Hungarian Reform Eases Economic Control

By HENRY TANNER
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BUDAPEST, July 11—Sooner or later, all conversations with Hungarian Communists turn to the two-and-a-half-year-old economic reform.

The reform calls for decentralization and a relative democratization of economic life.

The Government plan, which in the Stalin years used to regulate every detail of the economy, has been reduced to a general guideline that is no longer binding on enterprises.

Managers who in the past had to telephone the ministry in Budapest 10 times a day on minor questions now have substantial freedom of decision. Within limits they are free, for instance, to make their own contracts with customers and suppliers of raw materials in foreign countries.

Soon they will have the right to invest profits in other Hungarian enterprises.

Profits have become the measure of a manager's success. There are large bonuses for managers and top executives and small bonuses for workers.

Fewer Prices Fixed

In the past about a million prices were fixed by the central planners. Now, according to a leading economist, "the number is around a thousand, perhaps less."

Prices for basic foodstuffs such as butter, milk, oil and fat, but not eggs and vegetables, are fixed by the central authority. For a wide range of consumer goods there are price ceilings only, leaving the road open for price-cutting competition among enterprises. Luxury goods and imports are free of price control.

The plan no longer sets production goals. It no longer prescribes the production of half a million television sets, for instance, but states that if the national income reaches an average of $800 (it is now given as $750), Hungary will need a certain number of television sets to satisfy demand.

The reform, according to Western specialists, is more far-reaching than any of the decentralization efforts in other Soviet bloc countries. Among Communist nations, only the Yugoslav economic reform goes considerably further.

Camera Press-Pix
Janos Kadar, the Communist party leader in Hungary.

Hungarian officials are unanimous in saying that this is the basic issue on which the rule of Janos Kadar will be judged not only by the Hungarian populace but also by Moscow and other Eastern European capitals, which follow events in Hungary closely with a mixture of tolerance and suspicion.

Hungarian planners feel they cannot afford even temporary failures. A setback at any point along the way would make their venture politically vulnerable and might bring pressures from Moscow for a return to more orthodox economic policies.

When the reform began Jan. 1, 1968, Hungarian planners were concerned about the dangers of inflation and unemployment.

Both pitfalls have been avoided, they now say with relief, although they concede that consumer goods prices have risen.

Unlike the Yugoslavs, who are under virtually no political constraints and therefore are able to accept inflation and encourage a mass migration of unemployed workers to West Germany, the Hungarians feel that inflation and even a modest measure of temprorary unemployment would be an unbearable political burden.

There are at least two other basic differences between the Hungarian and the Yugoslav reforms. First, the Hungarians have no workers councils, or self-management bodies. Second, they accept no direct investments from the West.

At conferences of the Council for Economic Mutual Aid, the organization for economic cooperation of the Warsaw Pact countries, the Hungarians have been calling for an Eastern European monetary system based on convertibility of the ruble.

At the time of the Czechoslovak crisis two years ago, many Hungarian Communists feared that their own economic reforms might be in jeopardy.

The liberal rule of Alexander Dubcek had many sympathizers in Budapest, at least at the beginning, and Mr. Kadar himself made last-minute efforts to mediate between Moscow and the Czechoslovak reformers.

After the Soviet intervention, in which Hungarian troops participated, Mr. Kadar vanished from public sight for about six weeks. Then, having apparently received the Kremlin's approval, he declared that the Hungarian economic reforms would continue.

Economics and Politics

There is, of course, a wide awareness here that economics and politics cannot be entirely separated.

"If you carry out such radical economic reforms, you must be politically strong," an economist said. By that he meant that the bolder the Kadar regime is in the economic field, the more it must insist on maintaining firm and exclusive control over the country in the hands of the party.

At the same time, it is clear that the policy of permitting a relatively large freedom of expression, of reining in the secret police and allowing foreign travel is an inevitable companion to economic reform.

"You can't lift the lid economically and leave the pressure cooker on politically," a Hungarian said.

Budapest television recently furnished a psychologically important illustration of the interaction of economic reform and relative leniency.

A woman reporter not normally concerned with major economic or political issues took a camera crew to the cafeteria of a large factory and started interviewing workers.

One of the workers complained that the system of profit-sharing was unjust, with huge bonuses going to the managers and small ones going to the ordinary worker. Others took up the theme. And when the interviews were televised, the regime found it had a major national debate on its hands.

It solved the problem in what one Hungarian called the "typical Kadar way." It made a popular move by abolishing the three categories of bonuses—top management, midde management and ordinary workers.

Then the regime gave factory managers the unpopular responsibility of distributing the bonus money, but with the provision that the share of the top executives, on whose initiative and skill the success of the reform hinges, could not be reduced.

The reform is thought to have worked reasonably well so far.

A Modest Surplus

Productivity has not significantly increased and the modernization of plants is lagging, experts say, but in 1969, for the first time in 15 years, Hungary had a modest surplus in her balance of payments.

A chief worry is that old-style managers, used to a tightly controlled economy, have not been able to develop the skills used to operate under conditions of little controlled, quickly shifting market demands.

Compulsory training schools have not been able to solve the problem of managerial skills, the critics say. They add that the regime is rightly reluctant to dismiss veteran managers in undue numbers for fear of political repercussions. The consensus in economic and political questions, which is a vital feature of the Kadar regime, must not be broken, it is felt.