

PERSONAL HISTORY.

Before the war respondent, a law graduate, belonged to that set of Hungarian gentry which has lost its connections to the land and found niches in the Civil Service. He started off as secretary to the Chairman of the Public Works Board, and in 1938 was transferred to the Ministry of Commerce, where he attained the position of Councillor. He acted as referent on foreign industrial participations. (The Ministry of Commerce supervised the import of foreign capital for investment in Hungarian Industry.) The most topical participations at the time were in chemicals, plastics, bituminous coal, in timber and in such manufacturing enterprises as the Danube Aircraft Factory (on Csepel Island). The capital intending to enter Hungary at the time was almost exclusively German. In checking the applications for participation by foreign interests, he was led by a nationalistic bias, he was impressed by the fact that Germany is building up the positions of strength in Hungarian industry and disapproved of the German effort to gain a foothold in the Hungarian economy and thereby to make it serve the German war efforts. His activity in the Ministry of Commerce caused much trouble with the German Embassy in Budapest. For instance, he was accused of unfriendliness and discrimination by the Commercial Section of the German Embassy over his handling of an application by the Hamburg Port Authority to establish an agency in Budapest for the purpose of re-routing Hungarian shipments through German Ports. Eventually, he drafted a memorandum for the then Minister of

Commerce, Istvan Varga on the subject of German economic penetration. Varga put it before a Cabinet Meeting. A confidential Inter-Ministerial Committee was thereupon established to judge on applications for the establishment of German subsidiaries and participations, and to reconcile those with the interests of Hungarian non-belligerency. Some of the most distinguished Hungarian Civil servants such as Alfred Nickl, Istvan Schlick, Adam Koos, ^{Bakách} ~~Bakák~~-Bessenyei, Ivan Duda and Karoly Kadas served on the Committee, of which respondent was the referent. In 1942, when German pressure and influence grew stronger, he was kicked upstairs to the Minister Presidency, and entrusted with organizing social efforts to care for war veterans and cripples. One of his tasks, for instance, was to find great landowners who would sub-divide some of their land on long leases to war cripples.

In October '44, he was called up for service in the Mounted Artillery. He was taken prisoner and kept at an officers' camp in Novgorod, where there were 800 Hungarian officers and 3000 German officers and ranks. The prisoners were being farmed out to work at various Soviet enterprises in the locality, and their wages were used to maintain the Camp. The officers struck against this treatment, but the German section soon gave in. The Camp authorities put pressure on those holding out, e.g. they stopped providing heating for the huts. Eventually, as a result of their written complaint, a high NKVD Commission arrived at the Camp and investigated the matter. It acknowledged the validity of the

complaint, and the striking officers were then transferred to a Camp where they were not obliged to work. At that Camp, the ranks were worked pretty hard during the day and they would often be called out at night to do various rush jobs. Respondent stood up for the ranks, and with his fellow officers volunteered to take over these night jobs so that the men should have uninterrupted rest at night. As it later transpired, this made an extremely favourable impression on the Russian Camp authorities who inserted ~~laudatory~~ ^{laudatory} remarks on his cadre dossier and forwarded it to the Communist Party in Hungary.

In June '48 he returned to Hungary and found that he had been screened in his absence. He was re-appointed to the Ministry of Commerce, and was given a desk in the Department for Foreign Trade Planning and Control. He was the representative of the Commerce Portfolio on the Inter-Departmental Sub-Committee on Foreign Trade. (Actually, this was the Import Licencing Authority). The most powerful men in directing foreign trade were ^{Laszlo} Eay, Arpad Haasz, who were pressing, despite all sensible objections, for realization of the Three Year Plan in foreign trade.

In June 1949, respondent was pensioned off, and in September, his pension was also stopped. By that time, he found a job as process worker in a small chemical factory, and tried, with a friend, to start up a small business supplying certain chemicals for the textile and leather industry. But the progress of the nationalization drive gave them a warning that such a business could only be a short-lived one. Some of his friends, those who were dismissed from the Civil Service, found jobs in the nationalized

sector and helped him to a position in a large State wholesale textile trade enterprise. Before his dismissal from the Civil Service, he was regarded as a Cadre "Capable of Development" particularly on the strength of his cadre dossier forwarded by the Soviet Prisoner of War Camp authorities, recording the voluntary work he undertook in order to relieve the ranks who were tired from regular manual work. He was pressed to commit himself by joining the Party. He explained that on a Marxist basis he must be regarded as an "objective" class alien, and therefore his entry could be held against him later as opportunism.

He was in textile wholesaling from January 1950 to 1952, when he joined a leather wholesaling enterprise, in both cases as organization expert. In 1955, he was transferred back to another textile wholesale organization, at which he worked till December 1956.

HOLOHAZA CONCLAVE.

At the time of the inception of the first Five Year Plan, the Hungarian born Soviet economist Jenő Varga spent some time in Hungary, and prepared a report on the Hungarian economy. His report stressed that out of given consumer goods production, the Hungarian home consumption is excessive, and it would be desirable to curb the home demand by a widening of the margin between producers' and consumers' prices. This question, as well as some other more vital ones, was the subject of the notorious Holohaza Conclave. At this mansion near Radvány (North East Hungary), a number of top economic planners spent the whole of December 1951 in complete

seclusion, conferring on questions the resolution of which amounted to a determination of the Hungarian standard of living. The Conference decided that the average wage shall be 873 fts. per month. At the same time, it approved that the price of lard shall be 30 fts. per kilo, that of sugar 12 fts. per kilo, that of 1 m of the worst suiting 125 fts., suiting with a wool content 240 fts. per metre, a pair of the poorest kind of shoe 250 fts., that of a better quality 450 fts. Bela Gámenczy, a friend of respondent's, argued that such a real wage is below subsistence level. István Friss came down on him like a ton of bricks, identifying himself with Rakosi's slogan that "we must not eat up our future". The Conference attempted to balance the Hungarian wages fund (national subsistence level), plus investment and ^{gross} reparations needs against the ~~gross~~ national product.

The most drastic means of reducing the share of consumption in the national product was the widening of ^{profits} ~~its~~ margins. In textiles, the Holohaza Conclave laid down the following guiding margins: taking the final price to the consumer as 100, 92 shall be the price to the retail establishment, 90 to the wholesaler, 75 to 80 shall be the turnover tax, so that on the average 10 to 15 shall be the producer's nett price. Turnover Taxes of such orders of magnitude reveal the rationale of State Capitalism.

RE-DIRECTION OF FOREIGN TRADE.

In the course of the Three Year Plan, Hungary's foreign trade was re-directed with a view to realizing the autarchic thought

embraced by Comecon, and to eruding trade and economic connections with the West. In changing the direction of foreign trade flows from a westerly to an easterly course, the maximum stress was laid on basic materials and "essentials". By ~~and~~ ^{large}, the Three Year Plan foresaw such shifts in trade patterns as to ensure that 50% of Hungary's foreign trade shall be transacted with the Comecon block. In the course of the Five Year Plan, this proportion was to ~~ixx~~ increase to two thirds Comecon and one third West. For instance, Hungary's main sources of aniline dyes used to be Switzerland, Germany, the U.K. and the U.S. In conformity with the spirit of autarchy, it was attempted to cover as much of these needs from Russia as possible. In addition, ~~ixrome~~ ^{home} manufacture of aniline dyes was also attempted, but they only succeeded in producing chrome black. ~~ixxxxx~~ Residual needs were covered from Switzerland. As a result, Hungarian printed textiles completely lost their competitive position and could only be exported at a considerable sacrifice. Besides, aniline dyes were 20% dearer in the first place if bought from Russia. But their poor quality was a graver matter than their relative dearness.

The price basis of Comecon trade was totally divorced from reality. For Hungarian exports worth one dollar at world market prices, Russia would pay two rubels. Admittedly, Hungary's imports from Russia were similarly under-priced. Therefore, inasmuch as Russo-Hungarian trade amounted to pure barter, (full bilateral balance), there was no particular gain to Russia from this ludicrous exchange rate. On the other hand, there was gain to

Russia on the uncompensated items. Insofar as Hungary was in surplus on her visible trade with Russia, she earned a balance, the value of which in terms of world market prices was heavily understated in terms of rubels. In other words, if Hungary's deliveries to Russia exceeded Russian deliveries to Hungary by, say, 10 million dollars, Hungary would have ~~the~~^a credit entry in the Comecon books of 20 million rubels, which was worth much less than 10 million dollars. If, in turn, the 20 million rubel balance was spent by Hungary on invisible items such as freight, expenditure of Hungarian travellers in Russia, Embassy and repatriation costs, etc., Hungary received much less value than she provided.

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~~The~~ more systematic source of exploitation was the deliberate reliance on Russia's re-export trade. Russia would buy, for instance, wool and cotton on the world market, and re-sell to Hungary, either at higher prices, or at identical prices but extracting, for re-export, the parcels of poorest quality. This was particularly the case in wool.

RAW MATERIAL SUPPLIES.

The deterioration in Hungary's imported industrial raw material supplies was very severe. Despite all the ingenuity of Hungarian technicians, the quality of Hungarian manufactures deteriorate^s pari passu. As a result, Hungarian industry was obliged humbly to offer cut ~~its~~^{rate} exports in odd lots to all ~~countries~~^{corners}. This was a source of very heavy loss.

While in the Department of Foreign Trade Planning and Control,

respondent had much to do with planning textile, rubber and leather raw material imports. On the basis of ~~the~~^{the} permissible home consumption and planned exports, total raw material needs, and consequently imports, had to be calculated a year or so in advance. The permissible home consumption of cotton textiles was put at 16 metres per head per annum, that of wool suiting at 1.5 metres per head. In shoes, the planned figure was less than one pair per head per annum. The Three Year Plan foresaw an increase of these basic quantities by 5% per annum, and the Five Year Plan by 8-12% per annum. The system of calculating needs was usually that of averaging, - regardless of the variety of the final products, it would be stated that 1 kilo of cotton must yield 8-10 metres of cotton textiles, thus the national consumption quota of 160 million metres would require roughly 18 million kilos, less the weight of dyes and humidity, say 13 million kilos. ^{balanced} Then this quantity would be ~~stated~~ against sources, (e.g. the forecast home-grown cotton crop). Having stated import requirements on this basis, the operative departments would set about negotiating imports. But these planned imports would not necessarily be fulfilled. Their fulfilment would depend on the current export position (foreign currency earnings). (Interviewer's remark: contrast with the principle applying to steel, copper and other Metal-Impex imports, cf. Code No.452). Both the quantitative short-falls and the qualitative ones (e.g. lack of long-staple cotton) used to lead to enormous cumulative upsets in production in the course of a year. The cotton spinning and weaving ~~waving~~ mills would be started up at a pace corresponding to the

annual plan, and in a few months' time would learn that there was no cotton for them to go on with. The major qualitative difficulty arose from taking Russian cotton as equivalent to "cotton". In fact, Russian cotton is chronically immature and contains a heavy admixture ^{of} seed shells.

Whenever export earnings turned out to be insufficient to finance the import plan, and imports had to be cut as well, it was invariably the raw materials for consumer goods production which were cut. Since, however, the quantitative production plan (yardage) had to be fulfilled in any case, instead of cutting out imports and condemning the mills to idleness, resort would be had to inferior raw materials (e.g. rags). By 1948-49, so-called wool textiles came to contain 70% Ersatz materials (rags, etc.) and only 30% virgin wool, some of which was Siberian, a very poor quality wool and only a fraction of the 30% was Australian virgin wool. It was used only in export production and not at all for the home market. Characteristically, the only kind of consumer goods raw material import for which a foreign currency allocation was always granted, was the import of rags. This was the cheapest way of keeping the mills going. On the other hand, the complete disregard of the intrinsic quality of the resulting product is shown by the fact that although the best and most suitable rags were found in Sweden and Switzerland, a currency allocation was seldom given for imports from these countries. Only the nominal quantity of the rags mattered, not their real value .

RUSSO-HUNGARIAN MIXED COMPANIES.

Russian advisers and controllers lived in splendid isolation, the Russian ~~Sectrix~~ ^{Sector} in Hungary was a State within a State. This was particularly true of the Russian-owned "mixed" enterprises. They had virtual extraterritorial rights, and in addition to their formal rights and privileges, they regarded it as a prestige question not to subject themselves to either Hungarian law or to the Hungarian Economic Plan. They displayed a fine contempt for the Hungarian Planning Boards' plan figures. For instance, the former Perutz Company in Papa, formerly a German and now a Russian interest, was supposed to produce 2 million metres of cotton textiles per month towards the total Hungarian production target. The Russian management of the Perutz Co. made a "black" deal with the Usiwa Sector in the Eastern Zone of Austria, shipped its production to them, and obtained raw materials from them. Another such case was that of the "Friedrich Siemens" Works in Budapest, Vacsi út, producing thermal installations. They, too, exported and imported what they liked, and sold on the black market, in complete defiance of the Communist Economic Plan. In a sense, these Russians cheated Moscow and not us. A fulfilment of the Hungarian production plan was a Russian, not a Hungarian interest. However, the business policy of the Russian mixed companies was really ultra-capitalistic. The reason for this was that they were given profitability and not production. Instructions from Moscow, and hence their direct aims could not possibly coincide with the Hungarian plan instructions. They engaged in wage piracy in a big way, bidding labour away from

Hungarian firms by paying wages above the maxima laid down. They got higher productivity by obtaining better quality labour. The foreign currency proceeds of their exports to the West, often through Austria, were a frequent bone of contention with our National Bank. A source of great profit for the Russians was the cheating on the turnover tax. On a given raw material allocation to a given firm, a certain quantity of final product was supposed to result, and this quantity was subject to the turnover tax of, say, 70% of the retail price. Now a mill, instead of producing 10 metres from one kilo of cotton, could get 14 metres of some inferior quality. It would pay turnover tax on 10 metres, and it would sell 4 metres to the non-Socialist Sector through the back door. Instead of paying over 70% of the price of this latter quantity to the State, the firm would ^{pocket} profit it itself. Instead of the Hungarian State Revenue, the Russian enterprise would get the profits of State Capitalism. These "black" deals by the Russians were the main stay of the Maszek trade in Hungary, as Maszek traders, in order to live, were willing to deal without invoices, receipts and certificates. The Hungarian Communist authorities were fully aware of these Russian practices, and organized renewed drives for "certificate discipline" (bizonylati fegyelem), ^{but} ~~were~~ of course the sole real solution for them would have been the stamping out of the Maszek or ~~Maszek~~ ^{quasi} Maszek Sector willing to deal with Russians on a "black" basis. Non-Russian "Socialist" enterprises could also engage in this practice of cheating on the turnover tax, but to a much lesser degree. "Raw

material "balance sheets" (input-output coefficients) on the one hand and "certificate discipline" on the other hand, provided the controls. Insofar as these could be evaded, the enterprise would either use the illicit profits (resulting from ~~higher than~~ ^{higher than} planned ~~plant~~ input-output coefficients, e.g. from the production of 14 instead of 10 metres of textiles from a kilo of cotton) for private enrichment of the managers, or for the building up of hidden reserves to offset thefts by employees.

After all shops had been nationalized, the hard core of the black market and the major outlet for Russian and "Socialist" illicit sales became the "fairs" (itinerant markets). The authorities attempted to nationalize that, too, by setting up a "fairs national enterprise" to drive out the private pedlars. But this would have pre-supposed a truly socialist man in the role of itinerant trader, which was an absurdity - the enterprise was a failure and the private pedlars continued as outlet.

THE FINANCE OF INDUSTRY.

A socialist enterprise would be endowed with two separate "funds". The first was the so-called fixed circulating fund. This covered the value of the fixed plant plus a portion of the inventories, - that portion which would not be carried in the ordinary course of business (e.g. stock-piles carried on central instructions). This "fixed circulating fund" was free of interest. The second "fund" was the "variable circulating fund". This consisted either of plan credits or of target credits. Plan credits were granted on a decade (ten day) basis, by forecasting receipts and out-payments,

so that if the latter was larger in the particular decade, the plan credit was increased, or vice versa. Smaller investment purchases were also financed by plan credits. Plan credits carried an interest of $3 \frac{1}{2} \%$. The need for target credits ~~carried an interest~~ could arise if an unforeseen task was set for the enterprise, e.g. if an unexpected import purchase had to be taken off the hand of a foreign trading organization. It may have been that the firm's sales fell short of the plan, e.g. if a wholesaler failed to push its stock energetically enough on to the retailers. Target credits carried an interest of $3 \frac{1}{2} \%$ or of 7% according to whether the need for them did or did not arise out of a fault or negligence of the firm in question. The administration and control of the "variable circulating fund" rested with the National Bank. The whole variable circulating fund, and particularly plan credits, were all set well in advance and there was very little "play" in this system, which led to much inflexibility and lack of scope for adjustments and for the taking advantage of opportunities. This was one of the reasons for the low productivity of Hungarian industry.

Investment allocations, representing an increase of the fixed circulating fund, were interest-free. The industrial producer was not expected to earn a profit over costs. The profit to the State appeared in the turnover tax. The producer was expected to cover average variable cost and a depreciation quota. If profit appeared just the same, this was due to a favourable development of costs relative to planned costs.

Every cost item had to be pre-planned under no less than 54 headings (wage, overtime, holiday ^{pay} ~~XXXXX~~, materials, fuel, transport, premises, etc. etc.). In costing, the aim, of course, was to over-state the cost plan, - then, at the "plan negotiation", the Ministry auditors scrutinized the cost plan., They had strict instructions and little scope for being lenient. On the other hand, while it was difficult to get past them in the case of the unit costs of specific inputs, it was rather easier to make them accept over-statements of the quantity of inputs needed for a unit of output. In such a way, it was possible to achieve a "cost of production reduction" in the course of the subsequent plan period, which in turn attracted a bonus.

VARIETY AND CHOICE OF FINISHED PRODUCTS.

During the Three and much of the Five Year Plan, Socialist trade was bound to take off industry's hands whatever it cared to produce. Not surprisingly, the range of finished products was diminishing as a result. Then a slogan was issued to wholesale and retail trade executives, to the effect that they need not buy off industry what they do not want to. The consequence of a refusal on the part of trade to buy the products of industry would have been the accumulation of an "idle inventory" carried by the latter at a 7% "target credit" cost. However, the industrial directors were usually more influential politically, and ^{could} ~~xxxxx~~ as a rule ^{bully} ~~xxxxx~~ the trade directors. At times, the Socialist Trade Organizations had two or three milliard forints of "slow moving" stocks on hand out of a total consumer goods turnover of thirty

milliard forints per annum. Whenever this accumulation of unsaleable stocks became too heavy, permission was given to sell them at bargain prices, the writing off of losses was authorized ^{heads} and ~~mix~~ fell somewhere or other. Later however the influence of ^{the range} trade grew a little stronger, and ~~xxxx~~ started widening again, though manufacturing firms were up against the non-availability, or at any rate the narrow range, of imported inputs. In 1953-54 the pressure of trade on industry grew particularly strong, and the latter was ~~produced~~ forced to produce a better and wider range of products.

Industry was subject to "objective" quality standards, and subjective quality criteria were not supposed to be considered. Moreover, the human qualities of both industrial and trade executives were so poor that they had no sense for fashion, for pleasingness and ~~gami~~ could not gauge consumer tastes. The leading executives of wholesale and retail establishments were mostly Jewish, I would say 60% of them were Jews, and what is more, they were just those Jews who had been unsuccessful under Capitalism. They may not have been malevolent, but sometimes they were simply unable to understand quite elementary points put to them, they were at a loss and on the point of crying. Prior to 1953, display and sales push were totally non-existent. After '53 courses in display and salesmanship were started and even advertising was being resorted to.

REVOLUTION.

On the 25th of October, the whole staff of respondent's department

in the Textile Oddments and Rags Marketing Co. went to demonstrate in Parliament Square. Some Russian tanks shot at them after the AVO opened fire ^{from} the roof tops, while other Russian tanks provided shelter. He found shelter behind one. The Textile Oddments and Rags Marketing Co. was a large enterprise with over one thousand employees and 16 depots, engaged in both processing and wholesaling. Respondent was a member of its Revolutionary Council. They were organizing transports of food from the countryside, using their own fleet ^{of} lorries. They dictated to the director, but did not dismiss him. There were only five or so people whom they would have dismissed, ^{but} those were wise enough to disappear at the beginning of the Revolution. Respondent insisted on gaining access to the Cadre Dossiers and caused them to be handed out to each employee. He attached great educational value to the effect of over one thousand employees seeing the remarks and record kept of them by their master, the Socialist State. In the dossiers, the reports submitted by colleagues were filed in the original, with original signatures. Thus, informers within the firm are now known. Some informers, on the other hand must have been reporting direct to the AVO, and their reports were filed in type-written copies under cover-names.