

Sean Richardson
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Imre Nagy's Influence on Goulash Economics

The Hungarian revolution of 1956 resulted in a Soviet invasion, the overthrow and murder of Imre Nagy, and the beginning of Janos Kadar's rule. However Kadar's era, known as "Goulash Communism," appears as an ideological contradiction. On one hand, the ruling party insisted that Hungary would adhere to communist principles; however, historians unanimously describe Hungarian economic policies under Goulash Communism as some of the most radical economic changes in communist Eastern Europe. These new economic policies included less fixed prices and more foreign trade, a blatant movement away from communism economically. Such drastic changes away from traditional communism could have resulted in a Soviet invasion of Hungary, so why would Hungary initiate these dramatic economic changes? This paper argues that the short rule of Imre Nagy between 1953 and 1956 was the root cause behind the economic policies under Goulash Communism. The argument proceeds by first establishing that Nagy was responsible for the new environment of research economics and reform economists in Hungary. Next, the paper demonstrates the key role of economists in making economic decisions under the rule of Kadar. Finally, the argument demonstrates that economists under Kadar had the same ideology of those under Nagy, and often the economists under these two rulers were the same individuals. This paper focuses specifically on Hungary's economic reform policy of 1968, which establishes many of the drastic economic changes.

Hungary's economic reform policy of 1968 went by the formal name of the New Economic Mechanism, abbreviated NEM. In summary, NEM changed three things: it reduced the number of fixed prices, increased the foreign trade of Hungary, and decentralized investment

decisions.¹ A *New York Times* article at the time emphasized the drastic change in the number of fixed prices, citing that before the reform, about a “million prices were fixed by central planners”, but after the reform “the number is around a thousand, perhaps less.”² This movement away from fixed prices and into prices determined by the market demonstrates a clear move away from typical communist practice. Many of these freely priced goods were foreign imports, including “cosmetics from Yugoslavia, scarves from Spain and cameras from Japan.”³ Jozsef Biro released an economic study in 1973 which demonstrated a quantitative increase in consumer goods imports: in 1950, industrial consumer goods made up only 1.5%, but by 1970 the same goods made up 8.4% of imports.⁴ These drastic economic changes away from traditional communism took a dangerous risk in drawing the attention of the Soviet Union; in the summer of 1968, only months after the initiation of NEM, the Soviet Union invaded Czechoslovakia, which frightened Hungarian officials: perhaps the Soviets would invade Hungary next. Hungarian Party members recognized “pressures from Moscow for a return to more orthodox economic ventures,”⁵ so why would Hungary take this risk in establishing controversial economic policies? The answer begins in 1953 under the rule of Imre Nagy.

Imre Nagy, prime minister of the Hungarian Party from 1953-1955, established the radical new ideology of research economics, which deviates from both Stalinism and Marxism-Leninism, and eventually results in the economic reform under Kadar. Imre Nagy was

¹ Bela Balassa, "Reforming the New Economic Mechanism in Hungary" (*Journal of Comparative Economics*, 1983), 253.

² Henry Tanner, "Hungarian reform eases economic control", Special to the New York Times, (1970).

³ Paul Hofmann, "Hungary Nervously Building Ties to West: Hungary Nervously Building Economic and Cultural Ties to West" (Special to The New York Times, 1969).

⁴ Jozsef Biro, "Hungarian Foreign Trade in the Seventies" in *Modern Hungary: Readings from the New Hungarian Quarterly* (1973), 167.

⁵ Tanner, "Hungarian reform eases economic control".

“an agricultural economist himself”, which allowed him to create an alliance with economists.⁶ He strongly believed in “scientific criticism, . . . and the free battle of opinions” within economics.⁷ Nagy framed this ideology as simply “scientific socialism”, but the radical nature of this ideology is clear in Nagy’s piece “Reform Communism”. On one hand, Nagy appealed to the ideology of Marx and Lenin, denouncing Stalinist economics by claiming “[Hungary’s] economic policy lacked a scientific basis in Marxist-Leninist analysis.”⁸ However, at the same time, he gave himself room to deviate from Marx and Lenin in emphasizing “the additions of new theories did not cease with the death of Marx, Engles, and Lenin”, which works towards “the further development of Marxism-Leninism and its enrichment.”⁹ Here, Nagy framed Marxism-Leninism as a theory that current research economists could add to and perfect; in other words, Hungary should deviate from the traditional theory. Nagy attempted to give Hungary complete freedom over economic practice by denouncing Stalin and appealing to Marx and Engles, but simultaneously framing Marxism-Leninism as a theory Hungary could change if needed. Johanna Bockman agrees with this desired deviation in saying that Nagy promoted research based on experimentation in reality rather than “focusing on theoretical or strategic Marxist-Leninist texts,” so the research economists working under Nagy were not restricted to adhering to communist principles, a radical view.¹⁰

Nagy established the necessary framework to cultivate this economic ideology, which resulted in economic success. Nagy founded the New Economic Science Institute, which

⁶ Johanna Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, (Stanford University Press, 2013), 107.

⁷ Ibid, 109.

⁸ Nagy, Imre, “Reform Communism” (1955-56), 86.

⁹ Ibid, 82.

¹⁰ Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, 109.

provided his growing team of expert economists with a place to conduct research. Further, Nagy “closed the *Hungarian-Soviet Economics Review* and reestablished the prewar *Economics Review*”. The *Economics Review* was a platform that allowed economists to share opinions in the spirit of economic research without the previous ideological restrictions.¹¹ This new framework resulted in a growing team of expert research economists known as “reform economists”. This team of researchers developed a new model in which the economy behaves as an “economic mechanism” that can be adjusted with various levers. Then using this model, the reform economists made a series of changes in economic policies, resulting in a sudden improvement of the economy known as “The Hungarian Miracle.”¹² A Yugoslav briefing on Nagy describes the drastic economic improvements: “After a catastrophic fall in the standard of living during the preceding five years suddenly in 1953, empty shops began to fill with goods and now one was able to choose from a variety of goods.”¹³ These economic improvements began in 1953, the beginning of Nagy’s rule, further strengthening the claim that Nagy was directly responsible for this change in the economic environment. Additionally, the immediate success of the economy suggests that this academic research was done rigorously and without ideological restrictions. Leading into the Hungarian Revolution of 1956, Hungarian economists were conducting novel research due to the direction of Imre Nagy. The Soviets invaded Hungary as a result of the revolution, arrested Nagy, and established Janos Kadar as the new Party leader. While this invasion resulted in the death of Nagy, the economic institutions survived: economists “turned to

¹¹ Ibid, 110.

¹² "Yugoslav Paper on Imre Nagy", in Records of Radio Free Europe/Radio Liberty Research Institute Database, (1956).

¹³ Ibid.

mathematical economics because its technical language could conceal a wide range of politics,” so immediately after the revolution, Nagy’s influence on research economics was still present.¹⁴

Half a decade after the revolution, Hungary’s economy developed trouble, setting up an ideal time for economists to regain political influence. Roger Gough specifies that “much of the bloc [was] affected by a severe economic slowdown in 1962.”¹⁵ Further, an economic analysis of Hungary released in 1970 demonstrated a clear downturn of economic measures during this period. The incremental capital output ratio averaged 2.18 from 1955-60, but more than doubled to 4.43 between 1960-65.¹⁶ This indicates that Hungary required double the investments in the later period for the same increase in national income, signaling a poor economic situation. Additionally, the annual increase in agricultural production averaged 1.8% from 1961-1965, but averaged 2.7% in the following years 1966-1968, again indicating an economic dip at the beginning of the decade.¹⁷

This poor economic situation of Hungary in the early 1960’s gave economists the position to secure influence in the Party, ultimately leading to their control over the economic reform. Janos Kadar himself admitted the increased influence of economists at a Political Committee meeting in May 1966, making the analogy that “twelve months ago we called in 108 economists, like getting the vets to take a look as to how they could cure the horse”.¹⁸ This relation between the Hungarian economy with a sick horse and economists with vets suggests that Kadar expected economists to quickly ‘cure’ the economy and leave; instead, economists

¹⁴ Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, 120.

¹⁵ Roger Gough, *A Good Comrade: Janos Kadar, Communism and Hungary* (Palgrave Macmillan Limited, 2006), 150.

¹⁶ Egon Kementes, “The Hungarian Economy, 1945-1969.” (*Modern Hungary: Readings from the New Hungarian Quarterly*, 1970), 133.

¹⁷ Ibid, 132.

¹⁸ Balassa, “Reforming the New Economic Mechanism in Hungary”, 155.

secured substantial influence within the Party and remained. In fact, Bianca Aidar measures this increase in influence quantitatively: “In 1962, technocrats made up 4.7 percent of the [Party]; by 1966, technocrats comprised 9.7 percent of the Party” where ‘technocrat’ refers to economists and agriculturalists.¹⁹ Recall the time period from 1962 to 1966 exactly corresponds to Hungary’s economic slowdown, again suggesting that the struggling economy resulted in this increase of influence of economists. Further, these economists had a central role in initiating the economic reform. Aidar identifies three individuals responsible for overseeing the establishment of NEM: Rezso Nyers, Imre Pardi, and Istvan Friss.²⁰ These three, in particular Nyers, constructed a team of experts, “most of whom had a background in economics” to address the reform; additionally, both Nyers and Friss themselves were trained as economists.²¹ Kadar recognized this increased influence of economists in the same May 1966 Political Committee meeting: “After twenty years of the working class and the party leading . . . some now get the feeling that the economists are taking over this country’s leadership.”²² A statement from Kadar himself, the supposed leader of Hungary, that economists were taking over the leadership should inarguably confirm the increased influence of economists on national policy. Thus the argument has established the impact of Imre Nagy on economic research and the central impact of economists under Kadar on the development of the economic reform; however, it remains to explicitly show the connection between the economists under Nagy and the economists under Kadar.

¹⁹ Bianca Adair, “Interest Articulation in Communist Regimes: The New Economic Mechanism in Hungary, 1962-1980.” (East European Quarterly, 2003), 111.

²⁰ Ibid, 109.

²¹ Ibid.

²² Gough, *A Good Comrade: Janos Kadar, Communism and Hungary*, 155.

The ideology of economists under Kadar was similar to the economic environment inspired by Nagy. Recall that reform economists under the rule of Imre Nagy believed in the model of an “economic mechanism.” In particular, Janos Kornai, a reform economist working under Nagy talked of this mechanism as working through various “levers,” identifying eight specific such levers.²³ Then, in 1969, when Kadar was asked about the direction of the economic reform in an interview, he answered:

“It is an essential element of the reform that it wishes to ensure the realization of the national economic plans not through concrete plans directives sent to plants, but through economic levers”²⁴

In this response, Kadar himself specifically referred to “economic levers”, implying that the model of an “economic mechanism” as initiated under Nagy was still widely in use. Not only did economists still use this economic model, but economists still embraced Nagy’s attitude of research economics. For instance, Jozsef Bogнар, an economist and Party member, gave a lecture at the Societe Royal d’Economic Politique in Brussels, explaining that the economic reform worked towards “a purposeful development of political democracy” within economics²⁵. This idea of “political democracy” is synonymous with Nagy’s belief in the “free battle of opinions” referenced earlier. Therefore, the ideology of economists under Kadar and Nagy show strong parallels in both the technical economic models and in the ideology of research economics.

In addition to this connection between the ideologies of economists, evidence supports that many individuals working under Nagy also had influence under Kadar. Recall that

²³ Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, 112.

²⁴ Janos Kadar, “L’Unita Interviews Janos Kadar.” (*Modern Hungary: Readings from the New Hungarian Quarterly*, 1977), 27.

²⁵ “Situation Report: Hungary, 3 March 1967” (Records of Radio Free Europe/Radio Liberty Research Institute, 1967).

economists Friss and Nyers were two of the three primary individuals overseeing NEM; however, both Friss and Nyers held positions under Nagy. In particular, Friss “founded and chaired the Hungarian Academy’s Economic Institute”; the same institute that Nagy initiated.²⁶ Additionally, Nyers “became a Deputy Central Committee Member” in June 1953, was “president of the National Council of Cooperatives in 1954”, and was the “Food Minister in 1956”.²⁷ Perhaps these two key leaders of the reform brought along Nagy’s ideology and influence into Hungarian economic policy. Further, the Political Committee named Nyers the official spokesperson for NEM, giving Nyers even more influence over the economic reform.²⁸ Economists such as Friss and Nyers were able to continue working under Kadar by retreating away from politics into mathematical economics after the regime change; the research of Hungarian economists was accepted and studied by other parts of the world. Economists Janos Kornai and Tamas Liptak “sent an article manuscript to one of the most prestigious economic journals in the world, *Econometrica*” after the revolution of 1956.²⁹ This article was accepted, demonstrating that even after 1956 economists had free range to practice research economics. Further, *Econometrica* is an American journal, so the Hungarian economists had ideologies compatible with capitalism in a research environment, demonstrating the freedom of economists to continue the ideology of Nagy. These research economists were still careful not to attract attention; Gough suggests a close call “in the retrograde phase of 1957-59” in which “Kadar had – just – avoided smothering the development of the academic economics discipline,”³⁰ but in the end economists manage to remain untouched throughout Kadar’s rule. By 1962, the beginning of

²⁶ Adair, “Interest Articulation in Communist Regimes: The New Economic Mechanism in Hungary, 1962-1980.”

²⁷ Ibid, 109-110.

²⁸ Ibid, 111.

²⁹ Bockman, *Markets in the Name of Socialism: the Left-Wing Origins of Neoliberalism*, 125.

³⁰ Gough, *A Good Comrade: Janos Kadar, Communism and Hungary*, 152.

the economic downturn, many of the economists called upon by the Party are economists that worked directly under Nagy, ultimately resulting in the ideology of Nagy affecting economic policy.

To summarize, Nagy influenced the economic environment of Hungary by advocating for research economics and drawing together a team of reform economists. The economists managed to continue Nagy's ideology by retreating into mathematical economics, blurring the politics of the research. When Hungary was hit with an economic slowdown in 1962, the economists called on to change economic policy maintained some of Nagy's ideology. Economists gained enough political power to be the primary influence on the New Economic Mechanism, and so ideology originating from Imre Nagy was ultimately rebirthed in the economic policy under Goulash Communism.

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