

REPORT ON THE LIVING STANDARD IN HUNGARY BETWEEN
1949 AND 1956

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Contents.

	Page
Introductory Remarks.	1
1. Outline of the Economic Policy of the Communist Regime.	5
2. The Labor Force.	10
3. Wages and Prices.	16
4. Real Income.	30
5. Household Budgets.	57
6. Nonconsumption Expenditures.	63
Conclusion.	69

List of Abbreviations.

- A. A. ADATOK ES ADALÉKOK A NEPGAZDASÁG FEJLŐDÉSÉNEK TANULMÁNYOZÁSÁHOZ 1949-1955, BUDAPEST, 1957. (Data for Studying the Development of the People's Economy between 1949 and 1955).
- A. M. ÁRALAKULÁS MAGYARORSZÁGON. (Price Changes in Hungary in 1938 and in 1949-1955. Published by the Central Bureau of Statistics, Budapest).
- B. A. BÉRKERESKEDELMII ADATOK, 1950-1956. (Data of Domestic Trade, published by the Central Bureau of Statistics, Budapest).
- C. S. B. Central Statistical Bureau of Hungary
- K. F. KÖZGAZDASÁG I SZEMLE. (Economic Review, Journal of the Economic Institute of the Hungarian Academy of Sciences).
- H. S. Z. S. MAGYAR STATISZTIKAI ZSEBKÖNYV. (Hungarian Statistical Pocketbook, published yearly by the Central Bureau of Statistics).
- V. R. NEPGAZDASÁG I MÉRLEGEK, KÖZLÉSEI, 1956. STATISZTIKAI KÖZLÖNYEK No. 4, 1957. (Balances of the People's Economy and Real Incomes).
- P. G. POLITIKAI GAZDASÁGTAN, TANKÖNYV, BUDAPEST, 1956. (Political Economy, Textbook. Third edition. Original in Russian, there is also an English version).
- P. SZ. PÉNZÜGYI SZEMLE. (Financial Review, Journal).
- St. B. 1949-1955 STATISZTIKAI ÉVKÖNYV, 1949-1955, BUDAPEST, 1957. (Statistical Yearbook for 1949-1955, published by the Central Statistical Bureau).
- St. B. 1956 STATISZTIKAI ÉVKÖNYV, 1956, BUDAPEST. (Statistical Yearbook for 1956, published by the Central Statistical Bureau).
- S. SZ. STATISZTIKAI SZEMLE. (Statistical Review, Journal).

REPORT ON THE LIVING STANDARD IN HUNGARY BETWEEN 1949 AND 1956.

Introductory Remarks.

This report is based mainly on the interviews with Hungarian refugees, conducted as a project of Columbia University in 1957.

The main purpose of this project was not an inquiry into economic conditions. It is apparent from the questionnaires, instructions to interviewees and the completed material of interviews themselves that the economic aspects were rather neglected or at least treated as secondary in importance. Therefore the usefulness of the information which could be collected from these interviews for the purposes of an economic study is very limited.

To be able to give an approximately complete survey of the economic conditions in Hungary since the communist take-over, and how the population was affected, directly or indirectly, by the economic policy of the communist regime, I also made use of different publications available from Hungary, chiefly those of the Central Statistical Bureau.

The majority of these publications appeared in 1956 and 1957, giving a vast material of statistical data hitherto not available to the public. Numerous studies were also published, revealing and criticising various phenomena of the "people's economy".

A thoroughgoing study of all these publications would require such an amount of work and time that it would surpass the scope of this report.

Considering these limitations, this study cannot be more than a broad outline, indicating the main features and trends of changes in the Hungarian economy. This can, perhaps, be of some help to those whose research work is concerned with other aspects of life in Communist-ruled Hungary, such as those of sociology and government.

It is the opinion of the writer of this report, that for an understanding of any social phenomena in communist countries, a basic grasp of their economic system is fundamentally important. It is in its economic aspect that the communist state essentially differs from other kinds of governments. Its institutional set-up, totalitarian methods, aspirations etc. can be found, to a smaller or greater degree, in non-communist states too. But in our modern age the communist state is the only one which emerges as practically almost the sole owner of the factors of production. It is irrelevant how far this is explicit, openly admitted or made felt in practice. The communist state is the owner of not only the capital of the country, but has complete discretion over how to utilize its labor and land.

The difference between the planned economies of the West and those of the Iron Curtain countries is not a matter of degree. A planned economy, according to the western concept, is basically a free-enterprise system, where concessions are made, to a large extent, towards the interference of the government, mainly on the basis of economic considerations (neglecting here the case of war-economies). The economy of the communist state is run basically by the state and wherever reminders of a free-enterprise system exist in it, these are concessions which are intended as transitory and temporary ones, and are tolerated mainly on the basis of political considerations.

* * *

The material of the interviews contains an invaluable source of information for students of various fields. It is regrettable that no serious attempts were made to exploit the possibility of getting more and better information concerning the inner workings of the Hungarian economy. This could have been done without significantly more expense and effort. Among the respondents there were former clerks of statistical offices, chief accountants, ministry officials, agronomists and numerous other persons

who must have been in the position to give us more precise information than what they were asked to.

Perhaps a special section could have been devoted to purely economic questions. This could have been the last section with special instructions for the interviewers. Throughout the interviews, interviewers showed a certain passivity in receiving and registering the answers. This can be an excellent method in a sociological study, where spontaneous attitudes of the respondents are significant. Not so in economics. For questions relating to economic conditions the interviewers should not have accepted so many hazy or generalizing answers as they did. They should have pressed for sources and exact figures. They should have been briefed exactly as to what to look for and for what to watch out.

It is amazing, for example, how many respondents who had worked for state-owned enterprises (and earned all their living from them) gave exact figures or percentages of their income taxes. These figures were accepted and written down in spite of the fact that these people had not paid any income taxes. Obviously they did not know the breakdown of their deductions. But this would not have mattered. People working for state-owned enterprises had two, or if childless, three kinds of deductions, out of which only the state-loan was a variable element. So it would have been enough to inquire about this (for a yearly sum, of course, because state-loan payments were not deducted in every month of the year). Respondents most likely would have known the precise answer to this question, since the subscription to peace-loans was a singularly painful event of the year for them, often preceded by heated arguments. And we could have gained interesting information, not available in official publications, as to the progressivity (or regressivity) of state-loan payments.

Problems similar to these arose with other questions too. Wherever they did, I attached my observations, in view of the possibility that our

experiences can be useful for similar projects in the future.

The main emphasis in this study, although references will often be made to preceding periods, is on the years between 1949 and 1956. Most of the information from the interviews and the statistical publications refer to these years and this is also the period when the communist economic policy was already in full swing.

1. Outline of the Economic Policy of the Communist Regime.

According to the Marxist ideology one of the main drawbacks of the capitalist system is the anarchy which exists among the production units of the economy. Inside each plant and enterprise production is planned and methodically organized, but outside of them, the struggle among capitalists for profits creates anarchic conditions, which lead to crises, temporary ones as well as to a lasting general crisis, with great wastes of material resources and manpower.

The anarchy of capitalism follows, in this view, from the fact that the means of production are in private ownership and that those who own the means of production are primarily interested in increasing their wealth and not in satisfying the needs of the people. This creates "insolvable contradictions" in the capitalist system, which will result, with the force of "objective laws", in the inevitable collapse of capitalism.

Opposed to the anarchy of capitalism stands, as it is contended by this ideology, the socialist economy governed by the fundamental economic law of socialism, its main characteristics and requirements being "to serve the maximum satisfaction of the continuously increasing material and cultural needs of the whole society by consciously developing and perfecting socialist production on the basis of the most advanced techniques".¹ The ownership of the means of production by the socialist state makes it possible that planning, which in a free-enterprise economy is confined to single enterprises, be established on a national scale, coordinating the production of a whole country with the needs of its people.

This is, summed up very briefly, the theoretical basis of communist economic policy. It has been worked out, in the course of time, by its

¹
P.G. pp. 452-453.

propagators, often with somewhat different interpretations and practical conclusions, to make it correspond to actual problems and policy measures of communist-ruled states.

It is not the task of this paper to discuss or criticize this theory, or examine its premises. What we are interested in here is how this policy actually worked in Hungary, and how it has affected her population.

The expropriation of industrial enterprises and of the key positions of the economy was by and large completed by the end of 1949. This was, as a matter of fact, an essential part of the general policy of the communist party in its manoeuvres to attain full control over the country and to eliminate the political and economic power of certain social strata. The class of big landowners had been already eliminated by the post-war land reform. In agriculture only the stratum of the kulaks, rich peasants permanently employing workers, remained as such a sector of society which was regarded hostile and dangerous to the "building of socialism". But the political and economic attack against the kulaks started essentially in the First Five Year Plan Period. Industry and finance were the first to get under control and by 1949 only small businessmen and independent artisans with a few employees represented free enterprise, besides private farms.

The Three Year Plan (1947-1949) was originally aimed at the reconstruction of the war-damaged country. But it was also the period, as it was later openly admitted, of laying down the foundations for a socialist economy.

The First Five Year Plan (1950-1954) was an exclusively communist creation already in its blueprint. It was a highly ambitious plan putting the main emphasis on industrial production and especially on investments in the heavy industry. The plan was launched on January 1, 1950 and its targets were modified twice in the following years: they were substantially raised at the beginning of 1951, and lowered in the middle of 1953, when, according to the program of the "new course", the emphasis was shifted, to a great extent,

towards increasing the production of consumer goods. This trend was again somewhat reversed in 1955, but the strain put on the economy by non-consumption expenditures remained less than before the "new course".

The process of expanding the socialized sector of the economy went on with changing vigor in this period. Up to the middle of 1953 the private sector (popularly called MASZEX in Hungary) was diminishing. Some respondents who had still maintained their small business in 1950, 1951, told in the interviews how they were gradually forced out by high taxes and the high prices of raw materials if they got any. Huge fines under different pretenses and different methods of pressure also were used to make those people give up their independence and seek jobs with state enterprises or join cooperatives.

At the same time collectivization was pressed in agriculture. Although the question of joining an agricultural cooperative was a matter of free decision for the peasant in principle, in practice, as lots of respondents complained, and also as it was openly admitted in the press after the change of course in 1953, there was a great deal of force applied together with discriminatory measures against private farms to speed up collectivization. The attacks against kulaks were also vigorous in those years. The slogan was to rely on the poor peasantry, to win over the middle peasantry and to fight against the kulaks. The disproportionately high quotas of compulsory deliveries and taxes forced many of them to give up entirely or partially their holdings.

With the government of Imre Nagy in 1953, these trends were changed. The number of people earning their income in the private sector increased, also the number of private farms, while the number of families in the agricultural cooperatives decreased.

In 1955 the line of policy changed again, and the private sector decreased while a new collectivization drive was launched in the countryside.

Table 1
Number of People Occupied in the Private
Sector of Industry.

	Number of people in thousands
1949	226
1950	154
1951	98
1952	51
1953	40
1954	67
1955	89
1956	87

Source: St. E. 1956, p. 60.

Table 2
Number of Members in the Agricultural Cooperatives.

	Number of members in thousands
1949	37
1950	120
1951	258
1952	339
1953	360
1954	245
1955	257
1956	309

Source: St. E. 1956, p. 60.

In the following chapters several aspects of the developments sketched up here will be examined. A lot of important questions will, of course, be neglected, since our main attention will be focused on changes in the welfare of the population.

3. The Labor Force.

The changes in the composition of the national product, as prescribed by the Five Year Plan, called for substantial changes in the distribution of the labor force.

Perhaps the most important of these changes was in the proportion of the people occupied in agriculture. Between January 1, 1949 and January 1, 1954, 350,000 persons went over from agriculture into other branches of the economy. At the same time the number of active earners in agriculture decreased by 227,000 people (the difference can be explained by the counterbalancing effect of the natural growth of the population).¹

Table 3 gives a comprehensive picture of this shift in the labor force.

Table 3
Distribution of the Total Labor Force between
the Two Main Occupational Groups in Percentages.

	Agriculture	Other
1949	54,7	45,3
1954	43,4	56,6
1955	43,7	56,3
1956	44,2	55,8

Source: A. A. p. 30.

One of the largest reserves of labor, thus, for the industrial expansion of the country was in the countryside. The data indicate that in 1949 there was still a substantial amount of hidden unemployment in agriculture. Comparing the 1949 and 1954 figures, we see that although ^{the} agricultural labor

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A. A. P. 30.

force was reduced by 10.7 per cent,¹ the volume of production in agriculture increased by 14.2 per cent, and with the exception of 1951, which was a year of excellent crops, it was not below the 1949 level in this whole period.² This increase was in spite of the inadequate investments in agriculture, substantial disinvestment in private farms, inadequate soil-amelioration and the shock of the collectivisation drive which apparently had disadvantageous effects on production. Whatever increase in the technical level of production occurred, that affected mostly the socialist sector of agriculture. As a report of the C. S. B. in 1956 indicates, peasants on the private farms carried on most of their work with their out-of-date equipment.³ On the other hand, while the total cultivated land decreased in the country, the volume of total production per cadaster yoke was higher on private farms than in the socialist sector. There are exact figures given for this in N. R. 1956, p. 106 referring to 1955 and 1956, and other references indicate that the situation was the same in the preceding years.⁴

It can be inferred from this information that the increase of production in agriculture as a whole was mainly due to its increase in the private sector, where the technical level of production did not significantly increase. If we define hidden unemployment as being made up of those people who can be drawn away from agriculture without decreasing production with, perhaps, a more rationalistic organisation of work but not increasing the technical level of production, the information mentioned above tends to prove the point that there was still a significant underemployed layer of the peasantry in 1949.

1

A. A. p. 30.

2

St. Z. 1956, p. 115.

3

A. A. p. 411.

4

See A. A. pp. 226; 232; 255; 410.

It has to be borne in mind, though, that the volume of production in agriculture stayed in this period, with the exception of 1951, under the 1938 level.¹ According to respondents (see interviews no. 443, 606) a labor shortage developed in agriculture. This is supported by data given by the C. S. B.² Furthermore, the size of cultivated land stayed also in this period below that in 1938.³ The process of drawing away people from agriculture, thus, went beyond the desirable limit and one of the reasons why the planned targets were not met and the 1938 level not reached, was the ensuing labor shortage.

There were also other important reserves for expanding the total labor force. The number of active earners increased by 592,600 between January 1, 1949 and January 1, 1956. Because of a natural decrease of the number of active earners amounting to 737,000, the total number entering the labor force in this period was 1,329,600, with the following distribution:

Table 4

Youth entering labor force:	687,000
Unemployed in 1949 and 1950:	126,000
Men who had not worked before or had retired:	330,500
Women drawn from households:	<u>186,100</u>
Total	1,329,600

Source: A. A. p. 28.

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A. A. pp. 158, 161.

2
A. A. pp. 224, 244.

3
A. A. pp. 167, 171.

The increase in the number of women in the labor force is quite substantial. Their number was 172,000 in 1938 and 371,000 in 1953; while their proportion in the total labor force was 24.2% in 1938 and 29.6% in 1953. The increase was the greatest in industry.¹

In the interviews numerous complaints can be read about how women were compelled to work too because the earnings of their husbands were not enough for the living expenses of their families. It would be a difficult task to trace back exactly what part of the reserves of the labor force consisted of people who had been unemployed or underemployed before, although they had been willing to work, and what part of it was created by the low wages and pensions or certain policy measures of the regime. The group explicitly denoted as unemployed before in Table 4 could not have significantly influenced the trend observable in the rate of dependents to active earners.

Table 5
Number of Dependents for
100 Earners

	Number of Dependents for 100 earners
Jan. 1, 1949	135,4
" " 1950	127,9
" " 1951	123,0
" " 1952	119,6
" " 1953	119,3
" " 1954	118,9
" " 1955	118,1
" " 1956	119,0
" " 1957	120,8

Source: IMR, p. 67

¹

A.A. pp. 33-34.

From 1949 to 1955 the proportion of active earners in the total number of the population increased from 42.4% to 50.3%.

The following tables show the changes in the distribution of the labor force between 1949 and 1956 according to the branches and sectors of the economy. The category of active earners include all the working population: those who live on wages and salaries, the members of co-operatives, independent earners and family members who contribute to the income of the family. It excludes those who live only on their pensions and the industrial apprentices.

Table 6

The Number of Active Earners in the
Most Important Branches of the People's
Economy.

(Data for the beginning of the year)

Year	Industry	Construction	Agriculture	Transportation	Trade
		In thousands			
1949	750	70	2,133	181	207
1950	790	125	2,105	165	218
1951	808	195	2,082	184	237
1952	896	254	2,053	200	231
1953	939	295	1,934	217	237
1954	1070	283	1,910	231	239
1955	1111	215	1,952	231	268
1956	1124	310	1,931	252	275

Table 7
Distribution of the Labor Force between
the Socialist and Private
Sectors of the Economy
in percentages.

	Socialist sector	Private sector
Jan. 1, 1949	39,9	70,1
" " 1954	66,6	33,4
" " 1955	64,6	35,4
" " 1956	66,9	34,1

Source: A. A. p. 35.

3. Wages and Prices.

One of the most striking features of the picture given in the interviews of the Hungarian economy is its inflationary character. Respondent No. 109 complained, for example, that in 1951 a new wave of inflation had started. Others complained of wages not rising in proportion to increasing prices.

A glance at the official figures will make it clear that these complaints were not unjustified.

Table 8

The Index of Nominal Wages
and the Consumer Price Index of Workers
and Employees.

(1949 = 100)

Year	Average Net Nominal Wage 1.	Consumer Price Index 2.	Corrected Consumer Price Index* 3.
1949	100	100.0	100.0
1950	107.1	107.1	106.0
1951	114.5	126.7	129.2
1952	147.4	174.5	183.3
1953	155.1	179.6	186.1
1954	173.6	173.7	191.9
1955	178.3	171.6	191.7

*showing also the changes in quality (hidden price-increases)

Source for column 1: St. É 1956, p. 206; for columns 2 and 3: Á.N., p. 70.

After the post-war inflationary period a new currency was introduced in August 1946. Together with this, a new price system was constructed largely on the basis of the 1933 price structure. The new price level in terms of

forints was four times higher, according to the wholesale price index, than the price level in 1938 expressed in pengo. The four-fold increase was only an average of several price-multipliers which showed certain deviations from the pre-war proportions of the price structure. In the case of industrial products a higher multiplier was applied than for farm products. Also among farm products there was a shift of prices in favor of animal products (taking into consideration the heavy losses of livestock during the war).

Soon after the introduction of this new price system, it underwent substantial changes, mainly due to the pressure of intense demand for food-stuffs. While the prices of some products were kept fixed by the authorities, the same commodities were sold on the black market for prices which soared high above the official ones. The cost of living index rose from August 1946 to February 1948 by 81.6% and its food-stuff component by 89.9%.¹

The inflationary pressures were gradually decreasing through 1948 and in 1949 the conditions reflected a relative stability. This was mainly due to the increased supply of consumer goods.

From the middle of 1950 on, shortages in consumer goods became regular. On January 2, 1951, rationing was introduced for the most important commodities. Prices on the black market soared up again, for some goods they were the multiple of the official prices.

The first large-scale price fixing, bringing about uniform retail prices in the whole country, took place in December 1951. Mostly at the expense of the real income of the population, the great disproportion between their purchasing power and the "commodity basis" (as the stock of consumer goods is called in Hungary) was somewhat relieved. But the prices on the free market still remained

¹George Keneny, Economic Planning in Hungary 1947-9, pp. 137-138.

above those in the socialized sector, for many commodities they even continued to rise.

The consumer price index shows a falling trend from 1953 on. But, as was often admitted in official publications, the declining quality of consumer goods greatly counteracted the effect of the reduced prices.¹ Consumer price indexes are, therefore, usually supplemented by a corrected version, taking account of the "hidden" price increases due to the decline in quality (see Table 8).

In almost all the interviews we find complaints about the deterioration of the quality of consumer goods, especially of clothing articles. (See answers to question 14, or in the preliminary interviews, question 17 of the I section).

These hidden price increases indicated by the corrected index numbers do not show fraudulent practices such as upgrading lower quality products in retail shops (selling them at higher prices and pocketing the difference by the personnel of these shops; see respondent No. 486). How widespread such practices were and how significant their effect was on the whole economy would be impossible to show.

Among the components of the consumer price index, foodstuffs show the greatest rise, next come the commodities belonging to the category of clothing.

The figures in Table 9 were, apparently, calculated in a somewhat different way than those in Table 8, but the general trend is almost the same in both. In Table 9 no account was taken of the hidden price-rises.

¹

For more details see *A.H.*, pp. 55-56.

Table 9

Consumer Price Index of Workers and Employees.

	1949	1950	1951	1952	1953	1954	1955	1956
Food	100	113,9	140,3	220,3	319,3	309,7	203,9	203,7
Clothing	100	103,6	116,0	162,4	161,3	155,5	156,2	150,0
Industrial products	100	98,3	99,3	140,8	157,3	133,3	133,3	129,3
Fuel, electricity	100	101,3	107,3	110,3	124,2	128,7	128,7	128,3
Services	100	102,6	104,5	114,6	115,7	115,5	115,6	115,6
Altogether	100	105,7	137,7	179,1	178,3	169,6	168,2	166,5

Source: St. E. 1956, p. 210

The changes in the total wage bill and the amount of currency in circulation also show rising trends, their rise is more than proportionate to the increase in productivity. The total wage bill of workers and employees was 10.2 million forints in 1949 and 31.2 million forints in 1954.¹ The number of workers and employees rose in this period by about 174 per cent.² National income computed at constant prices rose by 50.3 per cent and national income per active earners increased by 35.5 per cent in the same period.³

The total amount of money in circulation was around 3 billion forints in 1949⁴, and according to experts and scattered sources, it approached 6 billion in 1955. In December 1956 it was more than 7 billion forints.⁵

¹St. E. 1949-1955, p. 58.

²Ibid., calculated on the basis of data on p. 58.

³AA., p. 14.

⁴George Kemény, Economic Planning in Hungary, p. 133.

⁵ES 2, 1957, No. 8, p. 811.

All the above said in this chapter stands in sharp contrast to the statements of principles and forecasts of the planners. In 1947, the National Planning Department declared: "No step by step increase in prices should be tolerated, as it would create uncertainties in the various sectors of the economy".¹ The official textbook of political economy states that "the consistent price policy of the socialist state, the purpose of which is to regularly reduce prices of consumer goods and to increase the purchasing power of money, is an important factor in the rising of real wages".²

How could inflationary phenomena develop in the planned economy of Hungary in spite of the planners' decisions? How can a communist planned economy become inflationary in general?

In the following pages we try to analyze the theoretical aspects of this question and then an attempt will be made, on this basis, to explain the actual developments in Hungary.

Although the mechanism of the free market is substituted to a great extent by the state's economic decisions embodied in the plan and by the direct controls which the state has over the largest segment of the economy, essential features of it are still retained. Money is used not only as a unit in the complex accounting system of the enterprises and institutions of the socialist sector, but also the greatest part of wages and salaries is paid out in cash. It is left to the consumers how to spend their income. In the socialist sector of the market prices are fixed by the state and the quantities offered are also determined by its decisions. But the consumers have free choice what commodities to buy. In the private sector of the market where the surplus products of the peasantry are sold mainly (what is left over

¹ Quoted by George Kenézy, Economic Planning in Hungary, p. 67.

² P.G., p. 528.

after taxes in kind, compulsory deliveries, contractual deliveries and their own consumption), prices are determined by supply and demand. (It has to be noted, though, that both supply and demand in this part of the market are greatly influenced by the operation of the socialist sector).

As long as these elements of the free market exist in the economy, planning cannot be overall. Even if it is drawn up so as to cover the whole economy, part of its targets will be in the nature of estimates rather than decisions. The state can, in this system, decide how much to produce of certain consumer goods in socialized enterprises. But it cannot decide how many of these goods should be demanded at the prescribed prices.

If the logic of the plan were to be carried to the utmost, consumer goods should also be directly allocated by some sort of a rationing system. This, however, was not resorted to as a permanent method because of the same reasons, perhaps, F. D. Holman mentions in his book on Soviet taxation, referring to similar problems in the Soviet Union: "The adoption of consumer choice enables the Soviet authorities to avoid the high cost of direct distribution of consumer goods by rationing, and tends to maximize consumer satisfaction from a given basket of consumer goods".¹ Naturally, the smaller the "basket", the more pressing is the problem of how to reach maximum satisfaction.

The tendency to diminish the private sector of the economy is obvious (collectivization, discriminatory measures against independent artisans, etc.). But in this process the state is pursuing a different policy at a much slower pace than in the nationalization of industry. Perhaps the main reason for this is that it wants to avoid too great shocks which might affect production disadvantageously. The existence of the private sector, then, also contributes to the necessity of maintaining a "money economy".

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Franklyn D. Holman, Soviet Taxation, Cambridge 1955, p. 70.

Thus the physical economic plan of the state has to be supplemented by a financial plan. If the planners want to avoid any upsetting effect stemming from the use of money as a means of payments for goods and services, the system of prices, wages and other measures regulating the purchasing power in the hands of the population has to be carefully constructed so that it is kept in accordance with the stock of commodities, offered, through the plan period, for consumption.

The physical plan prescribes how much the nation should produce for consumption and how much for non-consumption purposes. Translating the plan-targets at the established prices and wages into money-terms, the authorities have to decide what part of the income of households has to be diverted for non-consumption expenditures. If the amount of the latter surpasses the voluntary savings of the population, an inflationary gap has to be reckoned with and devices (such as taxes, state loans, etc.) have to be introduced to absorb the excess purchasing power.

Corresponding to the Soviet pattern, the most important means of driving away excess purchasing power from households is the turnover tax. This and similar financial devices, like the state loans and the much less significant income tax, should not be regarded as such revenues on which the state relies in its investment decisions. Their main purpose is to prevent the development of inflationary pressures. If inflationary pressures build up in spite of the preventive measures, these can have disruptive effects on the economy and endanger the fulfillment of the plan. Since in the state sector of the economy prices are fixed, inflation here will be repressed causing shortages in certain commodities (long queues before shops are among the symptoms of such a repressed inflation) while part of the excess purchasing power might pour into the free sector of the market driving up prices high above those in the state owned shops.

The economic history of the Soviet Union shows how serious these problems can actually become.¹ The inflationary phenomena which developed in Hungary after launching the First Five Year Plan were, as it will be shown below, somewhat different in their character from those in the Soviet Union.

The financial plan has an extremely important role from the point of view of the balanced operation of the socialist economy. But even if the purchasing power of consumers is perfectly coordinated with the production of consumer goods, inflationary pressures might develop if the composition of the "commodity basis" does not correspond to the actual demand of the population and the price policy is not flexible enough to counteract unbalancing effects. If, for example, the state stores cannot satisfy the total demand for foodstuffs at the existing prices, a greater amount of purchasing power than predicted by the plan might flow into the free market, pushing up prices there and increasing considerably the money income of the peasantry. At the same time large stocks of inventories of other commodities pile up in the state stores. If such piling up of inventories occurs, the enterprises, wherever this happens, have to finance part of their operations by short-term credits from the National Bank. If the use of these short term credits reaches such a scale that the National Bank has to issue new currency (above the planned rate), that part of the new currency which will be paid out in the form of wages and salaries will again increase the purchasing power of consumers and create further inflationary pressures.

Inflationary pressures may develop from causes on the side of production. Even if the inflationary gap was correctly anticipated compared to the pro-

¹

See Franklyn D. Helms, op. cit., Chapters 1 and 2.

duction targets of the plan, in case the plan is underfulfilled in consumer goods this might lead to unanticipated inflationary pressures. The same might happen if the plan is overfulfilled in producers' goods and there is no adequate increase in consumer goods covering the higher wages and premiums paid out because of the overfulfillment.

It would require a much more thorough study to reveal all the causes of the inflation in the Hungarian people's economy and to determine their order of importance.

In the interviews lots of such practices are mentioned by which enterprises could show that they reached their plan targets, expressed in "global" figures or indicators, yet actually the volume and composition of their finished products stayed below the prescribed level. Respondent No. 155 said that "production very often runs only on paper". Bookkeeping manipulations were hiding the real situation. Respondent No. 161 described how at the enterprise where he worked, they "cooked" records of stocks if production fell behind in a particular period. The bonuses were often received on the basis of such manipulations. Respondent No. 447 gave a detailed description of the method of counting unfinished products in final output which enabled the enterprise to show plan-fulfillment.

It would be difficult to determine how widespread were such illegal practices and frauds and how significant was their total effect. But it is admitted by communist economists too that the role of indicators in controlling the production results had disadvantageous effects on the quality, composition and volume of the output of enterprises, and gave incentives to develop practices which, although legal, were disruptive to the economy.

According to a member of the Economic Institute, the expression "optics of the plan" often used by economists, is quite justified, since it "reflects that attitude, which does not regard real economic achievements primarily

important, but rather their 'optical effects,' the changes in the indicators".¹ The same author enumerates the consequences of the prevailing system of production controls. Enterprises can reach their plan targets more easily if they produce more of the expensive products and less of the less expensive ones, disregarding the demand of consumers. They are reluctant to produce labor-intensive commodities and tend to use expensive raw materials. In the light industry, he points out, the value of semi-finished products can also be added to the total value of production. And the value of production can be increased by producing unnecessary, unusable products.² Also, as a report of the C. S. B. says: "Along with the production of unneeded commodities serious shortages appear in case of many important products. In certain cases enterprises produce commodities which require a large amount of material relative to labor, because in this way they can fulfill the plan more easily "globally", in value, at the same time they neglect labor-intensive products!"³

The excessive inventories mentioned by numerous respondents (see especially Nos. 449, 604 and 605), but also discussed in communist publications, well reflect the results of such an economic management. Respondent No. 449 estimated that the value of "slow moving stocks" reached sometimes two or three billion forints, while the total turnover of trade organizations was around thirty billion forints.

¹ James Kornai, *A Gazdasági Vezetés Tulcsott Kiszponosításai*. Budapest, 1957. (About the Overcentralization of Economic Management), p. 33.

² *Ibid.*, pp. 30-64.

³ *Ibid.*, p. 125.

According to the official figures, the value of inventories in the state-owned retail trade shops was 3.5 billion forints on December 31, 1952, and 4.5 billion forints on December 31, 1955, while the total retail turnover in the state sector was 24 billion forints in 1952 and 31.5 billion forints in 1955.¹ It is not specified here how much was the value of idle or "slow moving" stocks out of the total value of inventories, but there are indications that it must have been substantial.

A report of the C. S. B. remarks: "Part of the products of the industrial enterprises is not suitable for consumption or production purposes. While the needs of the consumers are not satisfied in many fields, substantial inventories of unnecessary or temporarily unnecessary commodities are being piled up. Enterprises often produce certain commodities in a season when there is no demand for them!"²

It is interesting to compare the inflationary phenomena in the Soviet Union in the interwar period with those in the Hungarian economy after 1949.

In the Soviet experience manipulations with the wage funds formed, perhaps, the most important source of inflationary pressures. Managers of enterprises developed all kinds of methods to take advantage of the loopholes in wage regulations and to bid up wages in their efforts to secure the necessary labor for the fulfillment of their production plans.

In Hungary, wage fund operations, together with the movements of the labor force, were so rigidly controlled that such manipulations with wages could not reach a significant scale.

¹
Z. A., pp. 5 and 41 (the above figures are rounded).

²
A.A., p. 123.

The interview with respondent No. 449 suggests that the interwar Soviet practices were maintained by Russian owned enterprises in Hungary. According to respondents, these enterprises did not subject themselves to the Hungarian economic plans and were bidding labor away from other firms by paying wages above the official ceilings. They secured higher productivity by obtaining better quality labor.

Because of the strict wage controls the field of "looseness", in the language of Hungarian communists, seems to have shifted towards materials. As a report of the C. S. B. indicates: "Since there is more emphasis on adhering to the prescribed wage-fund, enterprises concentrate their efforts to be economical with wages and do not pay enough attention to be economical with materials."¹

In the market of consumer goods this has resulted, as we have seen, in large unsalable stocks of certain commodities while, at the existing prices, serious shortages occurred in other commodities. ^{These} They were further aggravated by the chronic underfulfillment of production targets in agriculture.²

Almost all the interviews mention, that in certain times, queues before shops, as the most striking symptoms of shortages, became quite usual sights in the whole country.

Retail trade was not the only sector of the economy where large inventories caused disturbances. ^(See Table 10) In many cases the problem stemmed from the unrealistic "norm" system. Inventories just as production are regulated by norms. The prescribed amounts of inventories are financed from the working capital allotted to the enterprises. If stocks pile up

¹
A.A., p. 150.

²For production in agriculture, see The Economy of Hungary, 1950 to 1954 in the Economic Bulletin for Europe of the United Nations, Geneva, August 1955.

at an enterprise above the norm, either because of the unrealistic norm or because of uneconomic operations, the firm has to turn to the National Bank for short term credit. The most important sources of these credits are the deposits of state-owned enterprises, government institutions, social organizations etc. The value of goods purchased from abroad on credit can, until payment, be also a source of credit just as well as the amount of the regular money holdings retained from circulation by the population, and the surplus of budget receipts over expenditures.¹

If the amount of short term credits surpasses the amount of these sources, the National Bank has to issue new currency. According to an article in S.SZ., the amount of short term credits given for non-reasonable inventories above the norms, together with those credits which were not paid back after maturity, were 33% of the total amount of short term credits in 1952, and 21.3% in 1955.²

Table 10

Inventories in Industry

(In percentage of the prescribed norms)

Dec. 31, 1951	156,0
" " 1952	139,4
" " 1953	130,6
" " 1954	133,4

Source: S.SZ., 1956, No. 5, p. 406.

¹ For details see George Lang, Our Credit System in S.SZ., 1956, No. 5, pp. 395-409.

² Ibid., p. 403.

The official data ^{and also} ~~together~~ with the opinions of experts who had been working in the Hungarian National Bank, tend to support the view that the main causes of the inflationary phenomena in the Hungarian planned economy were the short term credits financing above-the-normal inventories, losses or other non-planned operational purposes, and involving issues of new currency. Data in H.M.R. suggest, that in 1956, the discipline in the handling of the wage funds also deteriorated.

In the first three quarters of 1956, the central wage-policy decisions were only partially responsible for the wage increases. Out of the average wage increase of 5.6% in this period, only 1% was due to these decisions (enacted in 1955 and 1956), 4.6% was caused by "other factors". This increase, as the same source indicates, was not justified by the increase of production in all fields.¹

The problems touched on above are far from being fully explored. Indeed, they present a vast and interesting field for further research.

On the basis of the information surveyed here, we can safely say that in the market of consumer goods the Hungarian planners failed to keep supply and demand in equilibrium, and the over-tight, inflexible production plans together with the system of financial controls led to serious wastages. As economists in Hungary admit: "It is undoubtedly true that the price structure determined centrally and fixed by the authorities cannot adjust itself to changes in the structure of demand and supply. Therefore the system of fixed prices, at least in the form known today, is a permanent source of disharmony between demand and supply. This is also the reason why the economic system of socialism, as it is known nowadays, is characterized by an almost continuous (sometimes smaller, sometimes larger) lack of commodities".²

¹ H.M.R., p. 21.

² Robert Hoch and Aranka Ródel, The Formation of Consumers' Prices, K. SZ. 1957, No. 1, p. 2.

4. Real Income.

Respondent No. 160 made the following statement: "Production has increased since 1945 for the benefit of the state. As far as people are concerned, there was no increase at all".

In the following pages we will examine, in the light of various kinds of information, how much truth this statement contains.

As ^{has} already been mentioned, the post-war plans, and especially the 1951 version of the Five Year Plan, put a great emphasis on investments. Between 1949 and 1954, with the exception of the last year, the rate of growth of fixed capital formation was higher than that of national income. The per capita consumption of the population lagged behind the increase of national income until 1964 (see Table 11).

Table 11

Changes in the Volume of Consumption

Per Capita and Capital Accumulation.

Index: 1949 = 100

	Per capita share of consumption	Capital accumulations	Total national output
1949	100	100	100
1950	105,1	154,3	120,6
1951	108,7	228,7	141,2
1952	103,5	187,4	138,5
1953	106,8	235,1	156,7
1954	125,7	178,4	150,3

Source: ASA, pp. 19-21

During the years of the Five Year Plan national income amounted to 266,6 billion forints (computed at constant prices). This was used according to the following distribution:

Table 12

	Billion Forints	As percentage of total national income
Consumption of the population	140,4	52,7
Other non-productive consumption (institutions etc.)	46,5	17,4
Increase of fixed capital	46,7	17,5
Increase of working capital	31,1	11,7
Other uses (rest of the world)	1,9	0,7
Total	266,6	100,0

A note to this table admits that these proportions were also functions of the prevailing price system. Because of the high prices of consumer goods and low prices of producers' goods, the proportion of consumption is much lower in reality than is shown above.¹

The large disproportional difference between prices is mainly due to the fact that the prices of consumer goods include turnover taxes, while "...producers' goods produced by state-owned industrial enterprises and used in the production of the state sector are, in principle, sold at net prices, that is, without turnover tax".²

¹
Ibid., p. 19

²
E.SZ. 1957, No. 2, p. 132.

Table 13 clearly shows how the price system could distort the composition of total output.

Table 13
Distribution of Total Industrial Output in 1956
(In percentages of total
output)

	Evaluated on the basis of prices			
	in 1939	in 1949	in 1952	in 1956
Producers' goods	60.8	49.4	37.2	36.9
Consumer goods	39.2	50.6	62.8	63.1

Source: St. B., p. 33.

In 1956 total national output was 94 billion forints (at current prices), out of which the amount consumed by the population was 64 billion forints,¹ that is, around 68% of the total. In the same year, the total amount of budget receipts was, according to a speech of the Finance Minister, almost 45 billion forints. 57.6% of the budget receipts consisted of turnover taxes² (around 26 billion forints).

On the basis of these data we can assume that the proportion of "consumption by the population" in total national income ^{would be} less than 50 per cent even ^{for} in 1956 (when it was already higher than during the Five Year Plan period) if national income were calculated at pre-war prices.

¹ St. B. 1949-1956, p. 33 (figures are rounded).

² Charles Olt, The Budget for 1956, P. SZ., 1956, No. 2, p. 49.

(E. B.)
 It has been noted, though, that the official figures of national income exclude the value of most of the services. If included, the proportion of consumption would most likely be higher. Even then it is clear that the part of real national income used for non-consumption purposes was extremely large in the years after 1949.

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The official publications give various series of real wage and real income indexes. According to a report of the C.S.B., the composition of goods and services consumed changed so greatly between 1938 and 1949, that neither the consumer price index nor the real wage index based on either of these years, can be regarded as realistic.

On the basis of consumption in 1953, the real wage index increased by 50% between 1938 and 1949, on the 1938 basis, the rise was about 10%.

In very important fields of consumption, as the same source indicates, the level of 1938 has not been reached. The consumption of certain goods decreased, compared to 1938, while that of others increased, in most cases the improvement being not in the fields of primary importance.¹ For example, in the per capita consumption of workers there has been a considerable shift, compared to their consumption before World War II, towards cereals, vegetables, fruit, eggs and sugar, while they consume less lard, bacon (both are very important articles in the Hungarian household), fowl, and milk than in the past.

¹

See *A. A. A.* pp. 347-353.

Table 14.
Per Capita Consumption in 1953
Index: 1938 = 100

	Total population	Workers
Sugar	176,4	130,0
Meats and fowl	70,5	70,0
Lard	83,7	90,0
Eggs	73,0	115,0
Potato	96,8	130,0
Animal products	—	80,0
Vegetable products	—	125,0

Source: A. A. p. 352

In 1955, compared to the 1949 level, consumption of the most important foodstuffs was higher but, with the exception of sugar and eggs, it was not much higher than the 1938 level as it was officially admitted.¹

Comparing these data with the results of the household budget studies conducted in 1956 on 1700 families belonging to the population of "workers and employees", we see that the higher the income group to which people belong, the less their consumption deviates, at least in the fields ^{indicated} ~~mentioned~~ above, from the average consumption pattern in 1938.

Changes of income have different effects on the two main groups of foodstuffs, namely on vegetable foodstuffs and those of animal origin.

¹
A. A. p. 355.

The first group is less affected by the increase of income than the second. The per capita yearly consumption of meat rises from 17,90 kg. to 46,00 kg. from the first to the fifth income group, while, for example, in potatoes, the rise is only from 76 kg. to 86 kg.

But the effect of income changes was not the same on all the feedstuffs belonging to the first group either. The consumption of fruits, sugar and more expensive vegetables also increases significantly with income. The per capita yearly consumption of fruits is 39 kg. in the first group and 55kg. in the fifth.¹

These data suggest, that even if there was a shift in tastes and preferences affecting the average pattern of consumption, it could not have been the sole factor explaining the deviation indicated between 1938 and 1949. The changes in the composition of consumption were, at least to a large degree, functionally related to the decline of real incomes.

* * *

Real wage indices show that in the years 1951-1955, the average real wage per active earner for the group of workers and employees, was more than 20 per cent lower than in 1949, and in 1955 it exceeded the 1949 level by only 6 per cent.

Table 15

Average Real Wage per Active Earner of Workers and Employees

(1949 = 100)

1949	100
1950	101.3
1951	89.7
1952	82.3
1953	87.0
1954	102.3
1955	106.0

¹
H.R., pp. 33-34.

A report of the C. S. B. in February 1955¹ calls attention to the importance of the aspect of quality in real-wage index computations. It says that the quality of the most various consumption goods has deteriorated significantly since 1949. This was partly because of the poorer quality and less amount of work used to produce these articles, partly because of poorer quality of materials used. In accordance with this, the actual situation has to be considered worse than it is shown by the real-wage indexes. The same source gives a corrected version of a real wage index for workers and employees with the remark that only the decline of the quality of materials used in production could be taken into account numerically. (See Table 16).²

Table 16
Corrected Real Wage per Active Earner
of Workers and Employees
(1949 = 100)

1949	100.0
1950	100.5
1951	87.9
1952	73.3
1953	73.7

These data support the complaints which can be found in almost every interview about the quality of various products. Most of the respondents

¹ *Ibid.*, p. 362.

² *Ibid.*, pp. 361-362.

referred to the speed of production induced by the work system and production competitions as the main cause of this fall in quality (see, for example, interviews No. 108, 155, 203 and 243).

The category of workers and employees includes a highly heterogeneous group of people. Wages and salaries show a large extent of scattering around the average according to the kind of work, branch of economy and geographical location.

Statistical publications usually show the per capita incomes of workers and employees subdivided into three main groups: workers, technical employees (technicians, engineers, etc.) and administrative employees. In 1955 the average monthly per capita income of workers was highest in the heavy industry (1262.- Ft.) and lowest in the state sector of agriculture (890.- Ft.); for technical employees the highest was in the heavy industry (2085.- Ft.), the lowest in the state sector of agriculture (1371.- Ft.); for the administrative employees the highest was in the building industry (1249.- Ft.), the lowest in transportation (1054.- Ft.).¹

The average monthly nominal income of the whole group of workers and employees was 1134.- Ft. in 1955 and 1222.- Ft. in 1956.² Table 17 gives some indication of the scattering of incomes according to the branches of the economy.

¹ St. B. 1949-1955, p. 61.

² H. R. , p. 19.

Table 17
Average Monthly Nominal Incomes of Workers
and Employees

(In forints)

	1955		1956	
	Average monthly nominal income 1.	As percentages of 1134	Average monthly nominal income 3.	As percentage of 1223
People's economy altogether	1134	—	1223	—
Industry	1220	107.5	1294	105.9
Building industry	1194	104.4	1293	105.8
Agriculture (state sector)	926	81.5	1023	84.0
Transportation	1117	98.5	1187	97.0
Trade	1010	89.0	1123	91.8
Budgetary organizations	1104	97.3	1208	98.8

Source: Columns 1 and 3: H. R. , p. 19.
Columns 2 and 4: author's computations

Table 18
The Distribution of Workers and Employees
according to Monthly Earnings

	Total number	Number of people earning				
		800 and less	801- 1200	1201- 1500	1501- 2000	2001 and more*
		In thousands				
June 30, 1955	1593	405	662	272	183	71
June 30, 1956	1662	349	690	316	220	86
		In percentages				
June 30, 1955	100	25,4	41,6	17,1	11,5	4,4
June 30, 1956	100	21,2	41,5	19,0	13,3	5,1

* (earnings in forints)

Source: H&R, p. 20.

Besides the scatter of wages which has a primary effect on the scatter of real earnings, ^{per head†} the latter is further influenced by the different ratio of earners to dependents in worker and employee families. Single earners were in the best situation. ^{This was, however} ~~Although this was worsened~~ by the fact that most of them had come from the countryside and their dwelling conditions were poor; people living in rented rooms pay more for lodging and their living expenses are higher than those living with families.

The more numerous the family, the less is the per capita income. The situation of large families was not improved by the low "family supplements". The ratio of dependents to earners was also greater in large families than in the smaller ones, since their number is made up mostly by children. (See Table 19).

† taking earners plus dependents

Table 19
 Distribution of the Number and Income of Workers and
 Employees according to the Size of Families

	Number of single earners and families	Percentage distribu- tion of families	Percentage distribu- tion of the total wor- ker and em- ployee population	Monthly per capita earnings in forints	Number of de- pendents for 100 earners
Single	480	-	10,1	1193	-
Families with 2 members	445	34,5	18,8	900	45
" " 3 "	384	29,8	24,3	686	98
" " 4 "	258	20,0	31,8	574	159
" " 5 or more"	203	15,7	25,0	459	239
Total or average	1290 ^a	100,0	100,0	698 ^b	100

^awithout singles

^bwithout singles: 641.- Ft.

Source: *M. M.* , pp. 28-29.

The scatter of wages according to the quality of work was less after 1949 than before the war. As a report of the C. S. B. says: "...the differences between the wages of the highly qualified skilled worker and those of the unskilled workers are small... Before the liberation there were much greater differences".¹

How the incomes of different groups of workers and employees changed from year to year after 1949 would be difficult to trace. It would be even

¹*M. M.*, p. 127.

were difficult, if not impossible, to follow the movements of people from one occupational group to the other¹.

It was officially admitted that the changes of incomes of employees belonging to the intelligentsia were less favorable than those of the workers between 1949 and 1955.¹

To be able to form an approximately complete picture of the living standard of workers and employees, one must also take into account other things than wages and real incomes.

There are numerous complaints about the norm system in the interviews. Respondent No. 453 said that the "revision of norms was a way of reducing wages. Revisions took place yearly or biannually. Each norm was aimed at... a reduction of labor cost per unit of product. On paper, a norm could never be revised upward without the simultaneous introduction of such technological improvements which would make a correspondingly higher output per head possible without any greater physical exertion. In practice, no such technological improvements were introduced".

If a worker, for example, in the manufacturing industry, wanted to maintain the 1949 level of his real income in 1955, he had to fulfill his norm by about 150-160 per cent.²

The strict laws regulating labor should also be kept in mind as a factor affecting the welfare of workers and employees. The free choice between occupations was greatly delimited by the restrictions of the movement of labor.

The process of pulling women into the labor force, in such proportions as took place, had also disadvantageous effects on family life, education of children and the management of households of people living on wages and salaries.³

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¹ Pravda, p. 366.

² Pravda, 1958, No. 2, p.163.

³ See the article of Joseph Szabo: About employment and personal incomes between 1949 and 1956, Pravda, 1957, No. 1, p. 39.

The income of the peasantry has three main components: the value of their own products consumed or invested, money income from sales of products and income from wages. The value of the total consumption of a farmer might deviate from his net income. The former is smaller if part of his income is invested, and larger if he supplements his consumption by reducing his capital or inventories, that is, if he disinvests.

Data show that the dominating part of the real income of the peasantry was consumption of own products which was about 60% of their consumption out of income from agriculture. This proportion was somewhat smaller in 1955 when sales on the free market increased.¹

Table 20
Real Income and the Real Value of Consumption
of the Peasantry

	Real income	Real value of consumption
1949	100,0	100,0
1950	101,7	112,7
1951	117,8	118,8
1952	56,0	105,8
1953	107,4	100,6
1954	109,7	111,0
1955	120,5	127,6

(As the note to this table indicates, these data do not include the decline of quality of industrial consumer goods purchased by the peasantry, or the

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An. An. P- 401.

reduction of real income by hidden price increases. The above figures do not take into account the inventory changes of cooperative farms).

Source: AsA. p. 394.

According to a report of the G. S. B., in the distribution of the total personal income of the population the peasantry enjoyed a more favorable situation than workers and employees. While the income of the latter group declined with respect to their number in the middle of the period between 1949 and 1955, the income of the peasantry was, with respect to their number, always above the 1949 level.¹

In 1951 the peasantry had excellent crops. Their consumption increased only to a small degree, inventories increased substantially. In 1952, the net per capita value of production dropped by almost 50 per cent. At the same time, the measures of economic policy were highly unfavorable for the peasants. Forced deliveries increased, tax burdens doubled. Yet the real value of consumption dropped by a smaller extent than real income, because inventories were used up. The animal stock was reduced in this year at a rate greater than ~~that~~ ^{the rate of} its natural ~~birth~~ ^{increase}. Thus, by maintaining consumption above the 1949 level, the peasantry became much poorer.²

Real income started to increase again in 1953. This was mainly due to the increase of money incomes; prices became more favorable for the peasantry. In 1955 their production for the market increased by 25 per cent compared to the preceding year. Besides the compulsory deliveries at unchanged prices, a large volume of products was sold on the free market for relatively high prices. At the same time the prices of commodities purchased by the peasants went down. As a consequence of these developments,

¹ AsA. p. 359.

² IMC. p. 397.

the income of peasants grew by more than the volume of their production. The increase of income, on the other hand, was counteracted by the increase of the money-tax burden and also by the decline of the quality of consumer goods purchased by the peasantry, while the commodities produced by the peasants remained essentially unchanged in quality.¹

Table 21
Changes in the Per Capita Money Tax of
the Peasantry
(1949=100)

1949	100.0
1950	115.8
1951	194.4
1952	175.1
1953	110.2
1954	149.8
1955	175.4

Source: AsAs, p. 400

Respondent No. 604 who had worked in the Ministry of Internal Trade, said that in the category of the so-called "cultural goods" (furniture, watches, jewelry, photographic equipment, musical instruments, sports-articles, etc.) the turnover was much higher in the countryside than in industrial cities. She attributed this to the increased standard of living of the peasant population. What respondent did not take into consideration was that a farm is a business enterprise, and the income of the farmer is a

¹ For more detail see Ibid., pp. 394-398.

consumption of different things, not only of his work, but also of his means of production. As ^{it} has already been mentioned, the average per capita consumption of the peasants stayed above the 1949 level in the whole period in question, but this was largely due to the fact that whenever income fell behind, inventories were used up to supplement it. The per capita "business" expenditures of the farms sharply declined after 1949 and they were still ^{below} the 1949 level in 1955 (see Table 23). There was hardly any investment in the sector of individual farms in this period, even the replacement of worn-out equipment was often neglected.¹

Table 23

Per Capita Money Expenditures of Peasants
on Production

(1949 = 100)

1949	100.0
1950	83.2
1951	64.8
1952	55.2
1953	56.6
1954	73.0
1955	74.0

Source: *Ibid.*, p. 400.

Thus the alleged increase in the living standard of the peasant population was to a large extent due to the fact that they lived up part of their capital.

¹

Ibid., p. 413.

Respondents No. 242 and 463 indicated that the reason why peasants were reluctant to invest was the insecurity of land ownership, the fear of collectivization.

Respondent No. 461 said that the greatest complaint of all the landholders was against the system of compulsory state deliveries. Statements of many others also supported this view.

Information given by Respondent No. 474 suggests that the quotas of compulsory deliveries increased with the size of landholdings, but more than proportionately to the latter. This is confirmed by official data, according to which the same was also true for the tax-burden per cadaster yoke.¹

To be able to form a picture of the general welfare situation of the individual peasants, just as in the case of workers and employees, we have to take into consideration other factors besides real income. The most important has already been mentioned: the uncertainty of property ownership. This was aggravated by the discriminatory measures used against individual farmers. Whenever their interests clashed with those of the socialist sector, they had to yield. In allotting, for example, the services of the machine and tractor stations, the needs of the private farms were the last to be satisfied. Large scale consolidations of landholdings were carried out whenever the interests of the collective and state farms required it; and most of the land offered to private farmers in exchange were, as is admitted in a report of the C. S. D., of poorer quality and situated at a greater distance from the dwelling place of the farmers concerned.² The ruthless personal treatment of the kulaks should also be kept in mind.

¹For details see H. R. pp. 45-46.

²Ibid., p. 173.

During the period 1949-1955 the number of private farms changed considerably. Table 23 shows the trend of these changes.

Table 23
Changes in the Number of Private Farms
(1949=100)

1949	100
1950	96,7
1951	91,4
1952	84,4
1953	76,5
1954	68,3
1955	91,0

Source: *AA*, p. 293.

There was a fluctuation in the different size-groups of the farms too. Farms with larger lands decreased. This shift towards smaller holdings was partly fictitious (to evade the larger burden of compulsory deliveries and taxes), partly real, since a not negligible number of farmers tried to get rid of land, gave up tenancies, offered part of the land to the socialist sector, did not accept the land given as recompensation in consolidation procedures.¹ A report of the C. S. B. in 1953 states that in certain industrial regions agricultural population almost entirely left their land. Not only individual farmers but often members of cooperatives too.²

¹ *Ibid.*, pp. 302-303.

² *Ibid.*, p. 172.

Table 24

Distribution of the Farms and Productive Land

in 1949 and 1950

(Date for the middle of each year)

	1949			1950		
	Number of farms as percentage of all private farms	Productive land as percentage of privately owned land	Total land	Number of farms as percentage of all private farms	Productive land as percentage of privately owned land	Total land
<u>Private farms</u>						
0.25 - 1 and. yoke	13.2	1.4	1.1	15.4	2.3	1.2
1 - 5 " "	40.1	17.9	13.8	46.5	26.3	14.1
5 - 10 " "	27.6	29.4	22.7	25.2	35.2	19.0
10 - 15 " "	10.7	19.4	14.9	8.0	18.9	10.2
15 - 20 " "	3.8	9.5	7.3	2.6	8.7	4.7
20 - 25 " "	1.8	5.1	4.7	0.8	3.5	1.9
above 25 " "	2.8	15.9	12.3	0.5	3.1	1.7
Total	100.0	99.6	76.9	100.0	98.0	52.8
<i>household plots</i> Holdings under 0.25 yoke and households of employees and cooperative group members not included in above categories:		0.4	0.3		2.0	1.1
Total of private farms		100.0	77.2		100.0	53.9
<u>Socialist sector</u>						
State farms and enterprises			13.5			24.3
Communal holdings			8.7			8.2
Cooperative farms			0.6			10.5
<i>household plots</i> Households of collective farms						0.9
Cooperative groups						2.2
Total of socialist sector			22.8			46.1
Total productive land			100.0			100.0

Computed on the basis of data in St. M. 1956, pp. 116, 121.

The net per capita income from agriculture of the collective farms was smaller than that of the individual peasants. The collective farms used up more material for their production, had large expenses for the services of the machine and tractor stations, made substantially larger investments than individual peasants and finally, large amounts of money were wasted because of incompetence in management and wasteful operations.¹

Table 26

Per Capita Income of Members of Collective
Farms

In percentages of the per capita
income of individual peasants:

1951 :	55.1
1952 :	67.5
1953 :	79.4
1954 :	90.8
1955 :	93.3

(These figures do not include investments increasing the communal property. If included, the above figures would be higher).

Source: A. A., p. 413.

The real income of the members of collective farms fell after 1951, a year of good crops, by one half in 1952, and their real value of their consumption fell by 32%. The unfavorable weather conditions effected the peasantry of the collective farms more than individual peasants. ^{For} In 1954 and 1955 the per capita real income ~~showed a rising trend~~ ^{shows a rising trend}.²

¹
A. A., pp. 410-411.

²
Ibid., p. 405.

Table 26
 Real Income and Real Value of Consumption
 of the Peasantry of Collective Farms

	Real income*	Real value of consumption
1951	100	100
1952	55,4	77,6
1953	93,3	98,4
1954	107,6	138,5
1955	107,6	147,4

(*without that part of income which was ploughed back to increase communal property)

Source: As. As. p. 406.

The general opinion reflected in the interviews is against the system of collective farms. It is not the idea of agricultural cooperatives that most of the respondents object to. This, as the majority of them agree, should be subject to the voluntary decisions of peasants. But the very fact that collectivization was brought about with force and all sorts of pressures, brought out a lot of resentment against the prevailing system of collective farms.

"The co-operatives made up the worst system ever conceived by human mind", remarked a former peasant (respondent no. 461). He had never seen, he said explaining his view, any agreement among the members of the collective farms. They had joined with land-holdings of different sizes, but regardless of this, they had to do the same amount of work and received the same amount of income.

Respondent No. 443 said that the different kinds of work done on the collective farms and their recompensation were registered and calculated in a complex system of bookkeeping which, since it was never quite understood by the members, was a constant source of grievances. Life was much better, said Respondent No. 160, on state farms than on collective farms, since in the former people were paid like workers and there was less terror.

Official data confirm the statement of Respondent No. 443 that peasants of medium holdings were the most reluctant to join collective farms. 43.5% of the peasant families who left the collective farms in the last quarter of 1953 were peasants of small and medium holdings.¹ It is also clear from data given in the Statistical Yearbook for 1956 that the number of families in all the agricultural cooperatives (collective farms plus agricultural cooperatives type 1 and type 2) increased by the largest proportion in the bracket of landholdings above 7 yokes.²

¹ Ibid., p. 228.

² St. B. 1956, p. 143.

Table 27

Distribution of Families in the Collective Farms
and Agricultural Cooperatives

	Families belonging to collective farms, together with the type I and type II cooperatives			
	Total number	Agrar. proletarians or people from outside agriculture	Smallholders under 7 yokes	Middle holders above 7 yokes
	In thousands	In percentages of total		
Dec. 1, 1950	77	35,3	46,0	19,7
Dec. 31, 1951	206	23,5	46,4	31,1
Dec. 31, 1952	263	17,8	49,4	33,8
Dec. 31, 1953	198	23,5	46,2	30,3
Dec. 31, 1954	187	26,4	45,3	28,3
Dec. 31, 1955	245	29,7	43,1	27,2
Dec. 31, 1956	98	83,1		16,9

Source: A₁ A₂, pp. 236-237.

* * *

A report of the C. S. B. says the following: "The number of workers grew by more than 100% by 1955, drawing on the large reserves of the agrarian proletariat, peasants with dwarf-holdings, ^{and} domestic workers. The consumption of these newcomers of the working class as well as of those who rose to higher jobs surpasses the level of their consumption in the past to an extent high above the average. Contrasted to these people, a smaller, but very important part of the working class, workers who had been doing qualified work before the liberation, furthermore foremen,

people belonging to the technical intelligentsia, engineers and a great number of other employees are now in a less favorable situation compared to the past than that the ^{average} ~~percentage~~ real-income index shows¹.

Our remark to this statement is that no social phenomena can be correctly evaluated from one single aspect. Welfare is a many-sided thing of which consumption is an important factor, but not the only one. It is true that the large masses which had been underemployed before and were drawn into the industrial labor force after the war consume considerably more than in the past. But they also work more than in the past. When a person who was compelled to live an idle life during the greatest part of the year becomes a worker, and works forty-eight hours a week all the year round, his minimum requirements in food, clothing, etc. will also substantially increase. The fact that these increased minimum requirements are satisfied is not, in itself, an increase in his living standard. He may regard himself better off simply because he has regular work or he may prefer leisure. But in either case he does not consume more than is just about enough to live on.

Therefore a large extent of the alleged increase in consumption is probably such without which the industrial labor force could not have been increased at all. Then we have to add to the picture the effect of the new system, "socialist competitions", stachanovite movements etc. on the lives of the workers. Even those who had been workers before the war too, have to work more now than in the past.

That part of the interviews which, perhaps, most clearly indicates the opinions of respondents about changes in the level of consumption, ^{can be found in the} ~~is the~~ answers to questions 13, a, b, and 14, a, b, (in the preliminary interviews

1

Ac. Ac. p. 353.

questions 13, a, b, c, and 17, a, b, c) in section I:

13. Do people in Hungary nowadays eat better than before the war? (Pr.: 16a)

a. Then in 1948?
(Pr.: 16a)

b. Then in 1950?
(Pr.: 16a)

14. Do people in Hungary nowadays clothe themselves better than before the war? (Pr.: 17a)

a. Then in 1948?
(Pr.: 17a)

b. Then in 1950?
(Pr.: 17a)

The wording of the questions is not quite satisfactory. First, the word "newdays" can be easily misunderstood. From the time respondents left Hungary until the time the interviews took place there were not insignificant changes in the Hungarian economy. What did "newdays" mean? The period preceding the outbreak of the uprising, or the time when respondents were interviewed? It is most likely that the question was interpreted in the first sense.

The choice of 1948, as one of the years to be compared, was not the best because it was far from being a homogeneous year. The first half of it belonged to the period of the post-war galloping inflation, as ^{has} been indicated in this report.

Finally, to all these questions only the answer 'yes' is unambiguous. 'No' can mean two things: either 'same' or 'worse'. Some respondents apparently noticed this and specified their answers accordingly.

All these respondents were taken into account who answered at least three of the six questions and whose answers were clearly affirmative or negative. Thus, out of 116 A interviews, 43 could not be used for the purpose of a summary of answers. The remaining 73 respondents gave 366 answers altogether, the distribution of which is shown in Table 28.

Table 20

No. of question	Number of 'no' answers			Number of 'yes' answers		
	altogether	number of specified answers no, worse no, same	in percentage of total answers	altogether	in percentage of total answers	
15 (Pr: 16a)	57	23	87.6	8	13.4	
^a (Pr: b)	26	15	41.8	39	59.2	
^b (Pr: c)	31	9	50.0	31	50.0	
24 (Pr: 17a)	43	15	61.1	10	18.9	
^a (Pr: b)	25	10	41.0	36	59.0	
^b (Pr: c)	33	3	56.9	26	43.1	

According to the majority of opinions, people ate worse in 1953 than before the war, and better than in 1946.

In 1956 they clothed themselves worse than before the war, better than in 1946 but worse than in 1950.

5. Household budgets.

Section W of the questionnaire for the interviews contains sections referring to the incomes and expenditures of respondents. To some interviews separate budget sheets were attached, but very few are available now.

I looked through all the "A" interviews to try to reconstruct the missing household budgets. Time and again my efforts were frustrated by the apparent negligence with which the interviewers handled the budget questions. There were hardly any household budgets where important data were not missing, and in any, unspecified answers, obvious distortions etc. made their evaluation extremely difficult.

This part of the questionnaire is also far from being satisfactory. It is difficult to state exactly to which period of time the given data refer. In some cases 1966 is explicitly given as the year of reference. On other occasions, respondents had rather 1966 in mind while answering the budget questions. Although there was no significant difference in the circumstances between the second half of 1965 and the first half of 1966, in the second half of 1966 important changes were introduced effecting incomes and expenditures (e.g. the yearly issues of state-loans were stopped). Without a clearly defined period of reference the justification of comparing and averaging data like these is always dubious.

The problem of deductions has already been mentioned in the introductory remarks. In some interviews a detailed breakdown of these deductions can be found, including such items as trade union and party membership fees which were, on the basis of the pay-roll sheets, not deductions, just kind of regular payments made by people out of the incomes received by them.

Items of deductions can also be found in some interviews^S which according to the relevant regulations, could not have been paid by respondents. There are only very few indications of deliberate distortions of data. In most cases these errors were due to ignorance and negligence.

Respondents often gave just the total for all deductions. Considering the above mistakes which were more or less easy to detect where breakdowns were given, these lump sums have to be treated with reservation.

It would have been better from any point of view to ask for yearly figures for each item of the budget sheet, instead of asking for monthly figures in some cases, and for yearly ones in others. Respondents often seemed to have mixed up where to give what kind of figure.

The state loans paid by respondents are shown in monthly figures. Most probably these are not averages, just one tenth of the loan payments, since these had to be paid in ten consecutive months, while two summer months were free of this kind of deduction.

Because of the missing budget sheets, missing data, obvious errors or distortions, I ^{could not work them} ~~was~~ compiled ~~about~~ forty household budgets, which in turn had to be screened, so that I have ended up with about a score of them. This is such a small sample that it cannot be taken as representative at all.

For the sake of demonstration rather than for the purpose of deriving characteristic data for the whole group of respondents, I have computed the average household budget for this small sample.

The calculations were done on the basis of 22 interviews giving comparatively exact answers to the budget questions. These data cover 8 single^S households and 11 households with more than 1 person, altogether 56 people. The active earners in this group largely correspond to the

category of "workers and employees" in Hungarian publications. This category includes people earning wages and salaries: workers, technicians, engineers, administrative employees etc. It excludes members of cooperatives and independent earners. In our sample there are only two workers, the others are mostly clerks, technicians, engineers. Their average ^{in per capita} earnings per head (taking earners and dependents together) is 936 forints which is above the official figure of average per capita income of the "worker and employee population" (in 1955: 649.3 forints, in 1956: 698 forints).¹

I have grouped all the expenditures according to the same categories as had been done in the household budget study in Hungary in 1956. In Table 29 column 1 gives the data computed on the basis of our sample, column 2 gives the official figures of the above mentioned study for the average expenditures of all the worker and employee households observed.²

Table 29

Average Gross Income and Expenditures Per Head

	1.		2.	
	Sample data in forints	percen- tage of gross income	Official data in forints	percen- tage of gross income
1. Gross Income	936	100,0	627	100,0
2. Expenditures on food	421	45,0	316	50,5
3. Expenditures on rent, fuel, electricity, gas	143	15,3	47	7,5
4. Expenditures on clothing	84	9,0	101	16,1
5. Other expenditures	154	16,5	126	20,0
6. Deductions	93	10,0	37	5,9
7. Discrepancy between gross income and total expendit.	41	4,3	- ⁰	- ⁰

⁰ The difference between the average gross income per head and average total expenditures per head is one forint in the official study. This has been neglected here.

¹ Computed from St. II, 1956, p. 309

² Computed from O.C.S., pp. 6, 68.

Considering how inadequate our sample is, no serious conclusions can be drawn from comparing the data derived from it with the official figures.

The percentage of expenditures on food is lower in column 1, probably because in our sample there is a bias towards the higher income groups. On the other hand, expenditures on rent, fuel, etc. form a larger percentage of gross income according to our data. This might be because of the large proportion of single people in our sample. This might also be the reason for the larger percentage of deductions in column 1 (childless people paid an additional tax of 4% of total income). No explanation can be offered for the other differences in expenditures. The category of other expenditures is the sum of a number of smaller items, for many of these data were missing in the interviews.

Tables 30 and 31 show the results of the official household budget studies conducted in 1956.

Table 30

Distribution of the Average Per Capita Monthly
Net Expenditures in the Five Income Groups
of Workers and Employees

Income Group (gross income)	Food	Rent, Fuel, Electricity	Clothing	Other	Net expenses altogether*
under 400 Ft.	215	29	45	50	339
401 - 500	279	40	60	83	471
501 - 600	337	51	104	121	613
601 - 1000	390	62	134	181	766
above 1001	457	78	215	294	1044
Average	316	57	107	125	589

*excluding deductions from gross income, these amounted to about 5.9% of the average gross income in 1956.

Source: *H. R. M.*, p. 21.

Table 32.

Household Budgets according to the Per Capita
Income Groups in Percentages

	Food	Rent, fuel electricity	Clothing	Others	Net expendi- tures altogether
Under 400 Ft.	63.4	8.6	13.3	14.7	100.0
401-600 Ft.	59.2	8.5	14.7	17.6	100.0
601-800 "	55.0	8.3	17.0	19.7	100.0
801-1000 ^a	50.9	8.0	17.5	23.6	100.0
above 1001 ^a	43.8	7.5	20.6	28.1	100.0
Average	53.6	8.0	17.2	21.2	100.0

Source: H. M. R., p. 31.

The household budgets show that expenditures on food grow with income, but less than proportionately with it. This is also true for the category of rent, fuel and electricity, although the increase here is at a higher rate (expenditures on food increase by 116% from the first income group to the fifth, while the share of rent, fuel and electricity in the expenditures rise by 176%). Expenditures on clothing and other items increase more than proportionately with income.

Expenditures for clothing are five times greater in the highest income group than in the lowest. The level in this respect is low, especially in the first income group.¹

¹

H. M. R., p. 33.

Table 33
 The Clothing Situation of a Three Member Family in
 the 2nd Income Group* on the Basis of
 1956 Data

	Man		Wife		Child	
	Average price in Ft.	The number of years in which a piece or pair can be purchased	Average price in Ft.	The number of years in which a piece or pair can be purchased	Average price in Ft.	The number of years in which a piece or pair can be purchased
Suit or costume	800	2	540	4	120	3/3
Cotton or flannel dress	-		150	1/2	-	
Overcoat	1250	10	1000	10	5.0	3
Shoes or sandals	260	1	200	1	100	1
Underwear	80	1/2	30	1/2	40	1/3
Stocking	30	1/2	50	1/2	10	1/3
Hosiery	160	2	220	2	150	1
Yearly expenses on the above articles	1025.- Ft.		1105.- Ft.		750.- Ft.	
Haberdashery	135.- "		215.- "		50.- "	
Mending expenses	130.- "		190.- "		-	
Yearly expenses altogether	1350.- "		1510.- "		800.- "	

*between 601 - 800.- Ft., that is with an income close to the average.

Source: H. M. B., p. 33.

6. Nonconsumption Expenditures.

Without even attempting to give a complete survey and evaluation of the nonconsumption expenditures of the Hungarian "people's economy" in the following part of this study, we try to form a general idea how the sacrifices of the population were utilized for the purposes of the growth of the economy and the increase of the living standard in the future.

It is clear at the first review of the available data and the information given by respondents that any such view according to which there were no important successful investments promoting general welfare at all after 1949 would be highly exaggerated. The question is rather how large was that part of the nonconsumption expenditures which served the interests of the population and what amount of these expenditures served the interests of the ~~state~~^{regime} or were simply wasteful.

First of all, the military expenditures should be mentioned as such, which most clearly had nothing to do with the interests of the people. How much was actually spent for military purposes would be difficult to trace, since a large amount of these expenditures is hidden, as many respondents indicated, in other categories of the "uses" of national income. Apparently a lot of "civilian" investments were also excluded with those serving military purposes. The underground railway in Budapest and the geographical organization of machine and tractor stations were mentioned in the interviews as such projects which were partly military in character.

Respondents repeatedly pointed out also the large amount of wasteful expenditures which, according to them, was mainly due to the overall centralisation, increased administration, ceaseless organizations and re-organizations and incompetence in economic planning. Official statements and data confirm this information.

Mihály Jarkas in one of his speeches explained about the "unhealthy proportion" of non-productive employees in the industrial labor force. According to him, in the second quarter of 1953 the proportion of non-productive employees to one hundred physical workers was 33.8 in the second quarter of 1953 and 35.9 in the second quarter of 1954. Between 1949 and 1953 the number of employees grew at a higher rate than the number of workers.¹

A member of the Economic Institute wrote his dissertation on the disadvantageous effects of over-centralization. This work was accepted by the Qualifying Committee of the Hungarian Academy of Sciences.²

A report of the C. S. E. says: "While extremely great material sacrifices were demanded from the population millions or billions have been spent unnecessarily or without adequate purposes because of the mistakes in the field of the planning, preparation or execution of investments".³

In the investment program the weight was on industrial investments, especially in the branches of heavy industry. At the same time important fields like agriculture were, to a large extent, neglected.

While industrial investments rose by 99.5% from 1950 to 1952, investments in hospitals and outdoor clinics increased during the same time by only 9%.⁴

¹ Szabad Nép, Sept. 31, 1954.

² János Kornai, A Gazdasági Vezetés Tulcsott Képzettségének, Budapest, 1957.

³ *Ibid.*, p. 57.

⁴ *Ibid.*, p. 73.

Table 33
 Distribution of Industrial
 Investments
 (In percentages of the total)

	Heavy industry	Light industry and Food industry
1950	91,0	9
1951	93,0	7
1952	94,1	5,9
1953	93,1	6,9
1954	88,2	11,8
1950 - 1954	92,2	7,8
1955	88,0	12,0
1956	86,3	13,8

Source: St. E. 1956, p. 53.

The official publications give a very clear picture of the mistakes committed in the industrial investment program. There was, according to these sources, too large an emphasis on increasing those branches of production which needed much imported raw material. Since the increase in the production of export commodities was not adequately secured, the country ran into heavy foreign debts.¹

Too great a proportion of the investment fund was spent on new large establishments instead of developing existing plants which were not yet fully utilized.

¹ Ibid., pp. 45-47, 62.

Table 33 shows in what proportion new industrial enterprises contributed to the total industrial production during the First Five Year Plan period.

Table 34
The Share of 75 New Industrial Enterprises
Established According to the Five Year
Plan in Total Industrial Production

1950	2,0%
1951	2,8%
1952	3,6%
1953	4,4%
1954	4,0%

Source: *As. An.* p. 79.

As the table shows, the increase in industrial production during this period must have been mainly due to the utilization of the hidden reserves of industry. As a report of the C. S. B. says: "Not only the enlargement of the existing enterprises were neglected but also the replacement of their machinery and equipment. Depreciation funds were low compared to the actual requirements, but even part of these were used to cover the costs of new establishments. All this led to the deterioration of the existing fixed capital".¹

The technical level of production did not increase adequately during the years after 1949. Out of the total investments of 67.4 billion roubles

¹
Ibid., p. 103.

in the Five Year Plan period, only 2.6 billion forints were spent to increase the stock of machinery, which means that this sum was the amount of investments directly connected with the increase of productivity.¹

The Central Committee (of the Communist Party) stated in its "July decisions" in 1953 that the investments had exercised an excessive strain on the resources of the people's economy and the development of the economy did not entirely meet the requirements of the "fundamental economic law of socialism".²

According to the program of the "new course", the investment program was modified. 14% of the unfinished projects ^{had to be} stopped. Among these projects the Budapest underground railway had cost almost one billion forints until the middle of 1953.³

The new program caused a lot of confusion, and as was officially admitted, the regrouping of investments was not carried out to the extent prescribed.⁴

It is worth while to note how an outstanding economist of the regime evaluated the utilization of the sacrifices of the Hungarian people: "...our system of prices has hidden where and what were the results of our society's efforts. But even if it cannot be numerically shown, in many fields it can be seen that the sacrifices were disproportionately high compared to the achievements, that is, at the price of such sacrifices, the results could have been much greater".⁵ "As opposed to the capitalist

¹ *Ibid.*, p. 55-56.

² *Ibid.*, p. 43.

³ *Ibid.*, p. 99.

⁴ *Ibid.*, p. 51.

⁵ *Mrs. Aladár Kád, About the Fight against Inflation, E.SZ.* 1957, No. 6, p. 608.

system, which secures economy inside enterprises and cannot avoid waste on the scale of the whole society, we established such a variety of the socialist economy in which we could not avoid waste in enterprises, and because of the shortcomings of the methods of planned management, we could not utilize the possibilities of economizing on a social scale either.¹

¹ *Ibid.*, p. 615.

Conclusions.

This study has given a rough outline of the events, phenomena, trends of economic indicators, etc. on the basis of which some picture can be found of how the welfare of the population of Hungary was effected by the communist economic policy.

It is, of course, always most difficult to sum up in a brief form such a complex thing as the developments of the general welfare of a country's population. To answer a question such as whether or not the people in Hungary were better off in any of the years following 1949 than in 1938 is impossible in the framework of one sentence. ~~Even~~^{Probably} the comparison with the pre-war situation is not the best approach in evaluating the developments after 1949, simply because of the great social and economic inequalities which had existed before the war.

A number of respondents have pointed out that in the short phase of the relatively democratic conditions after the war, the events in the political and economic life of the country took such a turn, that had the country been left independent, they would have led to the formation of a healthier structure of society and a higher and more equal level of welfare of the people.

But such a potentiality, far from fully realized, cannot form a basis for comparison either. All that we can say, ~~as a result of this study,~~^{safely is} is that compared to the pre-war situation a large degree of leveling took place in the structure of the society. Ignoring the extreme cases, the substantial deterioration of the living standards of certain strata (capitalists, owners of large estates, kulaks, members of the aristocracy, etc.), and also the situation of the favorites of the communist regime (high officials of the government and the party, artists, writers, actors,

sports-champions, etc.), we can say that there were probably quite large segments of the population ^{whose} ~~whose~~ situation had somewhat improved, at least after 1953, compared to the past. But as the data indicate, ^{most of} those who had belonged to the same stratum of society before the war and did the same kind of work ^{as} after 1949, were, on the whole, worse off than in the past.

However, it has to be borne in mind that data can express only part of the complex thing we call welfare. We can measure how much a person consumes of certain commodities compared to the past. Data concerning his income and the prices of ^{the} goods he purchases will certainly be important indicators of how well off he is. But whether or not he is better off today than yesterday can be determined finally only by the person in question, the decisive factor being "how he feels about it". If we deny him the right of this final decision, we might as well throw away the basic principles of democracy in politics as well as in economics, and say that a state or a party, or any group which pretends to be the sole possessor of truth and has the power to make people accept this, can judge for him how well off he is.

Once we accept the right of the individual to decide for himself under what circumstances he regards his situation as better, we have to accept that the basic requirement of the social and economic system in which he lives should be such in which his tastes and preferences get free expression and become, along with those of other individuals, determining factors of the conditions under which he lives. Even the sacrifices he makes, or the power of the government to interfere with his freedom, should rest on decisions voted for in institutions where his opinions are duly represented.

This basic requirement is largely missing from communist-ruled Hungary. With its laws, regulations and methods of control the state makes its power felt in almost every aspect of the individuals' lives. The absolute faith in planning and control is a basic feature of the regime. It would be an interesting study to explore the psychology of this attitude. The communists abhor all kinds of spontaneity and free manifestations of the will of the individual. They seem to have a disposition to believe that all the problems of the society and the economy of a country can be solved by the decisions of a central bureau. (Some respondents indicated that there had been efforts to nationalize even village fairs and peddlers).

Wherever the regime left room for the free choice of individuals, in whatever small section of social life, the clashes between the interests of individuals and those of the state became apparent and formed sources of disturbances the effects of which could be felt throughout the whole system.

If the individual is the main arbiter of his own level of welfare, we cannot exclude economic factors from his judgment. Indeed, it is interesting that some respondents when asked to pick out their most important complaints against the communist regime from a list given in section G, question 3 a, said that the list was not complete because the grievances about the "living standard" were missing from it. Yet the most important measurable factors of the standard of living, such as housing, food, taxation, overwork, were included in the list.

According to the summary of the answers to this question, the following three complaints were chosen as the most important ones: fear of arrest and terror, disagreement with political ideas, presence of Soviet troops. None of these complaints refer to the material factors of the living standard in a strictly economic sense. Yet they refer to the basic requirements of welfare in a broad sense if we also consider the spiritual and not only the material needs of human beings. Or are we justified to speak about welfare without security, freedom and democracy at all?