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DEVELOPMENTS IN HUNGARY

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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Concurred in by the
INTELLIGENCE ADVISORY COMMITTEE

on 29 March 1955. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, G-2, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant to the Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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CURRENT SITUATION AND PROBABLE DEVELOPMENTS IN HUNGARY

THE PROBLEM

To assess the strengths and weaknesses of the Hungarian Communist regime, to evaluate the regime's policies and probable courses of action, and to estimate the ability of the Communists to continue in control through mid-1956.

CONCLUSIONS

1. Hungary has in recent years shown consistent evidence of political disharmony and economic dislocation, accompanied by popular unrest, and will probably continue to be the most troublesome of the East European Satellites. Much of the popular dissension arises from the Hungarians' deep-seated hostility toward Communism and toward the Slavs who have imposed Communism upon them. They do not have the antagonism toward the Germans displayed by the Czechs and the Poles. However, the security forces at the disposal of the government, plus the presence of Soviet forces, are sufficient to cope with any active resistance. In any event, we believe that the Kremlin will take all measures necessary to keep Hungary in the Bloc. (Paras. 7-15, 19-28, 34)

2. Although the Communist regime restored the economy and, in some directions, notably heavy industry, expanded it, Hungary's economic difficulties multiplied. The introduction of the "New

Course" in 1953 failed to resolve the problems in industry and agriculture. In industry the failure is attributable to an inadequate raw materials base, inexperienced management, and inability to provide sufficient worker incentives. In agriculture, mismanagement coupled with general peasant resistance to agrarian policies accounted for most of the difficulties. Living conditions did not improve during 1954 and, in the urban areas, were clearly below prewar levels. (Paras. 7-9, 14-15)

3. Improvement in the Hungarian economy is unlikely to take place unless a substantial increase in agricultural production can be achieved. Prospects for this are poor under existing Communist policies. (Paras. 16-18)

4. The Hungarian Army and Air Force are capable of participating in a Bloc campaign against neighboring countries although sustained operations would require extensive Soviet logistic support. The reliability of the Army and Air Force

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is considered to be sufficiently high for them to serve in occupation duties, to guard rear areas, or to serve as integrated elements of a Soviet field force. The combat effectiveness of the Hungarian

Army is as high as that of any other European Satellite, except Bulgaria; its primary limitation being the questionable reliability of some of the troops. (Paras. 29-30)

DISCUSSION

I. INTRODUCTION

5. Of all the European Satellites, Hungary has in recent years shown the most consistent symptoms of political disharmony, economic dislocation, and popular unrest. These symptoms have not extended to open revolt, such as occurred in East Germany in June 1953, but they have been sufficient to arouse doubts, from time to time, as to the ability of the Communists to maintain power. We do not believe that the regime is, in fact, seriously threatened. Nevertheless, Hungary is almost certainly the most troubled of all the European states subject to the USSR. Its population is overwhelmingly hostile to the Communist government, and is apathetic and uncooperative toward the economic program. The economy has been dislocated by unrealistic plans and by incompetent management. By mid-1953, persistent failures led to the introduction of a "New Course." After about 18 months of operation, the new policies had failed to bring about the hoped-for improvements. In early 1955, certain modifications of "New Course" policies were initiated. In spite of efforts by the Communists, the situation has not been resolved.

II. ECONOMIC SITUATION AND PROBABLE DEVELOPMENTS

The Period 1945-1953

6. After World War II the Hungarian economy, like that of other war-torn nations, was in a state of paralysis. In 1947, a three-year program of recovery was instituted under the auspices of a coalition government including the Communists which then ruled the country. This plan was overfulfilled, and by 1949 the general level of production in Hungary had slightly exceeded the level of 1938. Mean-

while, the Communist minority in the country, with the support of Soviet occupation forces, gradually but ruthlessly eliminated overt and organized opposition and took over the government.

7. In 1950 the Communist regime inaugurated a Five-Year Plan for rapid industrialization; this plan in its general aims was similar to those of the other Satellites and of the USSR itself. Encouraged by the striking progress made during the first year of this program, and spurred on by the heightened international tensions accompanying the Korean War, the Communists in 1951 greatly expanded the goals which they had set in the previous year. During early 1951, fairly good progress continued to be made. Later in 1951, however, serious difficulties began to appear, especially shortages of raw materials for the heavy manufacturing industries. A very severe drought aggravated a continuing deficiency in agricultural production.

8. In spite of difficulties which gradually multiplied, the Hungarian economy in some respects had made remarkable gains. From 1949 through 1953, gross national product (GNP) rose at an average annual rate of more than seven percent; from an estimated \$2.3 billion in 1948 to \$3.3 billion in 1953 (in 1951 US dollars). Total industrial production almost doubled between 1950 and 1953, while production in heavy industry more than doubled. Industrial construction increased three-fold. Even though these increases were achieved at the expense of the consumption sectors of the economy, they were nevertheless impressive.

9. Along with the considerable success in heavy industrial development went a conspicuous failure in agriculture. The agricultural plan for 1947-1949 was not fulfilled, and sub-

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sequent plans fared no better. In absolute terms, agricultural production approximated the prewar level only once, in 1951, and since that year it has declined. The causes for this failure besides the great drought of 1952, lay in: (a) the drawing off of farm manpower for industry; (b) the failure to mechanize agriculture in accordance with plan; (c) the resistance of the peasants to the regime's actual or prospective measures for the collectivization of farming; (d) arbitrary cropping patterns; and (e) the government's collection and price policies. This general situation, which was common throughout the Bloc, was particularly acute in Hungary.

10. The consequences of the agricultural failure were very serious. Per capita consumption of food fell below prewar levels. In particular, consumption of meat, fats, and milk — the foods required for the better dietary balance of the rapidly expanding urban working population — fell off markedly. Hungary's traditional exports declined sharply; foodstuffs had to be imported. The resultant reduction of foreign exchange was of special significance. As Hungary's industries grew under the development programs, their needs for imported raw materials grew also, while the lagging agricultural output rendered it increasingly difficult to pay for such imports. At the same time, exports of manufactured goods met price, quality, and delivery difficulties. Overemphasis upon heavy industry, and neglect of agriculture, thus led to a serious economic imbalance; and by early 1953, the standard of living had reached an all-time low.

The "New Course"

11. Confronted by this deteriorating situation, the Hungarian government on 4 July 1953, announced the "New Course" which had the dual purpose of redressing the unbalanced economy and placating the hostile population. The "New Course" announcement in Hungary followed shortly after the announcement of a similar policy in East Germany but preceded that of similar programs in the other Satellites. The economic part of the "New Course" sharply altered past policies and outlined a new program designed to de-emphasize heavy industry and to increase production in

agriculture and light industry. Agricultural production was to be encouraged through material incentives rather than coercion. Peasants working their own land were promised greater government assistance, more equitable treatment in the use of agricultural machinery, some concessions with regard to delivery obligations, and higher prices. Even more important, the collective farm peasants were given permission to withdraw. Industrial workers and urban residents were promised increased food and other consumer goods, improved wages, and better housing. The government promised better quality, wider variety, and lower prices of consumer goods. The announcement of the "New Course" was accompanied by a tremendous propaganda campaign aimed at generating greater popular support for the regime.

12. The immediate popular reaction to this announcement foreshadowed the difficulties which would plague the regime in its efforts to accomplish the two objectives of the program. The announcement was widely interpreted to mean that the government was weakening; large numbers of peasants left the collective farms, thus seriously interfering with harvesting and sowing; in the factories, efficiency and discipline deteriorated to even lower levels. Party functionaries became discontented at the prospect that their position and influence would be curtailed as the various promises of the "New Course" were fulfilled. Within one week after the announcement, First Secretary Rakosi appeared publicly and reaffirmed that the regime's ultimate goal was the socialization of agriculture and reminded industrial workers that the abolition of fines did not mean that breaches of discipline would go unpunished. These statements dissipated much of the hope that had been aroused by the promises of the "New Course" and created uncertainty and misgivings among the people.

13. These misgivings were confirmed by the regime's erratic implementation of the economic part of the "New Course" during 1953 and 1954. Initial concessions in agriculture included cutbacks in delivery quotas, cancellation of quota arrears, and reduction of income

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taxes. However, a sustained press attack was launched against those leaving collectives, various obstacles were placed in the way of those who insisted upon withdrawing, and concessions favored collective farms over individual peasants. The regime's policy toward urban workers was more consistent, but individual benefits either did not materialize or fell far short of inflated expectations. Concessions were made in the form of increased wages, improved labor protection, and social security; prices were reduced, food stocks were released from reserves and foodstuffs were imported to supplement low supplies in the urban areas. However, instead of reducing popular antagonism toward the regime, these concessions appeared only to generate more desires and to promote the feeling that the regime could be ignored with impunity.

14. Not only did the "New Course" fail to reduce the widespread hostility toward the regime, but it also failed to achieve its purely economic aims. Industry's modified plan providing for a 1954 increase in output of 4.5 percent had to be even further reduced. Total industrial production increased by approximately three percent, while heavy industrial output fell by an equal percentage and national income declined. Production continued to be impeded by rising costs, waste, low productivity, poor labor discipline, ineffectual management, and poor maintenance. It was in agriculture, however, where the greatest gains were planned and needed, that the "New Course" most conspicuously failed. The output of industrial crops increased considerably, but bread grain production was below that of 1953, despite an increase in acreage, and beef cattle stock remained at the 1953 level. Moreover, the general collection was unsatisfactory, even for those crops for which production was good. Among the causes for the shortfall in bread grains were: (a) the unfavorable weather; (b) confusion in the countryside; (c) the regime's failure to deliver sufficient quantities of agricultural machinery; and (d) the still depressant collection and price policies. A more fundamental, and probably equally important, factor was the failure of the regime to win the support of the peasants. Even the additional concessions

made during 1954, including further cancellation of tax arrears, failed to generate confidence among the peasants. The moderate goals of the 1954 plan were still well below the minimum requirements of the Hungarian nation.

15. Thus, the Hungarian economy remains in a state of serious dislocation. The standard of living of the people is generally low and in the urban areas, except for the privileged, is substantially below prewar levels. There is a very considerable number of black market dealers who obtain much of their merchandise as a result of widespread pilfering by workers. Agricultural machinery has thus far had little effect because of poor maintenance, lack of spare parts, and the fact that its use has been largely limited to the 30 percent of the land comprising state and collective farms. Factories are badly planned, and some of them are left unfinished. Those in operation produce generally inferior goods at a high cost which makes it difficult to compete with more efficient producers in foreign markets. The marked increases in GNP represent almost entirely capital equipment which, thus far, has contributed very little toward the improvement of the welfare of the people.

Probable Economic Developments

16. According to recent policy statements regarding the 1955 plan, some of the former emphasis upon industrial production is to be restored. Industrial production is scheduled to increase over 1954 by nearly six percent and agriculture by slightly more than seven percent. National income is to rise by nearly eight and one-half percent. The planned increase in industry is made dependent largely upon raising productivity and that in agriculture is to be achieved through larger acreage and modernization. Hungary's prospects for achieving these 1955 increases are, at best, poor.

17. Hungary will almost certainly be unable to achieve any substantial economic growth during the next few years under the present course, and unless there is a significant modification in it, no improvement in living standards is likely. Some temporary improvement may be obtained through extended credits or

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import loans from either the USSR or the West. The two basic difficulties impeding economic development — an inadequate raw materials base and the stagnation in agriculture — have not been resolved, and the regime has been unable to reduce the widespread apathy and passive resistance of the people. Continued general emphasis upon agricultural production, and particularly upon increasing the amount of agricultural equipment and chemical aids available to both collective farmers and individual peasants, might lead to some increase in production, providing the weather is favorable. The latest expression of economic policy, which may have been dictated by the USSR, suggests that there is little likelihood during the next few years of any appreciable increase in the proportion of national product assigned to meet current consumer needs. The outlook after 1955 will be influenced by the role assigned to Hungary by the USSR in the coordinated Bloc-wide planning period due to commence in 1956, but it will be even more dependent upon basic Hungarian capabilities.

18. Over the long term, Hungary's basic economic problem is that of maintaining its industrial plant and importing a large part of the raw materials essential to the operation of that plant. These imports can be paid for by proceeds from the export of an agricultural surplus or, alternatively, but less probably, manufactured products. Hungary had been a predominantly agricultural country, but this basic pattern changed as a result of the rapid industrialization and the lag in agriculture since 1949. At present, Hungary's industry will have difficulty competing in world markets. Thus, of the two alternatives, agriculture is probably the more economic means of paying for the needed imports, but prospects are poor for achieving a significant surplus under Communist agrarian policy.

III. POLITICAL DEVELOPMENTS

Nature and Impact of the "New Course"

19. Political developments in Hungary have been strongly influenced by the independent character and traditions of the Hungarian people. They have a deep-seated hostility to-

ward Communism and toward the Slavs who have imposed Communism upon them. The Hungarians feel that their ancient parliamentary customs, Roman Catholic and Protestant heritage, and their cultural tradition bind them to Western Europe. These factors, coupled with the peoples' recollections of Hungary's earlier (1919) Communist dictatorship, increase the regime's difficulties in its efforts to bolster its limited popular support.

20. Although the "New Course" laid primary emphasis upon economic policy, it also offered a number of concessions of a political nature. Specifically, it promised: (a) broader religious freedom; (b) a radical change in police methods to increase individual security; (c) cessation of deportation and liquidation of detention camps; and (d) a general amnesty. The implementation of these promises has been both limited and belated with resultant popular disillusion.

21. The promises and concessions of the "New Course" produced dissension within the Communist Party. Some Party elements considered the new program to be contrary to the principles of Communism. Many functionaries feared that their own positions or authority might be reduced, and that, in any case, control of the Party over the Hungarian people would be substantially impaired. On the other hand, the adherents of the "New Course" considered that implementation of its liberal policies had become essential, if the Hungarian economy was to be preserved from disaster and the goals of the Communist Party achieved. Party leaders attempted to restore unity by a series of public statements. Shortly after a plenum meeting of the Central Committee of the Party in October, 1954, members of the Committee declared that leaders who were unable or unwilling to carry out the "New Course" would be replaced.

22. During 1954 and early 1955, Matyas Rakosi, Secretary of the Hungarian Communist Party, became identified with the members of the Party faction resisting what they considered to be the extremes of the "New Course," while Premier Nagy remained its chief defender. Since December, 1954, Ra-

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kosi's influence appears to have increased steadily, and the recent shifts in Soviet economic priorities and leadership indicate that his views are again dominant. Nagy's disappearance from public view in early 1955 and the subsequent public attack by the Central Committee on his "rightist incorrect emphasis" during the "New Course" furnish additional evidence of this trend. Although dissension and vacillation over the "New Course" have diminished the stature and prestige of the Party, we believe that the Party will continue to maintain effective leadership and control.

23. The initial reaction of the Hungarian people in general to the political promises of the "New Course" was a combination of opportunism and unrealistic expectations. Public reaction was sharp when it developed that many of the regime's concessions fell far short of meeting these high expectations. Even though the "New Course" did remove a few of the political causes of popular dissatisfaction, the hostility of the Hungarian people toward Communism and the Communist regime continues.

24. The vast majority of Hungarians feel that their country was stolen from them by a Communist minority, which gained power and retains it only through the backing of Soviet armed forces. Even among the industrial proletariat and youth — groups from which Communism has generally drawn most of its adherents — the prevailing attitude ranges from hostility through resentment to apathy.

Prospects for Continued Communist Control

25. Active and organized resistance is virtually impossible because of elaborate and effective police controls, but popular resentment is expressed in open criticism of the regime and in widespread passive resistance. This resentment manifests itself in a lack of cooperation, deliberate misunderstanding of instructions, low quality production, high damage and reject rates, and other kinds of subtle sabotage. This pervasive passive resistance has been one of the important reasons for the failure of the original Five-Year Plan and

for the spotty performance under the "New Course" since 1953.

26. While it is unlikely that the regime can soon eliminate the basic and general hostility of the people, it has nevertheless at its disposal a formidable security apparatus: to wit, the Security Police of 20,000 and a Frontier Guard of 18,000. The Security Police is a highly mobile, well-organized, politically reliable, and intensively trained force. Although the Frontier Guard is probably not as dependable as the Security Police, its reliability is improving as a result of incessant political indoctrination and selective recruiting. In addition, the regime regularly uses the Communist Party, its informer network, its corps of "political educators," and numerous MVD members dispersed throughout the country to suppress subversion and to maintain authority. The Civil Police force of more than 50,000, though not as reliable as the security forces, can perform limited assignments.

27. In case of widespread public disturbances, the regime has at its disposal an Army of considerable size and a small Air Force. If the situation got beyond the control of Hungarian forces, the Soviet forces stationed in the country, including two Soviet mechanized divisions and elements of the 59th Tactical Air Army, would almost certainly act with or without an invitation. Additional Soviet troops could be quickly brought into the country if needed.

28. With these forces available, there is little likelihood that Communist control over Hungary will be jeopardized during the period of this estimate, but the difficulties confronting the regime will continue to be accentuated by the hostility of the people. Dissension in the Party will continue to impair its effectiveness. In the absence of any lasting solutions to Hungary's basic problems, there will almost certainly be reorganizations, new promises, and shifts in leadership.

IV. MILITARY STRENGTHS AND CAPABILITIES

29. The Hungarian Army consists of 150,000 men organized into 13 line divisions (10 rifle, 1 cavalry, 1 mechanized, and 1 armored) with sufficient combat support units. Under a system of compulsory universal service, some

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50,000 men are inducted into the Army each year and pass into the reserve after two, or in some cases, three years. The number of well-trained reserves is approximately 350,000 men. Upon mobilization, the size of the Army could be quickly expanded, reaching a strength of 650,000 men by M+180 days, if adequate materiel support is provided by the Soviets. The Hungarian Army is capable of participating in a Bloc campaign against its neighbors although sustained operations would require extensive Soviet logistic support. Army units also could be employed for occupation duties and to guard rear areas and lines of communication, or they could be integrated with Soviet field forces. The combat effectiveness of the Hungarian Army is as high as that of any other European Satellite, except Bulgaria; its primary limitation being the questionable reliability of some of the troops. The reliability of the Army as a whole, however, is considered to be sufficiently high for it to fight effectively in the Bloc cause until it became apparent that the tide of war was turning irrevocably against the Soviets.

30. The Hungarian Air Force has a complement of 13,000 men and an estimated operational strength of 370 aircraft, including approximately 200 jet fighters, 110 ground attack planes, 40 light bombers, and 20 transports. During the past year, emphasis on primary and advanced flying and on the recruitment of young pilots has already raised morale and effectiveness, and the Air Force is considered to be loyal to the regime. The Air Force will probably be further improved by gradual advances in organization, by a continuation of the jet re-equipment program, and by more extensive operational training.

V. HUNGARY'S ROLE IN THE BLOC

31. Like the other Satellites, Hungary is under the firm control of Moscow. Basic policies are almost certainly dictated by the Kremlin, perhaps in considerable detail. The campaign for industrialization and the subsequent introduction of the "New Course" were common to all the Satellites, although more pronounced in Hungary. The recently renewed emphasis on heavy industry probably reflects,

at least in part, a conviction in Moscow that relaxation of pressures for industrial growth had gone too far throughout the European Bloc.

32. There is no evidence that Moscow treats Hungary as a special case among the Satellites, nor do we believe that the USSR would permit the adoption of policies in Hungary which would conflict with programs laid down for the Satellites generally. However, peculiarities exist in the Hungarian political and psychological make-up which constitute sources of intra-Satellite dissension. One is popular hostility toward neighboring beneficiaries of the country's postwar territorial and population losses: and, another is that the Hungarians, having no territorial issue to settle with Germany, appear largely unmoved by Communist propaganda against West German rearmament.

33. During the next several years, Hungary's obvious economic difficulties and the recalcitrance of its population will present considerable problems to the Soviet rulers as well as to the Hungarian regime. Improvement in Hungary's managerial skill and in the people's attitude toward the regime will develop very slowly, if at all. Hungary will continue to be a weak member of the Bloc, and might even, for a time, cost more on balance in Bloc resources than it will contribute.

34. Despite Hungary's limited contribution to the Bloc's power potential, the Kremlin probably considers Hungary of value because it comprises an important strategic area, and makes a contribution to Bloc military strength. Economically, while Hungary may constitute a raw material drain, it does supply certain specialized industrial and selected agricultural products. Over the long term, Hungary may be able to increase its contribution to the general viability of the Orbit economy and to the Orbit integrated military front. Probably more important than any of these factors, from the Kremlin's point of view, is the prestige involved in maintaining the Communist monolith intact. We believe, therefore, that the Kremlin will take all measures necessary to keep Hungary within the Bloc.

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