

## PERSONAL HISTORY.

Prior to 1944, respondent was chief accountant at the Hungaro-German Mineral Oil Company. This Company was formed on the basis of 50% Hungarian State and 50% German participation to explore for oil in the territories returned to Hungary in the several Vienna awards after 1938. Its main field of activity were in the Muraköz (South West Hungary) and in County Bihar (Eastern Hungary). From mid 1944 until the collapse, respondent served as a Second Lieutenant in the Artillery and went West with the retreating Army. For some time, he was US prisoner of war in Germany. In 1946, he returned to Hungary. He did so, because he felt homesick, and because he did not know what was awaiting the country. His old firm was now a Russo-Hungarian joint enterprise, with Russians holding the main executive positions. He dared not go there. The fact that he went West in 1944 made him feel insecure. However, he found a position as accountant in a trading subsidiary of the Hitelbank (Hungarian General Credit Bank) - the largest Hungarian Commercial Bank, which was engaged in arranging for raw material imports on a Barter ("Compensation") basis. He worked there for six months. At that time, in accordance with the "Coalition Spirit" the main executive positions were allotted to representatives of the various Coalition Parties. Hitelbank was run mainly by Social Democrats. Respondent felt that he had no future there, and when the Nationalization of the Hitelbank became a foregone conclusion, he started to look for some other position. Upon the formation of NIK (Nehezipari Központ) a friend of his, who knew that he was training to be an efficiency expert since 1936, recommended him for a position

there. He was engaged in the department dealing with organization and method. When, in 1949, NIK was dissolved, its constituent enterprises were allocated to the various Ministries, and its central departments distributed among the portfolios, respondent, although working in a central department, could not get into the Ministry, because Ministry positions were reserved for those former NIK employees who were considered ~~reliable~~ reliable. Although respondent had joined the Social Democratic Party, after the merger of the Social Democrats with the Communists into the Hungarian Workers Party, he was purged. However, in October 1949, he was transferred to the Ganz Hajogyar (Ganz Shipyard, in Obuda, North Budapest) as head of their department of industrial economics (?) (Betriebswirtschaftliche Abteilung). His salary at the time was 2300 Forints. He had great scope for utilizing his knowledge and ideas. He was given every encouragement for studying organization and method, and ~~good~~, <sup>could</sup>, subject to Ministry approval, go and study parallel problems and the solutions applied to them in comparable plants. Ministry approval was always easily obtainable. He spent a year at the Ganz Shipyard, overhauling their clerical methods and advising on problems of production planning. At that time, the small Shipyard at Balaton Fured of the Balaton Shipping Company <sup>was</sup> separated from the Company's shipping business and given independent legal existence. He X was transferred there as chief accountant to organize the administration of the shipyard. The position of chief accountant is one of the three key positions (director, chief accountant, chief engineer) in the organization of the Communist firm. Thus his transfer was considered a promotion. He spent six months there to get it on its feet. When the firm's organization was running

smoothly, in April 1951 he was again transferred, this time to ATRA (motorcar and lorry parts manufacturers) as chief accountant. This firm had just been taken over by the Ministry of Steel and Engineering Industry (Kóho-és Gépipari Miniszterium) from the Ministry of Transport, and it had to be re-organized to conform to the methods of our own portfolio. After the switch by this firm from motorcar parts to armaments manufacture, I knew that my days there would be numbered. To stay there, would have entailed the taking of considerable risks. (This fear was borne out by the fate of several colleagues who stayed there and were arrested on suspicion of sabotage.) The AEK (ÁLLAMI ELLENŐRZÉSI KÖZPONT) (State Control Board) was setting up its departments in the various industrial Ministries, and luckily for me, I had professional friends in the AEK, who recommended me for a position in the AEK in their department in the Ministry of Steel and Engineering. I held this position until my departure from Hungary in January 1957. I had three main reasons for leaving Hungary. Firstly, during the revolution, at the fight for the Radio Building, I gave weapons training to a group of youths who got hold of arms, but did not know how to use them, and my presence there was presumably noticed by potential informers. Secondly, I was a member of the Ministry's Revolutionary Committee and in December I was tipped off that the authorities are going to get round to examining my record too. Thirdly, by early January I came to regard the political future of Hungary as utterly hopeless.

#### HEAVY INDUSTRY BOARD (NIK).

In the first major wave of industrial nationalizations, the State

secured for itself control of coal mining and heavy industry. NIK was organized as a holding company and central managing board for the country's major steel and heavy engineering enterprises. The largest of its constituent enterprises were the three integrated Steel Works at OZD, DIOSDYÖR and CSEPEL, the group of Ganz Factories (Ganz Wagon, Ganz Shipyard, and Ganz Electrical, all in Budapest) the Budapest MAVAG and the Wagon Works in GYÖR. The MAVAG Plant in GYÖR was incorporated into the Wagon Works in GYÖR.

On the eve of these nationalizations, anti-Communists in Hungary consoled themselves with the thought that the nationalization of heavy industry will only mean a formal change, and will not extend the field of State influence over industry any further. The reason for this view was, that in many of Hungary's heavy industrial enterprises, the relative majority of the shares, and hence effective voting control, was held by the major commercial Banks, and after their nationalization, by the State. In preparing public opinion for the nationalization, Communist propaganda made considerable use of this fact, stressing that after the nationalization/<sup>of banks</sup> the ~~Banky~~ no real change <sup>turn</sup> will be caused by the next ~~series~~ of nationalizations extending to heavy industry.

Upon the formation of NIK, the clerical methods and accounting systems of the individual constituent enterprises had to be unified to conform <sup>few</sup> to a central standard. Respondent, with a ~~view~~ of his colleagues, was responsible for the carrying out of this task. He spent one to two months at each member firm, studying their efficiency and their methods. E A reform of accounting and administrative methods pre-

supposed familiarity with the technical production processes of the plant in question. Both from the administrative and the technical point of view, the Wagon Works in GYÖR were the most modern and advanced among the ten or so largest NIK firms, and its methods were often used as the standard set for the others. In most of the other plants, but particularly in OZD and DIOSGYÖR, methods were antiquated partly because of the fact that the machinery on which the production processes had to be based, was completely overage. Both in OZD and in DIOSGYÖR, the most capital intensive items of equipment dated back to pre 1914. Ever since that time, the Hungarian economic conjuncture was either too precarious, or too much dominated by wartime scarcities, to permit of renewals.

#### THE STRUCTURAL ORGANIZATION OF INDUSTRY.

After the nationalization of all Hungarian industry, the following broad picture of structural organization in industry emerged: The laying down of overall direction and specific tasks (e.g. production targets) was the responsibility of the Planning Board, whilst actual execution, control and day-to-day management rested with a number of industrial Ministries. Each Ministry "owned" a section of Hungarian industry (e.g. mining, Steel and Engineering, Chemicals, Light Industry). Ministry, in turn, divided up each section of industry into a number of branches according to technological considerations. Each industry branch had a separate directorate; (e.g. within the Ministry of Steel and Engineering Industry's, the Directorate of the Vehicle Building Industry). (Cf. the appended list of firms controlled by the Vehicle Building Directorate).

In the

case of a large number of small firms, or in the case of wide territorial dispersion, a number of firms were unified into a Trust, and a number of Trusts constituted a Directorate. The basic unit was the firm (VALLALAT enterprise). The firm was controlled by the trinity of Director, Chief Engineer, and Chief Accountant. The Chief Engineer was responsible for output and the technology adopted, the Chief Accountant for finance, administration, and planning. The shop triangle (Director, Party, Union,) was not as such supposed to have executive responsibilities. In practice, however, its activity proved to be overlapping that of the trinity of Director, Chief Account<sup>ant</sup> and Chief Engineer. At ~~the~~ different times, the stress laid on the principle of one-man executive responsibility (Director) differed too.

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The ~~xxx~~ structure of organization was in a continuous state of flux. Re  
EAA/organizations were going all the time. This was true not only on Ministry, Directorate and Trust level, but also on the level of the individual firm.

closed and the resulting losses of production and cost increases, were simply staggering. At times, I almost thought that this endless process of re-organization<sub>s</sub> is being <sup>deliberately</sup> ~~intentionally~~ managed by a group of saboteurs high up in the Party economic <sup>administration</sup> ~~administration~~. The damage could not have been greater, had it been done deliberately.

Re-organizations of firms were supposed to serve technical ends. The purpose appears to have been to get greater specialization and division of labour. On the Trust, Directorate, and Ministry level, however, the purpose of the re-organizations was much more ambiguous. It was in the nature of political Empire-Building. ~~XXXXX~~ Many Directors of firms wanted to be Directors of Trust, and Trust Directors

wanted to be leaders of a whole Directorate. If a strong Cadre emerged in a firm, a Trust was formed for him, or a whole new Directorate may have been set up to provide him with an Empire. For instance, one single Directorate I knew has, during the years, given birth to six new Directorates. On the other hand, the politically strong Cadres were more liable to fall, or to be transferred to a purely political job, than the technical men. Therefore, re-organizations carried out to suit strong Cadres, had very often to be reversed. After their departure, the new Unit, over which they presided, was merged back into its parent body. <sup>This</sup> ~~It~~ was a truly bewildering system.

Moreover, because industrial Directorates and Directorships of large Enterprises represented important positions of power, to which only political and valuable people could be appointed, the upper leadership of Hungarian industry was gradually transformed into a body of men who had little time for management, and whose main energies were taken up by political meetings, party conferences, and intrigues. Such managers had to have a second string of "slaves" or "negroes" to do their work for them. These slaves may well have been at least as competent as their Chiefs, but in the nature of things, they could not, of course, ~~in~~ take decisions on their own without reference to their superiors. Needless to say, this militated against efficiency.

#### A SMALL PROVINCIAL FACTORY

The Balatonfured Shipyard was a medium-sized Enterprise, with about 400 employees, manufacturing BALATON Boats and ~~some~~ DANUBE barges, as well as DANUBE mine-layers and mine-sweepers, made of <sup>aluminum</sup> ~~aluminum~~, for the Hungarian Army. Compared to Budapest, this was a fascinating place in many respects, in that the influence of the Party on day-to-day

life in the Plant was next to negligible. The reason for this was that many, if not most of the employees, had something to fall back on in the case of loss of their job. They either had some land or a vineyard of their own, or belonged to families which had land. No pressure could be exerted on them because their livelihood did not depend on a State job. They were all local people, with strong roots in the neighbouring villages where they could withdraw and ~~leave~~ <sup>live</sup> if life in the Shipyard became unpleasant.

Noticing this, the State built <sup>a</sup> Workers' Hostel near the Plant in Balatonfüred, in the hope of attracting a pool of labour from other parts of the country, completely ~~dependent~~ <sup>dependent</sup> on the Shipyard job, but this attempt was largely unsuccessful

There was a young Party secretary at the Shipyard, who had to content himself with doing petty chores for the Cantina as otherwise he would have been condemned to complete idleness. Nobody ~~with~~ <sup>ever</sup>, to my knowledge, attended Party Meetings in the Plant. Several of the workers were Party members, but this was done on the understanding that they will not be bothered with having to do Party work. When a call came from higher up, instructing them to go to the villages and "agitate" amongst the peasants in favour of collective agriculture, they simply refused to go, signifying that they were peasants themselves and considered this task a dirty one. The Party secretary was impatient, he could not threaten them with dismissal, because dismissal would not have been considered a threat. The Director of the Shipyard was a Communist too, but he realized the position and did not attempt to coerce the workers for fear of losing his labour force. I understand that this was the position in very many of Hungary's



medium-sized provincial enterprises, where the labour force was recruited from the locality and was not fully dependent on factory jobs either for its daily bread or for its housing. Such workers did their job, but could not be forced into any political activity and their Party membership was a formality only.

The opposite holds true, however, of some new very large scale plants in the country (e.g. Sztalinvaros) where workers were recruited from afar, depended on the State firm for their housing and could not easily find alternative occupation in the locality.

#### WORKERS' MORALE .

It may well be that after the assumption of power by the Communists, an important section of Hungary's industrial workers sympathised with the new regime because they were flattered by the assertion that it represents power exercised for and by the working class. It is difficult to fix the time, if any, beyond which this flattery no longer had any effect, and at which the working class became definitely anti-Communist. It is clear, however, that if there was a change of heart, it must have taken place some time prior to the July programme (July 1953, Imre Nagy's first Government). The tremendous ~~reactions~~ <sup>relief</sup> shown upon the relaxation and revision of Communist doctrine could not otherwise be explained. I remember very well that at the time of the announcement of the July Programme, I was at a Concert given by the Hungarian Army orchestra in the Margit Island. After the Concert, drifting homewards in the Park, I set down on a bench near the back of the open-air stage. An Army loudspeaker van was standing there, and it was relaying some speech. On listening, I thought the poor soldier

manning the van has gone mad and turned his radio on some Western Station and was relaying forbidden propoganda over this loudspeaker. It turned out that he was relaying Imre Nagy's speech. A large crowd assembled, mostly working people and their wives, there was universal jubilation and tears on most faces.

#### MINISTRY OF MEDIUM MACHINE BUILDING.

Some time in 1951, enterprises directly engaged in the production of war material were concentrated under the newly formed Ministry of Medium Machine Building. When Atra switched to the production of tank and aircraft parts, which represented 80% of its total output, it was duly transferred to that Ministry. From then onwards, a frightful fuss about secrecy was introduced, and every trivial detail was considered highly confidential. The mail was delivered, not by ordinary post, but by AVO motor-cyclists. Wastepaper baskets in the offices were searched at the end of each day and their contents burned. A number of new faces appeared both in the office and in the shop, who were quite obviously AVO men. Many employees felt that from now on, this as a very unhealthy and dangerous place to work in. Transfer of a firm to the Ministry of Medium Machine Building certainly did not improve workers' moral.

#### PLAN TARGETS AND THEIR ENFORCEMENT.

Communist economic organs received plan targets from the next highest authority (firm from directorate, directorate from Ministry, Ministry from Planning Board), fulfilment of which was obligatory.

A financial sanction (bonus) was attached to some targets, but not to all ~~xxx xix~~ . The non-fulfilment of such targets which were not connected to some bonus or other, may or may not have resulted in an administrative sanction (dismissal of the responsible official, or criminal proceedings.) The fulfilment of some targets, (e.g. overall production) may have conflicted with the fulfilments of others (planned-cost-of-production-reduction, planned saving of raw materials compared to previous plan-period). In practice, the management of the firm tended to give priority to the fulfilment or over-fulfilment of that index which had the greatest influence on the amount of the ~~buixixix~~ bonus. In heavy industry, the volume of physical production was the main plan-index. The bonus system in force was such as to lay great stress, and to provide a strong financial incentive, for the over-fulfilment of this index. The result of this bias was that the chief engineer tended to push physical output almost regardless of cost in terms of overtime, raw material usage and excessive wear and tear of machinery. Production on such a basis was astonishingly wasteful. A rather better basis for the rewarding of good performance by a bonus was the index of "correspondence to plan" which prescribed kind, specification, quantity and cost of product. This index was, however, later abandoned as a basis for the bonus. Its maintenance would have helped to ensure, among other things, that the customer should get the product he actually ordered at the time he was promised to get it.

An index of secondary importance, entering into the bonus of the

technical personnel only, was the "technical development plan". This index measured the firm's performance in the field of technological innovation compared to the innovation planned in advance. The setting of the firm's main target in terms of a quantity index, had serious adverse consequences. For instance, the plan of the Diosgyör Works prescribed the production of so many tons of plates in the planned period. The requisite number of tons of steel plates, or if at all possible, an additional quantity to ensure over-fulfilment, were duly produced and the executive, administrative, and technical personnel received their bonuses. However, apart from the question of the cost of the plates so produced, the chances were that ~~it~~ few, if any, customers of Diosgyör got the sort of plates they ordered in that period. To re-set the rolling mill from time to time to produce different thickness and breadth of plate according to customer's requirements may have endangered the fulfilment of the global production target; it would have been a waste of time. As a result, the enterprise using Diosgyör plates had to take delivery of what plates Diosgyör was offering, and had to re-work the plates, which were usually too thick (as greater thickness gave greater tonnage) to suit its specific requirements.

Because of the overstretching of industrial targets, enterprises using intermediate products, had to lodge their orders a year or so in advance without knowing exactly what final products they will be called upon to produce in a year's time, i.e. without knowing what specifications of intermediate products they will need. The reason for the lack of foresight as regards the nature

of final product was that Hungarian industry had to accept the oddest export orders, and rush them through at short notice, even if this involved uneconomic short runs and the need to use unsuitable semi-finished products which had to be re-worked before being processed into the finished product. Over-fulfilment by such means as the disregard of customers' specifications, of a quantity index by one firm, thus very often led to the impossibility of fulfilment of the plan by other firms. The latter had practically no sanction against the former apart from resort to political channels. / <sup>The difficulty of</sup> fulfilling some of the planned targets was further aggravated in engineering by the mandatory nature of Soviet tools and methods. These methods in some cases were quite backward compared to our own prewar methods, and their adoption militated against greater efficiency. On the other hand, criticism of these methods was regarded as deliberate anti-Soviet propaganda. As such it was not countenanced. The political and ideological passions introduced into matters of straightforward engineering are well illustrated by the fact that after taking delivery of a quantity of secondhand machine tools imported from Great Britain, the authorities caused the makers' name to be filed off all visible surfaces of the machines. It was bad enough that Socialist industry had to resort to machine tools made in the capitalist West, at least they wanted to remove all obvious evidence of it. On the other hand, Soviet machine tools had to be praised to high heaven. Most of our workers, however, considered Soviet-made machine tools as way below their accustomed standards.

In connection with planned targets, fulfilment and over-fulfilment of individual workers' targets deserves mentioning. The reasons for the launching of the Stachanowite Campaign are well known. Almost any worker with average intelligence whom the Party wished to reward, could be transformed into a Stachanowite by the usual technique of allotting to him three or six handymen whose sole task was to serve his machine. By this practice, the Party created resentment among the broad masses of the workers against just those individuals whom it wished to reward and who, therefore, were regarded by their workmates as the most pro-Communist. In this sense, therefore, the Stachanowite Movement had most unfavourable political consequences for the regime, and if anything, it contributed to the disaffection of the workers.

#### "PLAN FRAUD" AND THE RELIABILITY OF HUNGARIAN STATISTICAL DATA.

Inasmuch as a firm failed to fulfill its allotted planned target, its management forfeited the corresponding bonus. The bonus was anything between <sup>a</sup> ~~the~~ tenth and a half of their annual income, depending on the degree of planned over-fulfilment. Below 100% fulfilment, no bonus was payable, so that it mattered a great deal to the management whether fulfilment was 99% (involving total loss of the bonus) or 100% (carrying a bonus). Over-fulfilment attracted an <sup>progressively</sup> ~~excessively~~ increasing bonus.

The importance for the management, technical and administrative personnel to reach not less than 100% of the set index, is thus quite obvious. If circumstances did not permit the attainment of 100% in reality, a "Plan Fraud" was resorted to. Each firm's

**plan**

"Plan Man" became an expert in "cooking" the ~~planned~~ fulfilment figures, and often the chief accountant as well as the director relied on him to get the right results on paper. We in the auditing department of the Ministry used to say that every single director in Hungarian industry as well as many subordinates could be convicted of plan fraud if we took the trouble of examining his figures. Actually, the possibility of plan fraud was created by the principle of measuring output only in terms of the final product, and not counting in the value added to work in progress during the plan period. Thus it became feasible to ~~exaggerate~~ overstate the output of the final product by counting in some of the work in progress, i.e. by declaring the latter finished. This amounted to an overstating of the inventory at the expense of work in progress.

Initially, only that part of the final product could be counted towards a final output which was already taken delivery of by the buyer. However, particularly in the case of Russian reparations deliveries, it often used to be the case that the buyer was procrastinating in taking delivery of the goods, and it was felt that it would be unfair to penalise an enterprise which fulfilled its orders for the tardiness or negligence of its customers. Rather than obliging it to show a fictitious non-fulfilment of the plan when in fact it was fulfilled, the practice was introduced of counting into final output all finished products which were transferred to the ~~firm's inventory~~ **firm's inventory**. The transfer had to be approved by the MEO (quality control department) of the firm in question, but since the quality control department people were employees of the firm in question, there was always full cooperation between them and the management and fictitious transfers of unfinished products

became the practice.

In the ordinary course of events, the upshot of successive plan frauds was simply <sup>a</sup>smoothing out of the results of the firm in question, a reduction of the dispersion of its actual results around the 100% mark. In one period when the target was in reality under-fulfilled, 100% fulfilment was shown by declaring some unfinished products as finished. In the next period, however, the completion of these products could not again be counted towards plan fulfilment, and therefore in reality the plan had to be over-fulfilled merely in order to be able to show <sup>bare</sup> ~~their~~ fulfilment. Plan fraud in this form was a once-for-all matter. However, in certain firms plan fraud went well beyond this. There the practice was to overstate the inventory at the expense of work in progress, in three of the four quarters of the year. Since, however, the overstatement had to appear somewhere or other, and since the <sup>neither</sup> management was ~~xxxx~~ capable nor willing to over-fulfil the production plan in the fourth quarter of the year to an extent sufficient to make up for the previous three quarters' overstatement, in the fourth quarter the enterprise simply reported <sup>a</sup> ~~xxx~~ large inventory loss due to theft.

It would be a mistake to believe that plan fraud only consisted in overstating the fulfilment figures. Often, particularly in well-managed enterprises, the efforts of the chief accountant and the plan man were often directed towards understating the fulfilment figure. This was done by a <sup>reversal</sup> ~~xxxxxx~~ of the practice <sup>described</sup> ~~xxxx~~ above; work in progress or even raw materials were over-



stated at the expense of the finished product, so that the enterprise created a hidden reserve for itself which it could use on a rainy day. A more obvious reason for understatement of the fulfilment figure was the awareness on the part of directors that whilst 100 to 105% fulfilment will not entail a drastic upward revision of their plan - targets in the next period, a fulfilment figure substantially above that will do so. Thus 120% fulfilment would involve a large once-for-all bonus, an upward revision of the plan and considerable difficulty in earning even the basic bonus in the next and subsequent plan periods. Cautious directors, therefore, very seldom allowed too high over-fulfilment figures to appear on their books.

On the Directorate and Ministry level, the personnel was just as concerned with the performance of a whole branch of industry and as the management of the individual firm was concerned with its own firm's performance. The reason for the concern was financial and political, the latter involving Party careers, job security, and immunity from vexation. The directorate and Ministry safeguarded their own position and built-up hidden reserves themselves by allotting to the individual firms under their control a higher sum ~~sum~~ total of plan targets than the global target which they were given by the Planning Board. This meant that if all firms under a Ministry's control had achieved 100% fulfilment of the targets they were given by the Ministry, then the Ministry as a whole would have had a 110 to 120% fulfilment of the target given it by the planning board.

If this policy of building up hidden reserves failed to achieve the desired 100% fulfilment for the Ministry as a whole, then outright  
ATNKE plan falsification was resorted to. In many cases, this was ordered by the Minister or one of the Deputy Ministers themselves, because their careers and position in the Party depended largely on the results achieved within their industrial empires. outright  
MNEAK falsification of global production figures was done on the presumption that nobody will ever find out about it, that nobody will ever be able to balance production figures in one branch with delivery figures to another branch of industry. But even detection did not involve important risks, because if the AEK (State Control Board) or later the AFM (Ministry of State Control) people did stumble across falsified figures, the Ministry official could always plead overwork, pressure of unreasonable time limits in the presentation of accounts, and it was usually quite clear to the AEK auditors that the official concerned did not falsify the figures on his initiative, but received higher orders to do so. For AEK auditors to risk a counter-attack by a Minister or Deputy Minister was not worth the satisfaction of detecting and exposing a plan fraud.

The policy of building up hidden reserves on the one hand, and the desire to ensure the earning of the bonus by a low target on the other, led to periodic bursts of bargaining on all levels, the Ministry bargaining with the Planning Board, the directorate bargaining with the Ministry, and the firm bargaining with the Directorate, each wishing to secure agreement on a substantially

lower plan figure than the one its immediate superior organ was producing to allot to it. This was both undignified and led to immorality and deceit all round, as did other aspects of the system of planned economy in Hungary.

#### CONTROL, AUDITING.

Auditing on behalf of the AER or, later AEM (Ministry of State Control) did not involve a comprehensive checking and review of the firm's accounts. Instead "targets", selected topics were set for the investigating auditors. The most frequent topics were the reasons for excessive use of overtime, the reasons for the cost of a particular product exceeding its price, the reasons for an enterprise exceeding its permitted wages fund.

My chief, the head of the audit department in the Ministry of the Steel and Engineering Industry was a former carpenter, quite a decent man, who was self-taught and had attended a course at a Red Academy (a course in finance). He has definitely given up to trying/understand even basic accountancy, and had willy-nilly to rely on us old auditors. I could be ~~sh~~ and was quite frank with him even about political matters and he never betrayed me. After 20th Congress, he even encouraged me to voice all the constructive criticism I can think of.

In order to elucidate the nature of the offence of exceeding the wages fund, it is necessary to state that the total wages fund of a firm is made up of two parts. Firstly, the wages of the productive workers, a fixed sum at 100% plan fulfilment and

variable expost in a linear proportion to the plan fulfilment, e.g. if the wages fund of the productive workers is set at 100.000 ft. at 100% fulfilment, the firm is entitled to pay up 105.000 if its fulfilment is 105%. The second part of the wages fund is the sum total of the overhead wages. These are a global sum which is not variable with the degree of plan fulfilment. But a variable element is hidden in it because in fixing it, a notional bonus based on the dpropable degree of plan fulfilment is included. If this plan fulfilment turns out to be higher, the bonus must be higher and therefore this part of the wages fund will necessarily be exceeded. Such excess is always sanctioned expost. On the other hand, the wages fund could also be exceeded either because of productivity per head being lower than expected, or because excessive overtime was resorted to. Both phenomena were usually due to the irregular supply of raw materials or semi-finished products. Productive workers may well have been waiting in almost total idleness for much of the month for supplies to arrive, and may have been racing with time in the remainder of the month to fulfil the plan and rescue the monthly bonus. This was the famous phenomenon of the "end-of-the-month- spurt".

Once a firm making basic intermediate products fell behind in its production and had to resort to the end-of-the-month spurt, all firms which depended on it for materials were necessarily obliged to engage in an end-of-the-month spurt themselves because they received their supplies late. This set up a cumulative process so that the end-of-the-month spurt became even more

general than it would have had to be otherwise.

These wages had to be paid. <sup>A</sup> ~~the~~ <sup>bill</sup> wages ~~xxxx~~ in excess of the permitted wages fund was always passed by us, but the management of the enterprise forfeited its bonus unless it showed varied reasons for the excess. In principle, the director of the enterprise was financially responsible for any excess of the wages fund up to 15% of his own salary. This sanction, however, was never resorted to in practice. The usual practice was that the firm in question had to repay within a set period (e.g. 6 months) the sum by which it exceeded its wages fund in any given month.

#### PRICE-COST RELATIONS.

The basis of the Hungarian price structure was provided by the pre 1945 price structure of those goods which were produced both before and after the war. Their post-war prices after the stabilization of the Hungarian currency in <sup>1946</sup> ~~1947~~ were fixed by applying a common multiple to the prewar prices. As the next step, the prices of products not produced before the war, were set by calculating the cost of production on the basis of the prices of ~~old~~ <sup>old</sup> ~~goods~~ products plus the price of labour (which in turn was fixed with a view to a planned standard of living, on the basis of the estimated national income available for consumption) so that the cost of production, calculated on this basis, plus 2%, became the price of the new product.

This did not, of course, imply that all products were sold at a price at least covering the cost of production, because the

relative efficiency of production of one product compared to prewar may have fallen more than that of some other product. This was, for instance, the case with castings which were always produced at a loss, the relative efficiency of the foundries having fallen more compared to prewar than that of other fields of industry. The reason for this was the very high proportion of rejects. On a rough and ready calculation, the total cost of production of rejects in the enterprises under the Ministry of Steel and Engineering amounted ~~xxxxxxx~~ to the price of 500 large railway locomotives per annum (about 500 millions forints).

Consumers' prices were fixed on the basis of <sup>cost of</sup> ~~xxxxxx~~ production plus 2% (equals producer's price) plus turnover tax where applicable.

The principle of single product - single price was supposed to ~~be~~ prevail all round. If several firms made the same product, this opened up the possibility of production at a loss if one firm was less efficient, than the other. If the firm in question was a multi-product firm, it could compensate the loss on one product by the profit on some other. If it was a single-product firm, it could either persuade the price fixing authorities to regard its product as in some sense different from that of the other firm and, therefore, subject to a different, higher price. Alternatively, it could show a loss on producing it. If this happened, everybody from Party Headquarters downwards started to make life miserable for everybody else. There were the following remedies: either the plan of the firm in question had to show a profit even if the

fulfilment showed a loss. This was regarded as a minor offense compared to the crime of planning to produce at a loss. The idea of ~~the~~<sup>a</sup> planned loss in a Socialist enterprise was considered ideologically inadmissible. Secondly, in the actual fulfilment, three of the four quarterly balance sheets would be "cooked" cooked back into the black, concentrating the year's loss in the final quarter and explaining it away by some unusual circumstance. The method of "cooking" the profit and loss account was much the same as that used in "cooking" the output plan fulfilment figure. Losses, however, were infrequent because the better firms always had considerable hidden reserves.

The employees of a directorate received their premium according to the global performance of the directorate's constituent firms. If the general performance was so poor as to endanger their premium, the head of the directorate would call on one or other of the best firms to disgorge some of their hidden reserves.

Producers profit margins in excess of the 2% on cost of production around in the fixing of the producer's price were possible if the enterprise making the product in question could persuade the price fixing authority that its cost of production is higher than it in effect was. Alternatively, the firm could reduce its actual cost of production by introducing improvements in production methods, and could earn a larger profit than that corresponding to the 2% margin. ~~xxxxxxx~~ In such a case, until quite recently, the profits so earned had to be transferred to consolidated State revenue and the firm benefited only to the

extent of the bonus received for fulfilling or over-fulfilling the set target for "planned cost of production reduction". More recently, however, the firm could retain a proportion of the profit resulting from cost of production reductions, and such retained profits could either swell the bonus of the employees or could be used to provide fringe benefits (sportsground, lavatory, canteen) as well as to finance minor investments within the firm.



Ministry of Steel and Engineering Industry  
 Vehicle Building Directorate

<u>Constituent Firms</u>	<u>Approx. No. of Employees</u>
MAVAG Budapest	11,000
Ganz Vagon, "	8,000
Györi Vagon, Győr	9,000
Dunakeszi Vagon Dunakeszi	2,000
Kismotor es Gepayar (former Csönka), Budapest	1,200
Pogaskarekgyar (Budapest, Fehervári str.)	1,200
Jarmufelszerelési (Rákospalota)	500
Ujpesti Foundry	300
Nyersolajszirattyugar (Obuda, Nagyszombat str.)	400
	<hr/>
	ca. 33,600