doubt. The problem, briefly put, is that the Soviet Union and the East European countries simply do not appear to have enough desirable goods to sell in the West.

In the early 1970's, when East-West commerce was minimal, the atmosphere of detente raised hopes of a rapidly expanding trade which, through the magnitude of its mutual benefits, would contribute to cooperation and peace. It was recognized that, at least in its initial stages, the East's contribution would be primarily raw materials and the West's finished products, and that at the outset the volume of trade might be imbalanced, with Western exports predominating. But it was hoped that, as the Eastern countries absorbed technology and trading skill, the balance would eventually right itself. Moreover, from the perspective of those Western firms which actually began making large-volume sales to CEMA countries, such possibilities as future trade imbalances were simply someone else's concern.

Today, only five years after the annual CEMA deficit with the West first reached $1 billion, the matter of trade imbalances has indeed become a problem, and one that can no longer be ignored by Western governments, CEMA governments, or the Western banks which hold CEMA debt. For rather than diminishing, Eastern bloc deficits continued to grow—in 1976 alone, the East-West trade imbalance exceeded

$10 billion. And with such annual debts having accumulated for several years, CEMA countries, which owed relatively little to the West at the beginning of the 1970's, now owe nearly $50 billion, including $20 billion to Western banks (mostly in Western Europe). Nor does the trend show signs of quickly abating. Projections indicate that by 1980 total CEMA indebtedness to the West could reach $60–80 billion (where some observers do expect, however, that it will tend to level off).

Of more significance than the absolute volume of debt is its size when measured against the still-limited exporting capacity of the borrowing countries, which is a principal determinant of their ability to repay. By the end of 1976, debt-service ratios (national ratios of annual debt-service payments to export earnings) for every one of the Soviet bloc countries had risen above the 25 percent ceiling usually considered by Western bankers to be consistent with sound practice. According to data published by the Chase Manhattan Bank (*Eastwest Markets*, March 1977), the ratios at that point were as follows: Soviet Union, 26 percent; Bulgaria, 75 percent; Poland, 47 percent; Romania, 46 percent; Hungary, 37 percent; Czechoslovakia, 30 percent; and East Germany, 30 percent. To be sure, the 25 percent figure is only a general guideline, and a number of countries with considerably higher debt-service ratios (Mexico is a prominent example) are still considered sound credit risks. It is also true that the debt-service ratio calculation ignores "invisible" foreign currency earnings by the CEMA countries. Soviet sales from that country's huge gold reserves, for instance, contribute to annual "invisible" earnings of $2 billion; Bulgaria's profits from international transport greatly mitigate the seemingly precarious position indicated by its high debt-service ratio; Poland receives considerable hard currency through remittances from Poles abroad; East Germany takes in "invisible" foreign currency on a large scale through transit fees; and Hungary and Czechoslovakia operate with sizable net gains from tourism.

But high debt-service ratios are nonetheless indicative of a significant imbalance in trade; and some financial experts have expressed serious concern about what would happen if, for example, Poland, already saddled with a $10 billion debt, proved unable to meet interest and principal payments when many of its loans mature, as they reportedly will about 1980. In case of a prospective default by a member-country of the International Monetary Fund, the problem can be dealt with on an orderly multilateral basis, through an IMF loan and an IMF-supervised retrenchment program. But of the Soviet bloc countries, only Romania is an IMF member. Thus, were a CEMA country at some point to falter financially, Western governments could conceivably face the untenable choice of permitting a major banking crisis or intervening on an emergency basis through further government loans or loan guarantees on a large scale. It bears emphasis that at present the probability of such an occurrence appears low, for the strong likelihood is that the Soviet Union—or the CEMA countries collectively—would assist such a faltering ally in order to uphold the credit worthiness of the Communist countries. But that such action to preempt default has now become a plausible possibility is a direct reflection of the current imbalance in East-West trade and the limited prospects for improvement.

Only complicating the prospects for improvement are new doubts now being raised about the Soviet ability to produce oil during coming years on the scale originally projected. As the world's largest producer, the Soviet Union is not only self-sufficient in oil, but supplies over 70 percent of the oil consumed by her CEMA allies (since Romania is also self-sufficient, this figure actually understates the other allies' dependence), while also relying on oil exports to the West for nearly half of her hard-currency earnings. Intra-CEMA oil production is thus critically important both as a source of hard-currency and as an averter of hard-currency expenditures; and any substantial Soviet shortfall would create a severe dilemma. On the one hand, oil supplies to the Soviet allies could be maintained at the expense of projected oil exports to the West, thus damaging the *Soviet* trade balance. On the other, Soviet hard currency earnings could be maintained at the expense of Soviet allies, which would be forced into oil purchases on the Western market, heightening *their* hard currency problems. Regardless of the choice, however, the overall CEMA deficit would suffer by the amount of any shortfall in Soviet oil production.

The most pessimistic assessment of Soviet prospects—in oil production and overall economic growth—is reflected in recently declassified analyses by the CIA.[19] Under this projection, the Soviet Union's plan to expand oil production from the current level of 10.4 million barrels daily to a rate of 12.8 million barrels by 1980 is likely to founder on a series of obstacles: rapid depletion of Soviet oil fields currently being pumped, the relative inaccessibility of known reserves and the vast investments therefore necessary to bring them on line, and the high level of technical and organizational competence needed to do so. Moreover, to the degree that such investment and production are pursued, that process itself could well prove to be an unexpectedly large consumer of energy. Thus, according to this reading, the Soviets are now caught in a vicious circle: profoundly in need of additional oil production to generate the hard currency required for economic growth—but faced with the prospect that, even if they are able to muster the technical ability to expand production, the very effort to do so would tend to exhaust the additional hard currency and energy being produced. Because of this constraint and other factors, the CIA estimates that Soviet economic growth, now at 4 percent, could by the mid-1980's drop as low as two percent; and that in such a slowdown, below-plan oil production would be both cause and effect.

Although other expert assessments are less bleak about Soviet prospects, the CIA's analysis is undeniably accurate in underscoring, first, the heavy dependency of Soviet and East European development plans upon a hope that huge Soviet investments in energy production will pay-off and, second, the possibility that failure in this area could severely exacerbate an East-West trade imbalance that is already approaching critical dimensions. Whether, and to what degree, the Soviet Union would shift the burden of an energy shortfall to its satellites remains unclear, but evidence of East European concern about the serious hard-currency implications of future energy needs can be found in recent attempts to negotiate barter arrangements with OPEC suppliers. Apparently, however, such efforts have met little success, primarily because of the same problem that underlies all of East-

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[19] *Prospects for Soviet Oil Production*, available from the Library of Congress; and *Soviet Economic Problems and Prospects*, available from the U.S. Government Printing Office.

West trade: the inability of CEMA nations, at least at the present time, to offer a substantial volume of products competitive to those available on the Western market.

Given existing problems of trade imbalance and accumulating debt, and the possibility that those problems could be worsened by CEMA energy needs, the clear imperative is for a shift in the current pattern of East-West trade. One obvious solution is a sharp curtailment in CEMA imports from the West, and indeed there is no alternative to a cutback on the level of imports financed by cash or credit. But the critical question is whether other techniques of commerce, not involving hard currency expenditure by CEMA countries and geared to an extended time frame, can be brought to bear on a sufficient scale to sustain a substantial volume of two-way trade on a long term basis.

A study recently issued by the United Nations Economic Commission for Europe [20] concludes that such techniques—collectively known as "industrial cooperation"—do indeed hold considerable promise for greatly expanded and mutually beneficial use. As defined by the Commission, industrial cooperation means: (1) licensing Communist countries to use Western technology, with royalty payments to the West in finished goods; (2) supply by Western firms of complete plant or production lines, again with payment in finished goods; (3) co-production and specialization; (4) subcontracting; (5) joint ventures; and (6) joint tendering, joint construction and similar projects. While such arrangements are still in only limited use, they have been sufficiently tested—overall, there have been about 2,000 cooperation agreements over the past decade—to demonstrate their value. For those involved, the advantages are obvious. For Western firms, industrial cooperation is attractive because CEMA countries (especially the Soviet Union) offer a relatively untapped source of raw materials, as well as lower costs, a new market, and economies of scale. For Western governments, cooperation arrangements offer the economic and political gains of commerce without the financial danger of mounting debt. And for Communist governments, cooperation provides access to Western technology, foreign capital instead of hard currency expenditure, and easier access to the Western markets they have had difficulty penetrating on their own.

Among CEMA countries, Hungary—short of energy and raw materials and heavily dependent on foreign trade—has shown the keenest awareness of the benefits of industrial cooperation, having entered already into more than 500 cooperation agreements, one-fourth of the CEMA total. About 15 percent of Hungarian exports to the West now consist of goods produced under co-production agreements (mostly with West Germany). Yet even Hungary is still in the relatively early stages of exploring cooperation's full potential. It was only in 1972 that it gave the go-ahead for formation of joint ventures with Western companies and then only in the service and trade sectors.[21] And

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[20] *Economic Commission for Europe: Analytical Report on Industrial Cooperation among ECE Countries*, available from the United Nations, Geneva. In completing this and other reports, the ECE has been fulfilling a useful role, envisioned for it by many Western participants in the Helsinki conference, as forum for discussions and analysis relating to implementation of agreements in Basket II—those concerning economic, scientific, technological and environmental cooperation.

[21] From the CEMA perspective, joint ventures (involving joint ownership of equity, management, and marketing) offer advantages over co-production and licensing, because in the latter the Western partner has no interest in passing on technological improvements, or in marketing the product in the West. Joint ventures also offer a longer period, ordinarily 15–20 years, of relatively stable business.

it was just in June of this year that the regime decided to seek joint ventures in production as well. That and other innovations this year, however, show a serious Hungarian interest in inviting industrial cooperation on a far broader scale. According to the June decree—

Western firms will now be allowed majority control in investment companies created to raise capital for Hungarian enterprises or other joint ventures;

The tax on profits has been substantially lowered (from a progressive rate of up to 60 percent to a flat rate of 40 percent);

A simplified flat payroll tax of 35 percent on wages and salaries will now cover all other tax and social security obligations; and

Western firms will be allowed up to 49 percent equity in joint-venture companies.

For Hungary, and the other CEMA countries as well, the future of trade with the West is likely to be determined in large part by the success of such efforts to foster a considerable expansion of industrial cooperation arrangements—arrangements, that is, which facilitate the conduct of business essentially without money. In the absence of success, pressures now at work could well force a sharp diminution in East-West trade, forcing Hungary and the other CEMA satellites back into an extended period of dependence on the Soviet Union. On the other hand, if industrial cooperation were to prove able to marry the complementary economic needs of East and West on a broad scale, it could serve not only to create a heavy pattern of mutual interest spanning the East-West gap but also to decrease the dependence of the satellites on the Soviet Union, while further opening and normalizing their relations with the West. For Hungary, and probably for all nations involved, the consequences of such a gradual evolution would almost surely be benign.

IV. Summary and Recommendations

Legitimacy and liberalization.—Though it began in 1956 in ignominy, the Hungarian regime of Janos Kadár has now acquired a large measure of popular acceptance—by all evidence, more than that in any other East European country—as a result of Hungary's economic progress and the gradual expansion of personal freedoms. Although the dominant role of the Party in shaping Hungarian life remains essentially unaltered, under Kadar's hand the Party's exercise of power has grown increasingly civilized. Meanwhile, Kadar's "alliance" policy has broadened political participation to include groups outside the Party and his New Economic Mechanism has decentralized economic control, placing greater reliance on the marketplace than in other Communist regimes. Further liberalization may be constrained, however, not only by fear of Soviet disapproval but also by certain domestic pressures, among them a "workers' opposition" in the Party which favors curbing the large income differentials that have resulted from the regime's tolerant economic policies. In any event, the Party will almost surely face considerable ideological stress as it continues to try to reconcile old tenets to the modernizing social and economic trends which its own progressive policies have produced.

Human rights.—Hungary appears deserving of its reputation as the most advanced Warsaw Pact country in terms of basic human rights. The Hungarian regime's ability to operate without active censorship, however, is abetted by a general understanding on the part of the citizenry of what kinds of criticism and dissent are and are not permissible. Within the framework created by this understanding, considerable freedom is allowed. Foreign radio and television broadcasts have a large audience in Hungary, and there is relatively easy access to Western literature. Due to Kadar's growing accommodation with the Catholic Church, freedom of religion for Hungary's 1.5 million practicing Catholics has been expanded, although traces of prejudice against religion are still apparent and the state has required an approval authority over appointments to the Catholic hierarchy. With regard to emigration, relatively few Hungarians manifest a desire to leave Hungary permanently and the regime's policies are generally liberal toward those who do. Meanwhile, Hungarian citizens are permitted to travel abroad, both in Eastern Europe and the West, at the highest per capita rate in the Warsaw Pact.

Eurocommunism.—In the rhetorical dispute within the Communist world over Eurocommunism, Hungary has lined up squarely with the Kremlin. Although Hungarian officials may privately sympathize with the Eurocommunist emphasis on independence from Moscow, they appear to be operating on the principle that to maximize their actual independence, they should be rhetorically loyal. While demonstrating that loyalty, however, Kadar has also tried to play a conciliatory role so as to temper the dispute. Having succeeded in its policy of gradual

liberalization, the Hungarian leadership can find little comfort in the prospect that the Eurocommunists' anti-Sovietism might inspire unrealistic hopes among those of Hungary's citizens who still have a strong pro-Western orientation.

Kadar's foreign policy.—Although remarkable because unprecedented, Kadar's recent visits to Western countries are probably much less significant than indicated by some journalistic interpretations. Rather than signaling a desire to reorient Hungary internationally, the trips more likely represent an effort by Kadar to increase his own, and Hungary's, international prestige and thereby to give expression to Hungarian nationalism in a way that does not jeopardize the international stability which has allowed Hungary's domestic liberalization.

The Crown of St. Stephen.—The United States should without further delay return to Hungary the Crown of St. Stephen and the associated regalia, which have been in American custody since the close of World War II. Continued retention would serve no purpose other than to perpetuate an unnecessary aggravation in U.S.-Hungary relations.

Most-favored-nation status.—The United States should seek to grant nondiscriminatory trade status to Hungary as soon as practicable, either through revision of the 1974 Trade Act or, if possible, by means of an arrangement that would bring Hungary into technical compliance with the Trade Act's provisions on emigration. The latter course is complicated, however, because "assurances" of improved performance are required, and Hungary's already relatively open emigration practices are, for practical geopolitical reasons, unlikely to become more so. Meanwhile, continued denial of regular trade status to Hungary impedes the normalization of U.S. relations with the Warsaw Pact's most liberal country, and is also anomalous, considering that regular trade status was recently granted to Romania, which has stricter emigration practices than Hungary. To a minor extent, granting MFN status would also contribute to correcting the serious trade deficit and debt build-up which Hungary, like other Soviet bloc countries, has with the West.

Industrial cooperation.—The future of Western commerce with Hungary and other CEMA countries will depend heavily on the various business techniques described as "industrial cooperation," which essentially means doing business with a minimum use of money. At present, East-West commerce is imperiled less by political problems than by the large annual trade deficit being run by the Eastern bloc countries, the consequent debt accumulation and high debt-service ratios, and the prospect that a likely shortfall in planned Soviet energy production will only exacerbate the hard currency problems of the Soviet Union and those allies dependent on Soviet oil. Since a greatly expanded Eastern export capability is not foreseeable in the near future, the only sound alternative to diminished East-West trade is the creation of long-term arrangements which do not involve increased financial debt. Such arrangements, which include co-production and joint ventures, have already proven successful on a limited basis; and led by Hungary, CEMA countries are beginning to make provisions which indeed may facilitate a large expansion of industrial cooperation.

U.S. policy and Eastern Europe.—A sound U.S. policy toward Eastern Europe can be based neither upon the hope of rapid "liberation," which is unrealistic, nor upon the cynical judgment that peace requires U.S. acquiescence in perpetual Soviet domination of the Warsaw Pact countries. Instead, the underlying premise of American policy should be that the U.S. interest lies in seeing relations between individual East European countries and the West gradually expanded on a broad front of political, economic, and cultural interaction and on terms of businesslike accommodation. Because such a policy involves bargaining and compromise in a variety of fields, there is nothing inherently wrong with a "linkage" strategy which seeks to trade economic benefits for political concessions. But while not wrong in principle, such a strategy may be wrong in practice, for the quite simple reason that it may not work. This indeed is the indictment that weighs heavily against the MFN-emigration provisions of the Trade Act. Not only have those provisions failed (with the modest exception of Romania) to achieve their ostensible purpose of expanded emigration—in fact, the opposite appears true—they have also, by perpetuating a broad barrier to U.S.-Soviet bloc relations, impeded the United States in pursuing its interest in selectively expanding bilateral relations with individual Warsaw Pact countries. The fundamental importance of pursuing that interest should remain at the forefront of policy considerations. For in it lies the hope and possibility of a further dissolution of what remains of the Communist monolith in Europe through the establishment of a network of ties that span the gap of fear and alienation between East and West and lessen East European dependence on the Soviet Union. Today, a promising possibility in this regard is Hungary which, having emerged from the depths of the Stalinist past, now has an obvious and express desire to expand ties with the West. While a U.S. policy which reciprocates that desire could arguably have merit as a kind of divide and conquer strategy, its best purpose—far from conquest—would be the broadening of an East-West relationship which serves the interests of both sides.

APPENDIX

Selected Sections of the Trade Act of 1974

TITLE IV—TRADE RELATIONS WITH COUNTRIES NOT CURRENTLY RECEIVING NONDISCRIMINATORY TREATMENT

Sec. 401. Exception of the Products of Certain Countries or Areas.

Except as otherwise provided in this title, the President shall continue to deny nondiscriminatory treatment to the products of any country, the products of which were not eligible for the rates set forth in rate column numbered 1 of the Tariff Schedules of the United States on the date of the enactment of this Act.

Sec. 402. Freedom of Emigration in East-West Trade.

(a) To assure the continued dedication of the United States to fundamental human rights, and notwithstanding any other provision of law, on or after the date of the enactment of this Act products from any nonmarket economy country shall not be eligible to receive nondiscriminatory treatment (most-favored-nation treatment), such country shall not participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, directly or indirectly, and the President of the United States shall not conclude any commercial agreement with any such country, during the period beginning with the date on which the President determines that such country—

(1) denies its citizens the right or opportunity to emigrate;

(2) imposes more than a nominal tax on emigration or on the visas or other documents required for emigration, for any purpose or cause whatsoever; or

(3) imposes more than a nominal tax, levy, fine, fee, or other charge on any citizen as a consequence of the desire of such citizen to emigrate to the country of his choice,

and ending on the date on which the President determines that such country is no longer in violation of paragraph (1), (2), or (3).

(b) After the date of the enactment of this Act, (A) products of a nonmarket economy country may be eligible to receive nondiscriminatory treatment (most-favored-nation treatment), (B) such country may participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, and (C) the President may conclude a commercial agreement with such country, only after the President has submitted to the Congress a report indicating that such country is not in violation of paragraph (1), (2), or (3) of subsection (a). Such report with respect to such country shall include information as to the nature and implementation of emigration laws and policies and restrictions or discrimination applied to or against persons wishing to emigrate. The report required by this subsection shall be submitted initially as provided herein and, with current information, on or before each June 30 and December 31 thereafter so long as such treatment is received, such credits or guarantees are extended, or such agreement is in effect.

(c)(1) During the 18-month period beginning on the date of the enactment of this Act, the President is authorized to waive by Executive order the application of subsection (a) and (b) with respect to any country, if he reports to the Congress that—

(A) he has determined that such waiver will substantially promote the objectives of this section; and

(B) he has received assurances that the emigration practices of that country will henceforth lead substantially to the achievement of the objectives of this section.

(2) During any period subsequent to the 18-month period referred to in paragraph (1), the President is authorized to waive by Executive order the application of subsections (a) and (b) with respect to any country, if the waiver authority granted by this subsection continues to apply to such country pursuant to subsection (d), and if he reports to the Congress that—

(A) he has determined that such waiver will substantially promote the objectives of this section; and

(B) he has received assurances that the emigration practices of that country will henceforth lead substantially to the achievement of the objectives of this section.

(3) A waiver with respect to any country shall terminate on the day after the waiver authority granted by this subsection ceases to be effective with respect to such country pursuant to subsection (d). The President may, at any time, terminate by Executive order any waiver granted under this subsection.

(d) (1) If the President determines that the extension of the waiver authority granted by subsection (c) (1) will substantially promote the objectives of this section, he may recommend to the Congress that such authority be extended for a period of 12 months. Any such recommendation shall—

(A) be made not later than 30 days before the expiration of such authority;

(B) be made in a document transmitted to the House of Representatives and the Senate setting forth his reasons for recommending the extension of such authority; and

(C) include, for each country with respect to which a waiver granted under subsection (c) (1) is in effect, a determination that continuation of the waiver applicable to that country will substantially promote the objectives of this section, and a statement setting forth his reasons for such determination.

(2) If the President recommends under paragraph (1) the extension of the waiver authority granted by subsection (c) (1), such authority shall continue in effect with respect to any country for a period of 12 months following the end of the 18-month period, referred to in subsection (c) (1), if, before the end of such 18-month period, the House of Representatives and the Senate adopt, by an affirmative vote of a majority of the Members present and voting in each House and under the procedures set forth in section 153, a concurrent resolution approving the extension of such authority, and such resolution does not name such country as being excluded from such authority. Such authority shall cease to be effective with respect to any country named in such concurrent resolution on the date of the adoption of such concurrent resolution. If before the end of such 18-month period, a concurrent resolution approving the extension of such authority is not adopted by the House and the Senate, but both the House and Senate vote on the question of final passage of such a concurrent resolution and—

(A) both the House and the Senate fail to pass such a concurrent resolution, the authority granted by subsection (c) (1) shall cease to be effective with respect to all countries at the end of such 18-month period;

(B) both the House and the Senate pass such a concurrent resolution which names such country as being excluded from such authority, such authority shall cease to be effective with respect to such country at the end of such 18-month period; or

(C) one House fails to pass such a concurrent resolution and the other House passes such a concurrent resolution which names such country as being excluded from such authority, such authority shall cease to be effective with respect to such country at the end of such 18-month period.

(3) If the President recommends under paragraph (1) the extension of the waiver authority granted by subsection (c) (1), and at the end of the 18-month period referred to in subsection (c) (1) the House of Representatives and the Senate have not adopted a concurrent resolution approving the extension of such authority and subparagraph (A) of paragraph (2) does not apply, such authority shall continue in effect for a period of 60 days following the end of such 18-month period with respect to any country (except for any country with respect to which such authority was not extended by reason of the application of subparagraph (B) or (C) of paragraph (2)), and shall continue in effect for a period of 12 months following the end of such 18-month period with respect to any such country if, before the end of such 60-day period, the House of Representatives and the Senate adopt, by an affirmative vote of a majority of the Mem-

bers present and voting in each House and under the procedures set forth in section 153, a concurrent resolution approving the extension of such authority, and such resolution does not name such country as being excluded from such authority. Such authority shall cease to be effective with respect to any country named in such concurrent resolution on the date of the adoption of such concurrent resolution. If before the end of such 60-day period, a concurrent resolution approving the extension of such authority is not adopted by the House and Senate, but both the House and Senate vote on the question of final passage of such a concurrent resolution and—

(A) both the House and the Senate fail to pass such a concurrent resolution, the authority granted by subsection (c)(1) shall cease to be effective with respect to all countries on the date of the vote on the question of final passage by the House which votes last;

(B) both the House and the Senate pass such a concurrent resolution which names such country as being excluded from such authority, such authority shall cease to be effective with respect to such country at the end of such 60-day period; or

(C) one House fails to pass such a concurrent resolution and the other House passes such a concurrent resolution which names such country as being excluded from such authority, such authority shall cease to be effective with respect to such country at the end of such 60-day period.

(4) If the President recommends under paragraph (1) the extension of the waiver authority granted by subsection (c)(1), and at the end of the 60-day period referred to in paragraph (3) the House of Representatives and the Senate have not adopted a concurrent resolution approving the extension of such authority and subparagraph (A) of paragraph (3) does not apply, such authority shall continue in effect until the end of the 12-month period following the end of the 18-month period referred to in subsection (c)(1) with respect to any country (except for any country with respect to which such authority was not extended by reason of the application of subparagraph (B) or (C) of paragraph (2) or subparagraph (B) or (C) of paragraph (3)), unless before the end of the 45-day period following such 60-day period either the House of Representatives or the Senate adopts, by an affirmative vote of a majority of the Members present and voting in that House and under the procedures set forth in section 153, a resolution disapproving the extension of such authority generally or with respect to such country specifically. Such authority shall cease to be effective with respect to all countries on the date of the adoption by either House before the end of such 45-day period of a resolution disapproving the extension of such authority, and shall cease to be effective with respect to any country on the date of the adoption by either House before the end of such 45-day period of a resolution disapproving the extension of such authority with respect to such country.

(5) If the waiver authority granted by subsection (c) has been extended under paragraph (3) or (4) for any country for the 12-month period referred to in such paragraphs, and the President determines that the further extension of such authority will substantially promote the objectives of this section, he may recommend further extensions of such authority for successive 12-month periods. Any such recommendations shall—

(A) be made not later than 30 days before the expiration of such authority;

(B) be made in a document transmitted to the House of Representatives and the Senate setting forth his reasons for recommending the extension of such authority; and

(C) include, for each country with respect to which a waiver granted under subsection (c) is in effect, a determination that continuation of the waiver applicable to that country will substantially promote the objectives of this section, and a statement setting forth his reasons for such determination.

If the President recommends the further extension of such authority, such authority shall continue in effect until the end of the 12-month period following the end of the previous 12-month extension with respect to any country (except for any country with respect to which such authority has not been extended under this subsection), unless before the end of the 60-day period following such previous 12-month extension, either the House of Representatives or the Senate adopts, by an affirmative vote of a majority of the Members present and voting in that House and under the procedures set forth in section 153, a resolution disapproving the extension of such authority generally or with respect to such country specifically.

Such authority shall cease to be effective with respect to all countries on the date of the adoption by either House before the end of such 60-day period of a resolution disapproving the extension of such authority, and shall cease to be effective with respect to any country on the date of the adoption by either House before the end of such 60-day period of a resolution disapproving the extension of such authority with respect to such country.

(e) This section shall not apply to any country the products of which are eligible for the rates set forth in rate column numbered 1 of the Tariff Schedules of the United States on the date of the enactment of this Act.

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Sec. 404. Extension of Nondiscriminatory Treatment.

(a) Subject to the provisions of section 405(c), the President may by proclamation extend nondiscriminatory treatment to the products of a foreign country which has entered into a bilateral commercial agreement referred to in section 405.

(b) The application of nondiscriminatory treatment shall be limited to the period of effectiveness of the obligations of the United States to such country under such bilateral commercial agreement. In addition, in the case of any foreign country receiving nondiscriminatory treatment pursuant to this title which has entered into an agreement with the United States regarding the settlement of lend-lease reciprocal aid and claims, the application of such nondiscrminatory treatment shall be limited to periods during which such country is not in arrears on its obligations under such agreement.

(c) The President may at any time suspend or withdraw any extension of nondiscriminatory treatment to any country pursuant to subsection (a), and thereby cause all products of such country to be dutiable at the rates set forth in rate column numbered 2 of the Tariff Schedules for the United States.

Sec. 405. Authority to Enter Into Commercial Agreements.

(a) Subject to the provisions of subsections (b) and (c) of this section, the President may authorize the entry into force of bilateral commercial agreements providing nondiscriminating treatment to the products of countries heretofore denied such treatment whenever he determines that such agreements with such countries will promote the purposes of this Act and are in the national interest.

(b) Any such bilateral commercial agreement shall—

(1) be limited to an initial period specified in the agreement which shall be no more than 3 years from the date the agreement enters into force; except that it may be renewable for additional periods, each not to exceed 3 years; if—

(A) a satisfactory balance of concessions in trade and services has been maintained during the life of such agreement, and

(B) the President determines that actual or foreseeable reductions in United States tariffs and nontariff barriers to trade resulting from multilateral negotiations are satisfactorily reciprocated by the other party to the bilateral agreement;

(2) provide that it is subject to suspension or termination at any time for national security reasons, or that the other provisions of such agreement shall not limit the rights of any party to take any action for the protection of its security interests;

(3) include safeguard arrangements (A) providing for prompt consultations whenever either actual or prospective imports cause or threaten to cause, or significantly contribute to, market disruption and (B) authorizing the imposition of such import restrictions as may be appropriate to prevent such market disruption;

(4) if the other party to the bilateral agreement is not a party to the Paris Convention for the Protection of Industrial Property, provide rights for United States nationals with respect to patients and trademarks in such country not less than the rights specified in such convention;

(5) if the other party to the bilateral agreement is not a party to the Universal Copyright Convention, provide rights for United States nationals with respect to copywrights in such country not less than the rights specified in such convention;

(6) in the case of an agreement entered into a renewed after the date of the enactment of this Act, provide arrangements for the protection of industrial rights and processes;

(7) provide arrangements for the settlement of commercial differences and disputes;

(6) in the case of an agreement entered into or renewed after the date of the enactment of this Act, provide arrangements for the promotion of trade, which may include those for the establishment or expansion of trade and tourist promotion offices, for facilitation of activities of governmental commercial officers, participation in trade fairs and exhibits, and the sending of trade missions, and for facilitation of entry, establishment, and travel of commercial representatives;

(9) provide for consultations for the purpose of reviewing the operation of the agreement and relevant aspects of relations between the United States and the other party; and

(10) provide such other arrangements of a commercial nature as will promote the purposes of this Act.

(c) An agreement referred to in subsection (a), and a proclamation referred to in section 404(a) implementing such agreement, shall take effect only if (1) approved by the Congress by the adoption of a concurrent resolution referred to in section 151, or (2) in the case of an agreement entered into before the date of the enactment of this Act and a proclamation implementing such agreement, a resolution of disapproval referred to in section 152 is not adopted during the 90-day period specified by section 407(c)(2).

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Sec. 407. Procedure for Congressional Approval or Disapproval of Extension of Nondiscriminatory Treatment and Presidential Reports.

(a) Whenever the President issues a proclamation under section 404 extending nondiscriminatory treatment to the products of any foreign country, he shall promptly transmit to the House of Representatives and to the Senate a document setting forth the proclamation and the agreement the proclamation proposes to implement, together with his reasons therefor.

(b) The President shall transmit to the House of Representatives and the Senate a document containing the initial report submitted by him under section 402(b) or 409(b) with respect to a nonmarket economy country. On or before December 31 of each year, the President shall transmit to the House of Representatives and the Senate, a document containing the report required by section 402(b) or 409(b) as the case may be, to be submitted on or before such December 31.

(c)(1) In the case of a document referred to in subsection (a) (other than a document to which paragraph (2) applies), the proclamation set forth therein may become effective and the agreement see forth therein may enter into force and effect only if the House of Representatives and the Senate adopt, by an affirmative vote of a majority of those present and voting in each House, a concurrent resolution of approval (under the procedures set forth in section 151) of the extension of nondiscriminatory treatment to the products of the country concerned.

(2) In the case of a document referred to in subsection (a) which sets forth an agreement entered into before the date of the enactment of this Act and a proclamation implementing such agreement, such proclamation may become effective and such agreement may enter into force and effect after the close of the 90-day period beginning on the day on which such document is delivered to the House of Representatives and to the Senate, unless during such 90-day period either the House of Representatives or the Senate adopts, by an affirmative vote of a majority of those present and voting in that House, a resolution of disapproval (under the procedures set forth in section 152) of the extension of nondiscriminatory treatment to the products of the country concerned.

(3) In the case of a document referred to in subsection (b) which contains a report submitted by the President under section 402(b) or 409(b) with respect to a nonmarket economy country, if, before the close of the 90-day period beginning on the day on which such document is delivered to the House of Representatives and to the Senate, either the House of Representatives or the Senate adopts, by an affirmative vote of a majority of those present and voting in that House.

a resolution of disapproval (under the procedures set forth in section 152) of the report submitted by the President with respect to such country, then, beginning with the day after the date of the adoption of such resolution of disapproval, (A) nondiscriminatory treatment shall not be in force with respect to the products of such country, and the products of such country shall be dutiable at the rates set forth in rate column numbered 2 of the Tariff Schedules of the United States, (B) such country may not participate in any program of the Government of the United States which extends credit or credit guarantees or investment guarantees, and (C) no commercial agreement may thereafter be concluded with such country under this title.

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Sec. 409. Freedom to Emigrate to Join a Very Close Relative in the United States.

(a) To assure the continued dedication of the United States to the fundamental human rights and welfare of its own citizens, and notwithstanding any other provision of law, on or after the date of the enactment of this Act, no nonmarket economy country shall participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, directly or indirectly, and the President of the United States shall not conclude any commercial agreement with any such country, during the period beginning with the date on which the President determines that such country—

(1) denies its citizens the right or opportunity to join permanently through emigration, a very close relative in the United States, such as a spouse, parent, child, brother, or sister;

(2) imposes more than a nominal tax on the visas or other documents required for emigration described in paragraph (1); or

(3) imposes more than a nominal tax, levy, fine, fee, or other charge on any citizen as a consequence of the desire of such citizen to emigrate as described in paragraph (1),

and ending on the date on which the President determines that such country is no longer in violation of paragraph (1), (2), or (3).

(b) After the date of the enactment of this Act, (A) a nonmarket economy country may particiapte in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, and (B) the President may conclude a commercial agreement with such country, only after the President has submitted to the Congress a report indicating that such country is not in violation of paragraph (1), (2), or (3) of subsection (a). Such report with respect to such country shall include information as to the nature and implementation of its laws and policies and restrictions or discrimination applied to or against persons wishing to emigrate to the United States to join close relatives. The report required by this subsection shall be submitted initially as provided herein and, with current information, on or before each June 30 and December 31 thereafter, so long as such credits or guarantees are extended or such agreement is in effect.

(c) This section shall not apply to any country the products of which are eligible for the rates set forth in rate column numbered 1 of the Tariff Schedules of the United States on the date of enactment of this Act.

(d) During any period that a waiver is in effect with respect to any nonmarket economy country under section 402(c), the provisions of subsections (a) and (b) shall not apply with respect to such country.

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