

**INTEREST ARTICULATION IN COMMUNIST REGIMES:  
THE NEW ECONOMIC MECHANISM IN HUNGARY, 1962-1980**

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What factors precipitated the collapse of the Soviet Union and other eastern bloc communist regimes? This question continues to plague researchers since many former communist states rapidly transformed into burgeoning democracies. Perhaps more importantly, the question represents a deeper query: What internal social or political arrangements existed that expedited the transitions to democracy? To address this latter question, the research examines the internal character of the Hungarian communist regime with the insight gained from research in the Hungarian National Archives. Through the examination of various archival resources, journals, and newspapers, the research demonstrates that multiple levels of networks organized the Hungarian system from within the Party-dominated regime. The existence of these networks indicates the complexity of the decision-making process and provides researchers with the evidence to address the question of what advanced the process of democratization in Hungary.

**TOTALITARIANISM, PLURALISM, AND COMMUNIST REGIMES**

At the onset of the Cold War, researchers focused on the totalitarian model constructed by Carl Friedrich and Zbigniew Brzezinski as a means of evaluating Soviet-styled regimes. Friedrich and Brzezinski identified totalitarian regimes in terms of the official ideology and the single leader in control of a mass party consisting of a small proportion of the population. Included in the characterization was a near complete monopoly of control over all means of effective combat and mass communication with systems of police control and central bureaucratic direction of the economy.<sup>1</sup> These characteristics emphasized the control of the state over society, in direct contrast to the ideas of liberal democracies, leading many scholars to characterize communist regimes as unique. But some researchers noted that the

structural uniqueness attributed to totalitarian regimes obscured interest-seeking behaviors in the Soviet Union that mirrored similar activities in Western states, creating a lack of cohesiveness in the research of comparative politics. Western scholars developed concepts and theories based primarily on the American experience, and these ideas were not tested to examine their applicability to Soviet studies. This lack of conceptual analysis left a gap between Soviet studies and other comparative political inquiry. As a result, research focused on the totalitarian model and excluded an examination of interest articulation and conflict in Soviet-styled regimes.<sup>2</sup>

To fill this conceptual void, Gordon Skilling and Franklyn Griffiths edited a work that focused on the central assumption that, after Joseph Stalin's death, the Soviet system was passing through a transition period of which one of the characteristics was an "increased activity of political interest groups and the presence of group conflict."<sup>3</sup> From the analysis, Skilling concluded that political groups varied in terms of their status, resources, their method of influence, their access to power, and their associational behavior. Moreover, group alliances crisscrossed coalitions depending on policy issues under consideration. Skilling concluded that interest group activities would continue regardless of possible setbacks.<sup>4</sup> This research affirmed the existence of pluralism in the Soviet Union, but not in the way in which American interest group theory had been conceived. Instead, these Soviet group theorists attempted to reformulate pluralist theory beyond the Western conceptual bias.<sup>5</sup> Moreover, the interest group approach called into question the applicability of the totalitarian model in light of the intra-party factions and "oppositional tendencies" evident in post-Stalinist systems.<sup>6</sup> Throughout the 1970s, 1980s, and 1990s, Soviet interest group research proliferated and expanded to include corporatism, pluralism, and various aspects of interest-seeking behaviors.<sup>7</sup> Researchers also adapted the interest group approach to the Chinese case as a means of examining policy outputs and implementation as well as the relationship between the state and society beyond the parameters of the totalitarian model.<sup>8</sup>

The break with the totalitarian model generated considerable criticism. In a broad sense, the examination of interest-seeking behaviors in communist regimes blurred the lines between liberal democracy and communism in terms of pluralist behaviors. The concept of

pluralism had been used outside of its understood meaning. Interest group approaches obscured the idea that pluralism applied to institutional arrangements that provided for the distribution and sharing of governmental power and had been based historically on individually centered political activities. Rather than restrict the meaning of pluralism, interest group researchers used the communist version of pluralism interchangeable with the democratic interpretation.<sup>9</sup> Accordingly, the application of the group approach expanded the meaning of an interest group to the point that the term lost its meaning.<sup>10</sup> Rather than stretch interest groups to fit the Soviet case, William Odom recommends the continued use of the totalitarian model as an ideal type that takes into account historical and political experience, highlights social reality, and is comparative to other non-Soviet systems.<sup>11</sup> With the organizational structure as the backdrop, the methods through which resources are extracted and allocated become important variables for comparative analysis.<sup>12</sup>

Yet the continued reliance on the totalitarian model does not indicate what transpired between regime shifts from totalitarianism to democracy. Even Odom acknowledges that the totalitarian model is not dynamic. The use of the model allows researchers to anticipate changes, but it does not stress the possibility of institutional alterations. Perhaps more importantly, when changes occur, practitioners of the totalitarian model are at a loss to explain the phenomenon.<sup>13</sup> Recently Rasma Karklins attempts to address this failing in her study of the breakdown of the Soviet Union, whereby she melds the concepts of totalitarianism with political culture to produce a dynamic explanation of the rapid disintegration of the Soviet Union. The dynamism hinges on the idea that, if one or more characteristics of the totalitarian regime disappeared, then the system altered. Namely, Mikhail Gorbachev instituted the policy of *glasnost* that subverted the Party's ideological dominance and led to a loss of legitimacy as well as effectiveness. As a result, the political culture altered and individuals challenged the Party's dominance. The alteration of the regime structure and political culture then led to the transition to democracy in Russia. Karklins concludes that the application of the totalitarianism and political culture concepts provides an answer as to why the Soviet Union collapsed.<sup>14</sup>

Karklins' research demonstrates that political elites either knowingly or unknowingly precipitated the transition to democracy by altering the totalitarian regime. This approach, however, begs the question of what internal exchanges and opportunity structures exist in regimes that no longer fit the totalitarian model. For example, Sarah Meiklejohn Terry presents Polish examples of the Committee for the Defense of the Workers and the writings of the Polish Sociological Association to demonstrate that Polish politics in the 1970s indicated some level of interest articulation outside of the opportunities and associations dominated by the Party.<sup>15</sup> Admittedly, after Stalin's death, some communist polities like the Soviet Union retained some level of totalitarianism. However, the control over eastern bloc countries by the Soviet leadership shifted to the indirect manipulation of domestic and foreign policies. Many East European states developed differently than the Soviet Union during the 1960s and 1970s.

Do totalitarianism and political culture explain how and why East European regimes liberalized after Stalin's death? Where did the reforms originate and who precipitated the rise and restraint of the liberalization process? Research conducted on bargaining strategies and structuring political opportunities affords some insight into how liberalization initiates.<sup>16</sup> An analysis of the process of jockeying for opportunities between liberalized reforms and the maintenance of the one-party state during de-Stalinization provides an important point of departure. To assess the internal politics of decision-making and reform implementation, the research presented in this article proposes the use of networks. Networks are webs of communication between actors within social levels of analysis, and they exist in any regime type. The analysis of networks, particularly with relation to decision-making and resource exchanges, allows the researcher to examine not only why institutional alterations occur, but also who precipitated the reforms. Moreover, the examination of networks highlights the reality of the post-Stalinist eastern bloc states. While the formal institutional arrangement reflected top-down decision-making documented by totalitarian model proponents, the internal resource exchanges resembled the internal conflict examined with the interest group approach where resource exchanges appeared multidirectional. An examination of resource interchange in terms of networks details the inner workings of policy-making and accounts for both informal and

formal alterations within the system. This dynamic network analysis bridges the gap between totalitarian model and group approaches and conforms to the realities of communist politics. Moreover, the informal and formal structures constructed during the period of de-Stalinization persisted as the internal organization of the regime until its collapse.

The political structure of communist regimes, like any polity, consisted of complex webs of communication between different network levels of analysis. Such linkages can be found at the microlevel and include familial, occupational, or community relationships. Meso-level networks are intermediary institutional or associational links between the micro- and macrolevel. Macrolevel networks consist of relationships between individuals in associations such as political parties, trade unions, or the bureaucracy on the national stratum. The examination of networks using multiple levels of analysis provides insight into the complexity of the decision-making and implementation process in any regime.

For example, Gerald Easter examines the influence of microlevel social structures on the establishment of macrolevel political institutions in the process of Soviet state-building. Rather than focusing solely on the formal power flows, Easter analyzes the informal network ties as the means by which territorial administration developed in the wake of the Bolshevik Revolution. These personal networks intersected with the formal macrolevel structure whereby the center of the state emanated from regionally based personal networks. At both the micro- and macrolevel, informal networks fused with the formal structure through resource distribution, and the constraints on individual power stemmed from resource access. Through these microlevel networks, the Bolshevik leadership strengthened its control over the Russian infrastructure and consolidated its power at the macrolevel. However, the top-down policy implementation built internal protections for the personal networks.<sup>17</sup> Easter uses multi-level networking to explain the formal and informal arrangements that allowed personal networks to persist in spite of the centralized Bolshevik control.

Another example that demonstrates the value of combining network levels of analysis is a study of Sweden at the turn of the nineteenth century. Peter Hedström, Rickard Sandell, and Charlotta

Stern examine the role of mesolevel networks to assess the diffusion of Social Democratic Party support. The scholars identify the mesolevel network as links created by Social Democratic traveling agitators among trade unions in various districts. By focusing on the role of the traveling agitators rather than either the party or the trade unions, the researchers examine the importance of the mesolevel in popular recruitment. The scholars find that the spread of the Social Democratic Party support was the result of two mobilization routes. The trade unions engaged members and workers on the microlevel, while the traveling agitators linked workers from different districts on the mesolevel. Consequently, support increased for the Social Democratic Party on the macrolevel.<sup>18</sup> The use of multiple network levels of analysis demonstrates the complexity entailed in the understanding of what influences the diffusion process of a political or social movement.

Similar to the Swedish and Bolshevik cases, Jiping Zuo and Robert Benford examine mobilization at the micro-, meso-, and macrolevel as a means of assessing the emergence and spread of the 1989 Chinese Democracy Movement. At the macrolevel, Zuo and Benford find that opportunities for protest arose out of the economic reforms that were not matched by corresponding political changes. The rise of corruption and wealth of a small elite class provided the environment that pro-democracy protesters used to organize on the micro- and mesolevel. At the mesolevel, students coordinated activities from within affiliates of the Chinese Communist Party. The diffusion of these mesolevel activities occurred because of the methods that students used on the microlevel. Protesters framed their grievances around three Chinese cultural traditions: Confucianism, communism, and nationalism. From these micromobilization tactics, Zuo and Benford find that students overcame the obstacle of the one party state through the microlevel networks. The students capitalized on the opportunities afforded by the economic reforms and subsequent corruption scandals as a means of obtaining support on the macrolevel.<sup>19</sup> Consequently, Zuo and Benford demonstrate that, through networking at the micro- and mesolevel, the Democracy Movement challenged the Chinese government directly on the macrolevel.

In the Chinese, Swedish, and Bolshevik cases, the analysis of network linkages demonstrates the internal complexity attached to the

diffusion of political movements and the consolidation of political power. Regardless of the regime type, networking occurred within the formal regime structures. The resource exchanges that persisted within the networks illustrate the web of interconnectedness between actors on various social levels. Microlevel networks translate into macrolevel political power even after the Bolsheviks consolidated their control over Russia; mesolevel networks aided the diffusion of Social Democratic support in Sweden; both micro- and mesolevel networking promoted the democratic challenge to the Chinese government. This analysis of networking elucidates the avenues through which informality becomes institutionalized within the formal regime structure. Accordingly, through the persisting networks, informal procedures and network relationships can be reproduced over time, generating regularized patterns of behavior.<sup>20</sup> These behavioral standards govern the informal realm of politics, reinforce network longevity, and actor access to resources. Consequently, network analysis addresses the issue of power exchanges: Did the Party dominate the interests of society or the reverse? In short, a network analysis of post-Stalinist communist regimes provides insight into the impact of microlevel networks on macrolevel policy-making and mesolevel policy implementation.

To illustrate this network approach, the case of Hungary is analyzed during the period of economic reform from 1962 through 1980. The periods of New Economic Mechanism creation, implementation, and halt provide ample opportunity to assess the effects of networking on the implementation of institutional alterations. The networks examined focus on technocrats and industrial managers. Industrial managers became institutionalized in the communist regime during the initiation of the Stalinization period, characterized, in part, by rapid industrialization. The Party leadership selected the directors of large enterprises, and they were expected to fulfill the production mandates sent by the Party through directives.<sup>21</sup> The industrial managers of large enterprises are the focus of this article. Large enterprises are identified as ones employing over 1,000 workers and considered part of the regime hierarchy. Directors of large enterprises tended to be politically safe and hold monopolies within their respective economic sectors.<sup>22</sup> On the other hand, technocrats, identified as economists and agronomists, became a significant part of the policy

making and implementation process after Stalinization. Certainly the initiation of rapid industrialization coincided with the construction and direct policy-influencing role of the Hungarian Academy of Sciences Economic Institute.<sup>23</sup> However, only after the 1956 Revolution did technocrats become an integral part of policy formation and implementation. Importantly, these economists and agronomists became the cornerstone for the construction and implementation of economic reforms that altered the Stalinist system. As a result, technocrats and industrial managers represent institutionalized interests within the Hungarian regime.

How technocrats and industrial managers articulate interests through formal and informal networks represents the focus of this article. The exchanges are assessed in terms of the interaction between the network levels of analysis. At the macrolevel, the Politburo and the Central Committee made policy decisions, while the Secretariat aided in the implementation directives to the bureaucracy. Bureaucrats, state enterprise employees, and individuals in intermediate institutions such as councils attached to the Politburo and Central Committee carried out the decisions made by Party leaders. Interestingly, on this mesolevel of analysis, some decisions made by the leadership required the construction of details to fit the broad collective goal expressed at the macrolevel. Individuals at the mesolevel of analysis provided the necessary detail to carry out Party directives.<sup>24</sup> Finally, the microlevel of analysis is identified as relationships cultivated on an individual basis. Notably, each level of analysis remains connected to the other two. These multidirectional linkages detail the post-Stalinist relationships within the Hungarian regime. To examine these interconnected networks, this research relies on data collected from archival sources and various secondary resources. From this information, the analysis emphasizes the mesolevel of analysis as the mechanism through which interests are articulated to the macrolevel. The result of these interest transmissions is influence in terms of policy-making, implementation, and resource access.

### CONSTRUCTING THE NEW ECONOMIC MECHANISM

The formulation of the New Economic Mechanism emerged from the post-Stalinist period in Hungary. Immediately after the 1956 Revolution, Party members and economic experts were drawn



together to construct a plan to de-Stalinize the economy. Between 1956 and 1958, regime leaders did not deviate significantly from state financing schemes of the Stalinist era.<sup>25</sup> However, new investment strategies emerged that coincided with de-Stalinization reforms conducted in the Soviet Union. For example, state investment in heavy industry decreased from an average of 93 percent of all industrial financing between 1950 and 1953 to 80 percent between 1962 and 1965. Subsequently, investments in the light and food industries increased from 3.7 percent between 1950 through 1953 to 10.5 and 8.7 percent respectively between 1962 and 1965.<sup>26</sup> These alterations underscored an emerging set of priorities that centered on the re-orientation of the Hungarian economy from rapid industrialization to a consumer-based market.

As part of the economic transition, the regime leadership brought together many Party members, most of whom had backgrounds in economics, to assess various avenues of reforms. In 1963, technocrat Rezső Nyers created a twelve-member informal advisory body to provide a connection between experts and the Party. The advisory panel provided an institutional link between economists regarding the task of reforming the economy. Nyers supervised the group that was broken into eleven committees. These committees included a working group devoted to the price system chaired by Béla Csikós-Nagy, a committee on the function of local councils headed by Finance Minister Mátyás Timár, and a team focused on the participation of employees in management chaired by Hungarian Academy Sociologist András Hegedűs. From this research, Nyers along with Imre Párdi and former Stalinist István Friss constructed a three-man committee to oversee the construction of the NEM.<sup>27</sup>

These individuals responsible for the NEM were important in terms of linking micro-, meso-, and macrolevel networks within the regime. István Friss aided in the construction of the rapid industrialization program. In addition, Friss founded and chaired the Hungarian Academy's Economic Institute from which the Party leadership drew expertise for economic policies.<sup>28</sup> Rezső Nyers, like Friss, held positions under previous regime leaderships. In June 1953, Nyers became a Deputy Central Committee Member, a position from which Nyers aided the agricultural reform platform in 1954. Nyers also held positions as the president of the National Council of Cooperatives in

1954 and the Food Minister in 1956. Consequently, Nyers had experience in policy formulation from the meso- and macrolevel. Through his years of service, Nyers also developed a microlevel network link to another reformer, Jenő Fock. After the Revolution, Fock became part of the macrolevel leadership as a member of the Politburo and the Central Committee as well as Prime Minister. Fock and Nyers communicated over issues of reform in the wake of the Revolution.<sup>29</sup> These microlevel linkages are significant in terms of connecting the mesolevel (Nyers) to the macrolevel (Fock) of policy formation; Fock and Nyers were considered the primary supporters for the economic reforms.

Also linking the macro- and mesolevel through microlevel networking was agricultural expert Lajos Fehér. Similar to Fock, Fehér emerged from the Hungarian Revolution as part of the new amalgamated leadership; Fehér held seats in the Politburo and the Central Committee. Moreover, Fehér was closely connected to the agricultural reform movement started under Imre Nagy and discussed openly by other important agricultural reformers, including Ferenc Erdei. For the purposes of this article, Fehér is key in terms of his macrolevel support for the economic reform programs, some of which dealt specifically with agriculture.

In addition, Mátyás Timár and Béla Csikós-Nagy remained directly involved as reform proponents. Timár worked in the Ministry of Finance under the Stalinist regime and became Deputy Minister of Finance as well as the Head of the Faculty of Finance at Karl Marx University. In 1962, Timár became the Minister of Finance and was elected into the Central Committee. Notably, Timár's dissertation research caused considerable opposition from some academics; István Friss was one of the academics who objected to Timár's criticism of the state of Hungary's economy and economic management.<sup>30</sup> Through these connections, Timár retained microlevel relationships with members of the academic community and bureaucracy at the mesolevel as well as membership on the macrolevel through the Central Committee. Like Timár, Béla Csikós-Nagy provided an important link between the levels of networks. Csikós-Nagy chaired the National Office for Materials and Prices. From this position, Csikós-Nagy directly influenced policy implementation at the mesolevel through price controls.

By 1966, these technocrats obtained various meso- and macrolevel positions from which they influenced the construction and implementation of the economic alterations. At the macrolevel, Nyers, Fock, and Fehér served on in the Politburo and the Central Committee. Timár also held a seat in the Central Committee. In addition, Nyers became a member of the Secretariat, the institution formally in charge of the bureaucracy. On the mesolevel, Nyers, Fock, Fehér, and Timár served on the same Central Committee commission. The Commission for Economic Policy oversaw the implementation of the NEM. Nyers chaired the commission, while Fock, Fehér, and Timár served as Deputy Premiers. In addition, the Party constructed new Central Committee working teams. Nyers headed the economic team, and Fehér led the agricultural collective policy group.<sup>31</sup> Moreover, the Politburo named Nyers as the official spokesman for the NEM.<sup>32</sup> Csikós-Nagy also linked with the technocrat reformers through his seat on the economic working group created in 1967. Nyers chaired the committee that served as an extension of the Commission for Economic Policy.<sup>33</sup> As a result, the Party leadership institutionalized the networks among reformers on the meso- and macrolevel in terms of policy formation and implementation.

To aid the execution of the economic reforms, the Party recruited technocrats into the Hungarian Socialist Workers' Party (HSWP). For example, in 1962, technocrats made up 4.7 percent of the HSWP.<sup>34</sup> By 1966, technocrats comprised 9.7 percent of the Party. The percentage of technocrats grew to 11.7 in 1970. In addition, the average education level of HSWP members who completed a university degree increased from 9.3 percent in 1966 to 12.0 percent in 1970.<sup>35</sup> In short, the Party leadership initiated a recruitment campaign that resulted in an increase of expertise within the Party to carry out the technical reforms contained within the NEM. These recruitment numbers were significant for two reasons. The expertise of technocrats remained a cornerstone of the implementation of NEM alterations. The HSWP leadership depended on technocrats to re-build the economy. Hence, the resource exchange between technocrats and Party leaders emerged as multidirectional: The leadership needed to improve the economy, and technocrats needed access to resources. This relationship was unusual in terms of the character of these technocrats. Technocrats were less concerned about socialist ideology than

the pragmatic construction of a successful economy.<sup>36</sup> The regime leadership charged technocrats with the implementation of reforms from mesolevel, but, in doing so, it internalized a contradiction. The institutionalization of the NEM proponents compromised the ideological integrity of Party dominance, and many technocrats later aided dissidents in the de-stabilization of the regime in the late 1970s and early 1980s from these mesolevel positions.

Nonetheless, at the macrolevel, NEM reforms received support from non-technocratic Secretariat Members Béla Biszku, Zoltán Komócsin, and Árpád Pullai.<sup>37</sup> From within the Politburo, NEM alterations received support from Biszku, Fock, Fehér, and Nyers. A larger number of supporters came from the Central Committee and included influential Party members like György Aczél.<sup>38</sup> Despite the existence of macrolevel policy support, hard-liners and industrial managers challenged the NEM proponents because of the nature of the institutional alterations contained in the reform program.

In a broad sense, the reform plan decentralized the economic system through the use of regulators. Reformers used financial incentives to motivate both enterprise managers and workers to operate more efficiently. For example, profit investments allowed industrial managers to invest revenues (beyond the taxes required by the state) in their factories as a means of increasing technological competition and larger profits. In addition, the changes permitted factory directors to increase wages for laborers who worked harder. Admittedly, the manager remained constrained by wage caps, but directors had some opportunity to encourage increased factory efficiency through wage differentiation. Moreover, the legal restrictions on the movement of labor were lifted as a way to provide a better distribution of workers in terms of industrial need.<sup>39</sup> However, with the advent of wage differentiation, the lapse also permitted workers to seek out higher paying jobs.

In addition to the economic regulators, reformers also formally restructured the market. One characteristic of the NEM was the creation of greater independence of large, medium, and small enterprises. Economic alterations forced large enterprises to become competitive, because reformers required industrial outputs to be proportioned to sales.<sup>40</sup> In addition, the new economic policies discouraged the existence of horizontal monopolies, but allowed vertical monopolies to

persist as a means of retaining stability and competition. Moreover, the reformers encouraged the decentralization of large enterprises. According to Csikós-Nagy, the level of elimination of small- and medium-sized plants could not be justified in comparison with West Germany, Britain, and the United States. Hence, the reformers loosened the regulations for artisans' licenses to allow state enterprises to employ home-workers,<sup>41</sup> a policy that created a redistributive effect in terms of market access for all industries regardless of size. Hence, through the direct market reconstruction, managers of large industries lost some of the power that had evolved from their position within the economy. Rather than fulfill the broad production directives set by the Party, the economic reforms obligated industrial managers to satisfy market requirements.<sup>42</sup> As a result, conflicts arose immediately during the implementation phase of the NEM.

Initial opposition emerged in response to the market regulators dominated by technocrats on the mesolevel. For example, Csikós-Nagy indicated that early problems arose regarding credits and the valuation system. The valuation system included rates of prices, tariffs, and taxes regulated by technocrats. To alleviate the complaints raised by industrial managers that the implementation of the NEM would hurt the economy, reformers introduced many exemptions for production costs, import duties, and so on. However, in 1969, Csikós-Nagy wrote that, contrary to industrial complaints, the economy did not suffer and the exemptions were removed. Moreover, controversy arose over the credit policies. Unlike past investment plans, the credits offered in the NEM had to be repaid. Hence, industrial managers had to use investment funds judiciously in terms of projected profits. In some instances, banks denied short-term credits to factory directors because the enterprise was not deemed "credit-worthy."<sup>43</sup> In short, technocrats controlled enterprise resources as a means of compelling directors to conform to the restructured economic expectations.

Meanwhile, technocrats fractured the direct resource connections made by industrial managers within the bureaucracy. Between 1968 and 1970, the resource access for factory directors diminished. In place of the microlevel networks that dominated resource distribution during Stalinization, technocrats institutionalized the mesolevel, technocratic-controlled regulation through the Commission for Economic Policy.<sup>44</sup> However, by allowing the establishment of a market

mechanism within the communist system, the Party leadership sanctioned a systemic contradiction that fueled the animosity between technocrats and industrial managers. Factory directors retained a unique status within the regime, but the NEM reforms interfered with the microlevel relationships that managers cultivated to retain resources. Up to the mid-1960s, directors of large enterprises enjoyed a special position within the one-party state, because the Party leadership relied on the managers to maintain high production levels to fuel economic growth and these large industries became indispensable to regime leaders. As a result, industrial managers frequently retained links to resources either through indirect microlevel connections or direct macrolevel positions. For example, the 1965 Central Committee Deputies consisted of three industrial managers: Ganz-Mávg Manager János Csörgő and the Győr Machine-Tool Factory Manager Éde Horváth.<sup>45</sup> These macro- and mesolevel positions afforded industrial managers direct access to resource distribution. These directors remained responsible only to the Party leadership to fulfill directives prior to the NEM. The implementation of economic reforms altered the expectations of these managers.

Factory directors had to adjust to microeconomic planning for factories with a reliance on the technocrats and workers to meet production and sales expectations. This shift required managers to develop a "second sense" about business in contrast with their service to the Party directive in the past.<sup>46</sup> As a result of the changing expectations, industrial managers pursued past microlevel relationships with individuals holding positions on the mesolevel. However, the rationale for the continued connections changed. Instead of retaining the networks for resource access, factory directors sought to avoid the uniform NEM regulations. Thus, the opposition to economic reforms emerged at the mesolevel from managers of large enterprises and from employees within branch ministries and Party associations.<sup>47</sup> Meanwhile, technocrats dominated policy formation through macro- and mesolevel positions.

The internal controversy over reforms resulted in only a partial implementation of NEM adjustments. Industrial managers fought against the economic alterations with support from the mesolevel as well as sympathizers on the macrolevel. As a means of guaranteeing the status of large enterprises, factory directors led the attack against

the NEM and the technocratic controllers through the internal contradiction created by the NEM: ideological loyalty to communism versus elements of capitalism. Managers framed debates around the lack of state investments, economic competition, and the focus on profit making as a challenge to communist economic relationships. Hard-liners within the HSWP leadership as well as Soviet detractors embraced these arguments as a means of ending the economic experimentation. The controversy expanded the opportunities for industrial managers to capitalize on the intra- and inter-party conflict to renew microlevel connections to resources. As a result, the NEM opponents presented an insurmountable obstacle to the continuation of economic reforms.

### HALTING THE NEW ECONOMIC MECHANISM

By December 1970, criticism of the NEM spilled into Central Committee speeches. Both Jenő Fock and Rezső Nyers dealt with various aspects of NEM reproach, centering on international trade and domestic changes. Fock focused on the issues surrounding the internal structural reforms. For example, Fock admitted that many problems arose regarding the enforcement and interpretation of new economic laws. However, the Prime Minister assured listeners that newer reform constraints would tighten the implementation and regulation of reforms that would alter the old forms of management. To completely secure the economic alterations, Fock called for the further reliance on technocrats to help at all levels of reform, from the factory to the regulators.<sup>48</sup> Also in support of NEM endeavors, Nyers addressed the issue of international trade, especially with capitalist countries, as an important extension of NEM policies. First, Nyers likened the expanded trade policies to Vladimir Lenin's ideas of conducting a political revolution against imperialism through peaceful means. Then, Nyers compared the expanded trade policies to the Soviet economic, social, and technical trade relationships with Finland, France, Italy, Austria, Japan, Sweden, and Belgium. Nyers claimed that trade expansion with the West would provide for technological advancements.<sup>49</sup>

While Nyers and Fock pushed for continued confidence in economic reforms from the macrolevel, cracks appeared in the Central Committee support for the economic program. For example, Károly

Németh stressed that workers were really the keys to the implementation of reforms, but they had been ignored in the process of making the changes. For laborers to work collectively, Németh claimed that better communication was needed. After all, workers remained indispensable to economic production. Consequently, Németh renewed calls for increased factory democracy that would allow laborers a voice in workshop policies.<sup>50</sup> The complaints on behalf of workers only scratched the surface of growing impatience with regard to the expectations of NEM reforms.

While representatives of laborers demonstrated some hopes for further changes, industrial managers pressed for a reform of the NEM. In 1971, the issue of further economic changes came under attack. Prime Minister Jenő Fock chaired a Party activist meeting in which fourteen factory directors, two collective farm managers, and six Party functionaries discussed issues and problems regarding the reforms. What resulted was an indication of the levels of resistance to the NEM from industrial managers. The reform opponents assailed the use of economic regulators in various ways. For example, Cotton Spinning Factory Director Józsefiné Végh questioned the use of economic regulators because they do not differentiate between large and small industries, nor did they address which factories were managed well versus poorly. In short, the use of regulators removed human considerations necessary to make informed decisions on the solvency of enterprises. More specific criticism emerged regarding the investment and credit policies under the NEM. Chemical Works Designing Factory Director Géza Láng and Ozd Metallurgy Works Manager Sándor Csépanyi complained about the issue of investments given high rates of production expenses. Tisza Chemical Combine Director Andor Huszár agreed that investments were key to productivity, if managers were to adjust their decision making focus to profits for further investments. However, Huszár stated that the transition period was impossible without further state support. Finally, other managers like Csepel Works Director László Csató claimed that he understood the goals set by the reforms, but that these aims were difficult for managers to meet with the strained relationships inside and outside of factories.<sup>51</sup>

These examples from the activist meeting indicated the growing resistance to the economic reforms on the mesolevel expressed publicly. Certainly, Fock attempted to allay any concerns presented



during the meeting. He did this, as did the functionaries from the Economic Research Institute and the Hungarian National Bank, by asserting that the NEM remained in a transition phase that would improve over time. However, the meeting placed technocrats on the defensive. Meanwhile, industrial managers continued coordinated attacks on the NEM. For example, Erzsébet Szalai's research indicates that factory directors of large enterprises complained about the economic policies in Central Committee sessions, Chamber of Commerce meetings, the professional press, and professional councils.<sup>52</sup> Industrial managers used meso- and macrolevel forums to frame their anti-NEM arguments.

Many in macrolevel leadership endorsed the factory directors' complaints evidenced by the diminution of NEM support between 1971 and 1972. By 1972, only Politburo Members Lajos Fehér, Rezső Nyers, Jenő Fock and György Aczél supported a continuation of the NEM program. These reformers received stiff resistance from the so-called "workers' opposition" led by Zoltán Komócsin, Árpád Pullai, Béla Biszku, and Sándor Gáspár.<sup>53</sup> The "workers' opposition" received support not only from other HSWP members, but also from the Soviet Union. Since the creation of the NEM, the Soviet leadership expressed displeasure at the reform program. According to Rezső Nyers, the international environment since the invasion of Czechoslovakia made continued market mechanism reforms difficult. The Prague Spring demonstrated that, under Leonid Brezhnev, internal events in socialist countries remained the concern of the leadership of the Soviet Union, and hard-liners used the Brezhnev Doctrine to make demands regarding the structure of the Hungarian economic system.<sup>54</sup>

Disapproval of the NEM from leaders in the Soviet Union was well known within the Hungarian leadership. György Aczél's biographer Sándor Révész writes that some leaders in the Soviet Union called into question János Kádár's position as First Secretary. Then some members of the HSWP, such as those who made up the "workers' opposition," capitalized on the political turmoil to position themselves for leadership. However, in May 1972, Kádár expressed his disapproval of these partisan activities in a letter to the HSWP Politburo. According to Révész, Kádár's statement demonstrated to leaders in the Soviet Union that he could control domestic politics. In July 1972, Béla Biszku delivered a letter to the Central Committee on

behalf of Kádár that indicated the First Secretary's displeasure at the opposition tactics employed within the Party leadership that disturbed brother communist parties. According to Biszku's instruction, these questions would no longer be tolerated.<sup>55</sup> Not surprisingly, at the end of 1972, the HSWP leadership halted the NEM.

The meeting of the Central Committee in November 1972 signified the end of the economic experimentation that had continued since 1968. During the meeting, Nyers addressed the leadership in terms of the economic growth that emerged in the past year as evidence that the NEM had become more successful over time as promised by reformers. Nonetheless, Nyers' claims met with considerable opposition within the Central Committee. County-level officials stated that adjustments in the reform program would aid the factories within their respective counties. The appeal from officials from Győr, Fehér, and Pest mirrored the complaints lodged against Fock in 1971 by factory directors; the lack of investment credit hurt their respective counties in terms of enterprises and wages. János Csörgő, manager of Ganz-Mávg, discussed the issue of investments with regard to the relationship between income and profits. Csörgő asserted that the reforms to the NEM would be helpful to large enterprises. In addition, national HSWP leaders like Károly Németh called for the reappraisal of the top fifty industries as a means of stabilizing the economy. According to the recommendation by the Politburo, János Kádár announced that no significant economic changes would be made, but the leadership would focus on economic stability.<sup>56</sup>

The decisions that emerged from the Central Committee meeting marked a shift in the reform program beginning in 1973. The Central Committee directed that the relationship between profit and wage formulation halt in the coal and electric factories, and the wages would be centrally regulated. However, as an experiment, some industries and building material factories were permitted to continue internal wage regulation.<sup>57</sup> Despite this compromise, the remainder of the Central Committee decision regarding the re-evaluation of the largest fifty enterprises demonstrated a victory for industrial managers.

The overarching purpose of the Central Committee's plan consisted of re-evaluating large enterprises as a means of determining what policies such as investment the state could provide to stabilize some economic sectors. The result of the assessment program was a

re-centralization of the economy between 1973 and 1975. For example, in 1970, 349 state enterprises existed, a number that decreased to 325 in 1975.<sup>58</sup> Moreover, between 1976 and 1978, 86.8 percent of all enterprises employed 1,000 workers or more. Interestingly, between 1976 and 1978, large enterprises constituted 96.6 percent of socialist exports and 98.4 percent of capitalist exports. Of those exports, the special enterprises (of the top fifty industries) dominated over 60 percent of the market.<sup>59</sup> In short, the large enterprises again controlled the economy. Which enterprises reaped the benefit of the return of their special status? The industrial managers of the biggest industries such as the Hungarian Aluminum Trust, Medicor Works, Ganz-Mávag, and the Red Star Tractor Factory fought for and received their return to Party favor. Particularly industrial managers like those of Ganz-Mávag and the Red Star Tractor Factory directed by János Csörgő and Éde Horváth respectively re-emerged as influential extensions of Party power in the economy. Certainly resource access through factory directors' microlevel connections to the ministries and the Party functionaries re-appeared. By 1975, five new large enterprise managers became members of the Central Committee.<sup>60</sup> Moreover, through the centralized investment system, the large enterprises immediately returned to high production levels without focusing on specialization or increased technological innovation. Rather, enterprises continued to rely upon foreign markets to provide needed technology. Thus, the 1972 Central Committee decision changed the NEM system back to the pre-economic reform period that was characterized by large enterprise monopolies and a focus on production quotas.<sup>61</sup>

Coinciding with the alterations in the economic system were personnel shifts aimed at removing technocrats from macrolevel positions. In March 1974, the Central Committee agreed to a shuffle within the leadership that reflected the hard-liner dominance. The rearrangement most affected the technocrats who formulated and implemented the NEM. For example, Rezső Nyers left his Central Committee Secretary position and became the Director for the Hungarian Academy's Economic Institute. Interestingly, Nyers replaced Institute founder István Friss. György Aczél left his Central Committee Secretary post and became Deputy Prime Minister. In place of Nyers and Aczél stepped Károly Németh and Imre Györi as new

Central Committee Secretaries. Lajos Fehér was forced to retire as Deputy Chair of the Council of Ministers.<sup>62</sup> By March 1975, Nyers had been removed from the Politburo and the Commission of Economic Policy; he remained in the Central Committee. Imre Párdi replaced Nyers as the chairman of the Commission of Economic Policy.<sup>63</sup> György Aczél and Jenő Fock kept their posts in the Politburo and Central Committee.<sup>64</sup> This shuffle eradicated most technocrats and NEM supporters from positions of resource distribution on the macrolevel, but the changes did not destroy the influence of the technocrats.

NEM proponents lost their strength in terms of decision making on the macrolevel, but they continued to be influential with regard to policy implementation and framing arguments against the NEM reversals. Just as industrial managers used their structural positioning to frame anti-economic reform debates, so too did reformers, particularly Rezső Nyers, argue against the re-centralization of the economy. As early as 1975, Nyers gave his first interview in which he continued to support the NEM and renewed his commitment to economic reform as the means by which the Hungarian market would improve.<sup>65</sup> From the mid-1970s through the 1980s, Nyers continued his open criticism of the economic policies and the lack of economic leadership from the Soviet Union while he directed the Academy's Economic Institute. Meanwhile, Mátyás Timár retained his seat on the Commission of Economic Policy, worked under Jenő Fock as Deputy Prime Minister, and became the head of the Hungarian National Bank by 1975. Béla Csikós-Nagy kept his post as Chairman of the Prices Board. From these positions, technocrats became an institutionalized part of the communist system.

The institutionalization of technocrats became a characteristic of the de-Stalinization period, much as Stalinization plans included industrial managers as part of the regime hierarchy. As a result, the leadership internalized two competing interests that could not be reconciled. Party leaders needed the expertise and cooperation of industrial managers and technocrats to stabilize the Hungarian economy, but both lobbied the leadership for policy dominance in a zero-sum game. Within both lobbies, factory directors and technocrats played on Party dependencies of loyalty to the Soviet Union and an improved economic system. Once managers and technocrats were

institutionalized at the mesolevel within the formal regime structure, they competed over informal opportunity structures, namely influence over policy formation that determined resource distribution. With the demotion of the reform technocrats, the party leadership institutionalized a dependency competition within the one party state. Directors and technocrats continued a publicity campaign against each other to frame their arguments. The controversy over policies persisted through the economic problems of the 1970s and 1980s. Slowed economic growth helped technocrats frame their appeals for reforms on the macro- and mesolevel. More importantly, the reform arguments attracted support from external networks constructed by dissidents. Clearly technocrats manipulated their mesolevel networks to attract supporters based on their attacks against industrial managers and their hard-line supporters. This tactic placed pressure on Party leaders to institute economic reforms through the informal networks constructed on the macro-, meso-, and microlevel. As a result, the implementation of economic reforms began in earnest in the early 1980s.

#### **NETWORKS AND INTEREST ARTICULATION IN COMMUNIST HUNGARY**

From the 1960s through the early 1980s, technocrats and industrial managers competed for dominance with regard to economic policy making. Admittedly, these interests existed within a hierarchical one-party state. However, the examination of the NEM creation, implementation, and halt demonstrates that within this top-down system, interests and resource exchanges were multidirectional: The Party provided the resources, but directors and technocrats provided the expertise to stabilize the economy. Through the manipulation of networks at all levels, industrial managers and technocrats lobbied for resource access through the exploitation of Party dependencies. Notably, both technocrats and factory directors remained important to the Party leadership. Both retained positions embedded within the regime that provided them with avenues of competition for resource access. Moreover, technocrats and managers cultivated powerful networks on the macro- and mesolevel through microlevel linkages and the framing of their respective arguments. These networks provided avenues of coordinated interest articulation that reflected the concern

of technocrats and industrial managers in terms of their perception of collective goals.

Within this hierarchical state, interest competition persisted as a means of directly influencing policy formation and implementation with identifiable outcomes. Technocrats sought to reconstruct the Hungarian economy, an interest that translated into the creation and implementation of the NEM. Industrial managers rejected the economic reforms and lobbied to return to the pre-NEM economic arrangement, interests manifest in the 1972 Central Committee plan. This linkage between policy inputs and outputs demonstrates that the Party leadership remained sensitive not only to the loyalty required by leaders in the Soviet Union, but also to the need to address domestic issues. As a result, HSWP decisions regarding policy changes demonstrated the realities of balancing the interests of the Soviet Union with domestic concerns simultaneously. In illustrating this complex internal political environment, the research demonstrates the need for further investigation into the roles that networks played in the formation and implementation of liberalization policies in former communist regimes. The persistence of reformist and hard-liner networks indicates a competitive domestic environment internalized within the one-party state. Further analysis of these competing interests may detail the process of internal decay within communist regimes prior to the transition to democracy and may provide an explanation to the evolution of the peaceful transitions to democracy in Eastern Europe.

### NOTES

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8. David S. G. Goodman, "Groups and Political Studies of the PRC: An Introductory Perspective," in *Groups and Politics in the People's Republic of China*, ed. David S. G. Goodman (New York: M. E. Sharpe, Inc., 1984): 1-9.

9. LaPalombara, "Monoliths or Plural Systems," 322-327.

10. The conceptual tenuousness is at the heart of the critique of the group approach in Andrew C. Janos, "Interest Groups and the Structure of Power: Critique and Comparisons," *Studies in Comparative Communism* 12, 1 (Spring 1979): 6-20; Chien-min Chao, "A Critique of the 'Interest Group Approach' to Communist Chinese Studies," *Issues and Studies* 22, 2 (1986): 12-28.

11. Samuel Huntington provides the framework around which Odom criticizes group approaches in Samuel P. Huntington, "Paradigms of American Politics: Beyond the One, the Two, and the Many," *Political Science Quarterly* 89, 1 (March 1974): 12; William E. Odom, "A Dissenting View on the Group Approach to Soviet Politics," *World Politics* 28, 4 (July 1976): 542-567. Odom reiterates these views in William E. Odom, "Soviet Politics and After: Old and New Concepts," *World Politics* 45, 1 (October 1992): 66-98. More recently, the totalitarian model has been examined in terms of its usefulness as an explanatory factor in the Russian transition to democracy.

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