

PERSONAL.

The respondent started his university course in economics in 1939, completed it in 1944. He sat for examinations between 1945 and '48, obtained the first degree, and doctorated in economics in 1948. He had no means of any sort, and was in employment of one sort or another during the whole of his university course. Between 1945 and '48, he was press officer of the National Cooperative Council. This was the central organ of the agricultural, credit and handicrafts cooperatives. The council was dissolved in 1948, respondent lost his position and was unemployed till the summer of 1949. Then he was engaged as statistician by Metal Impex, (the state monopoly conducting foreign trade in steel, non-ferrous metals, and coke).

METALL IMPEX

In 1949-50, the global turnover of Metall Impex amounting to 700,000,000 fts. on the import side. The major item of imports was iron ore, the planned sources were Yugoslavia and the Soviet Union. When Hungarian exports to Yugoslavia were stopped on Soviet instructions, Yugoslav deliveries of iron ore stopped too, - this affected both iron ore and copper ore. Coke was imported mainly from Poland. In addition to basic materials, Metall Impex also imported steel bars and plates from Belgium, the U. K., and

Western Germany, and scrap also from western sources, mainly from Western Germany.

The guiding policy in metal imports was that price is no object. Our buyers were sent out to buy what they can lay their hands on, nor were there attempts to make better deals, netto was always paid for in Dollars, a skilled buyer was considered one who could get steel, not one who got it at the best price.

The prices of Western and Soviet imports are incommensurable, because the latter trade was conducted in Rubels, and the prices in terms of Rubels were arbitrarily set. Respondent insists that the fact that the Rubel-fts. nominal rate of exchange was one to three was a source of loss. He bases this assertion on the view that on a purchasing power parity basis, the rate of exchange should have been 1 to 1.5. He admits, however, that both import and export prices were set in terms of Rubels, without reference to the home fts. prices of either the exports or the imports, so that any loss on the swings is made up by a gain on the roundabouts. Further discussion revealed that he bases his impression of Soviet exploitation by trade on the belief that the Rubel prices of exports and imports, set by the Soviet side, involve very unfavorable terms of trade for Hungary, more unfavorable than would obtain if either world market prices, or Hungarian home prices, were used as the determining factor in export and import prices.

Metall Impex exports were mainly aluminium ingots, semi-finished and finished aluminium, and steel tubes, to a global value of 60,000,000 fts.

Respondent's stressed that even if the re-direction of Hungarian trade towards the Eastern block had been a source of windfall gain, rather than of windfall loss, this orientation had, as its counterpart, a Hungarian obligation to play "politics" at a tremendous cost in terms of armament expenditure which was quite absurd for a country of Hungary's size.

It is a puzzling aspect of this trade that Soviet iron ore came mostly by rail via Zahony, and not by barge on the Danube. Respondent suggested that the transshipment cost of the ore coming from the mine to the Black Sea, from the Black Sea to the Danube, and from a Hungarian Danube port to the North East Hungarian iron and steel plants at Diosgyar and Ozd, rendered the water road inferior to the rail road. Also, there has always been a relative scarcity in Russia of shipping space, because the Russians have no shipbuilding tradition.

Imports of finished copper were based initially on Yugoslavia, but when the relations with Yugoslavia were severed, copper was drawn partly from the Soviet Union and partly from Western sources. Respondent left Metall Impex in August 1950, but did not yet notice the Korean impact on the availability of copper. He added that Soviet prices of copper would not have changed anyway, - to change them

upon a change in world commodity prices (which moved sharply upwards at that time) would have meant the disavowal of their own economic ideology.

The quality, and suitability for Hungarian works, of Soviet iron ore and Polish coke was never investigated. In any case, there could not have been qualitative objections to any Soviet delivery. Any such objection would have been deemed to be politically inspired, ~~xxxx~~ <sup>and an</sup> unfriendly act to the Soviet Union. On the other hand, the Soviet side never hesitated to make qualitative objections to Hungarian deliveries in order to secure a discount off the price. The business conduct of Metall Impex was a crying example of incompetence. The general manager was B. Antolik, a former cabinet maker, whose main qualification for his position was that he was a brother in law of M. Parkas. The head of the import department was a former small time lawyer, the head of the plan department used to be a packing clerk in a small textile shop, the heads of the steel import department and the basic materials department had both been unskilled workers before. The head of the organization and methods department never had any background in that field. The total number of employees was between four and five hundred. The buyers themselves were not bad, their skill consisted in getting the goods at all. This often involved complicated smuggling arrangements, because of Hungary's political isolation and the hostility of the west towards the regime. The targets of

of the buying departments were set in purely quantitative terms, not in terms of price (value). If import prices in a period exceeded those that were expected to prevail, this never mattered, the department concerned simply received an additional foreign currency allocation, as much as was needed to fulfill the quantitative plan. It may well be that some imports could have been bought at substantially lower prices. But the buyers had to be sent abroad to buy, and many good people would not have returned once out of Hungary. Therefore they could not be sent.

#### PSYCHOLOGY.

Communist propaganda, aimed at producing a favorable picture of the relative positions of West and East, was worse than useless. For instance, in the summer of 1951, Szabad Nép published a full page article developing the theme of impending crisis in the U.S. It substantiated this claim by, among other things, and alleged downward trend in U.S. department store sales. We looked at these statistics, knowing that capitalists do not buy in department stores, but the proles do. We found that the proles' purchases per head were enormously high by our standards. We concluded that if workers can spend all that much, the capitalist crisis must be <sup>a</sup>paradise compared to Communist full employment.

CENTRAL VEHICLE REPAIR ESTABLISHMENT.

In August 1950, he was declared politically unreliable and unsuitable for work in the field of foreign trade. He was unemployed till December 1950. Then, for the next 4 years, he was the organization and methods man at the Central Vehicle Repair Establishment. This workshop, in Budapest, Dozza György street, had 800 employees and its business was the repair of lorries (trucks).

This establishment was the result of re-organization and "profilisation". The re-organization mania was frightfully wasteful, but they had no means of detecting the social cost (economic cost). These various reshuffles took the form either of split-ups or mergers. 1950-52 was a period of split-ups. Multi-product firms were being split-up into several single-product firms. Even if the latter, i.e. a number of single product firms all making the same product, were later formally amalgamated, in reality they could not be merged because of their physical location. Hence a multiplication of overheads resulted. A "profilisation" in the form of amalgamation involved another sort of waste as well. E.g., a small car spring firm may have been merged into a central car spring firm. Some of its equipment may have been physically transferred, some just laid aside, left idle, scrapped. In the central firm, the transferred equipment created an investment requirement in complementary equipment. But such investment needs, and their cost were never scrutinized from an economic point

of view. The investment did not cost anything to the firm. It just received it, it was not charged interest for it. Thus it had no criterion for choosing what investments not to make, it had no reason to stop short at a certain point, more investment was a means of aggrandizement.

Profilisation had a political background too. It was an easy way of stamping out the small MASZEK workshops. They were just amalgamated and or merged into a central state firm. Moreover, they thought that the greater the specialization the better. Of course, if only for a transitory period, everything was turned upside down by these re-organizations, there was chaos, nobody knew what is what, where to find things etc. This factor too, was ignored in judging the merits of profilisation. Had he dared to say that one ought to do a bit of cost accounting before profilising, he would have been branded a deliberate trouble-maker. Soon after joining this firm, he submitted an 18 page report on its efficiency. On reading the report, the party secretary declared that if all these things were true, the shop should at once be closed, - it can not be true. It seemed nonsense to them to close a shop and "lose" its production for the "people's economy".

His firm, controlled by the Ministry of Transport, was re-organized three times in four years. The first reorganization involved the transfer to truck body repairs to another firm, and specialization in engine parts repairs

only. In the second re-organization, a number of smaller MASZEK workshops were merged into it. The third re-organization involved its split-up into a Motor Car Parts Repair and Car Equipment Works. Meanwhile, a new Motor Car Parts factory was established in Cinkota. (East of Budapest). This was a proto-type of incompetence and inefficiency. It was supposed to render car parts imports from the West superfluous. For its premises, it got the car barn of the suburban tramway. Its machines existed mainly on paper, hence it was reduced to craft methods, it was hardly mechanized at all. It had no costing system, the authorities said let it just start producing. As a result, it began to incur frightful deficits, its management was changed four times but to no avail. These works in Cinkota and respondent's firm were under the same trust, and he was seconded for a while to study its production methods and make recommendations. Cinkota was besieged by a host of other experts too, there were two competent mechanical engineers among them. They admitted to private that they feel quite impotent in this mess. The other "experts" were the product of "express courses" and were of corresponding quality. The Cinkota works were initially intended to be very large, around a 150 to 200 machine tools had been hoped for, but most of them never arrived. The reason was not only the lack of machines, but the lack of skilled manpower to operate them. It had between 800 and 1000 employees. The premises were newly built before



the war for a textile factory. They became a car barn. As such, they belonged to respondent's Ministry (the Ministry of Transport), and hence could be used for the car parts factory without the Ministry needing an extra investment grant from the planning board. The suburban tramcars were crowded into an old barn. The first director of the Ginkota works, a former worker, was soon demoted to store-man at the same works.

#### INTRA-FIRM STRUGGLES.

A peculiar feature of the Communist firm was the struggle for power positions within the firm, conducted on a political plane. Typically, the fight is between the director and his supporters on the one hand and the party secretary and union secretary and their supporters on the other hand. These two factions engage in constant intrigues, are jockeying for position, and manufacture minut minutes to undermine each other before the authorities.

#### MOTOR CAR PARTS REPAIR WORKS.

Respondent obtained his job at this works (see above) after a protracted period of unemployment during which he applied for 35 other jobs. The grandmother of a playmate of his son took pity on him, and introduced him to a female relative of hers, who was the personnel (kader) officer of the works in question. She personally vouched for his reliability. This woman belonged to the

party secretary's faction in the factory, and was working against the director. Respondent was supposed to be the efficiency expert of the works. He was expected to initiate a re-organization program and point out the director's mistakes and faults. He made his submission, which he handed to the personnel officer. He had to take it to her home. (1) It turned out that in allocating the blame for the mistakes detected by him, the party secretary's supporters came out rather worse than those of the director. They were more responsible for the incompetence and the negligence. His submission was turned inside out, and the director was transferred to a very minor job elsewhere. The new director, though a Communist, was decent towards him, he was a straight man who could bear criticism. Eventually, at about the time respondent left, he too was dismissed. Efforts to raise efficiency were never really successful, both because the initial conception of the factory was hopelessly mistaken and because effort to patch up were constantly frustrated whenever respondent's suggestions touched on the work of an administrative employe who was a party man. The party secretariat promptly sprung to his defense and prevented any change. Even in so far as suggestions were accepted, each change for the better sparked off a number of new mistakes, for each head of the dragon cut off, seven new heads grew. A fundamental trouble of socialist industry is the indestructibility of ~~the~~ men, - of the most incompetent

ones, - because of their staying power, their relations to the party secretary, to the personnel department, or to the director. Everybody has a built-in "line" to somebody. It was always possible for them to transform a question of efficiency into a political question, a question of "workers' power". The leading principle was: it may be that some times things could be improved by changing the men, but <sup>would</sup> they/rather have things going indifferently but carried out by our workers leaders, than have them going well and carried out by class aliens.

Party sensitivity was reflected in the question of bonuses. The administrative and technical personnel below the level of director or chief accountant received individual bonuses according to their individual job performance. In respondent's case, the bonus would have worked out at over 40% ~~fourty percent~~ of the basic pay. The director called him in and explained to him that not one party man would be getting as much. Therefore the respondent had to forge a job record showing a lower performance in his own case so as to arrive at a lower percentage bonus than that of at least ~~at~~ a few party men.

#### NORMS

It was never admitted that the revision of norms is a way of reducing wages. It was contended to be a way of increasing labor productivity. The self-respect of workers was supposed to demand tight norms. Revisions

took place yearly or bi-annually. Each norm revision was aimed at about an 18% labor cost reduction per unit. It was respondent's duty to revise the norms. He was instructed to consult with the director on how, in conjunction with the increase of the norm of a particular job, better aids to production can be provided (e.g. new investment in better machines etc.). On paper, a work norm could never be revised upward without the simultaneous introduction of such technological improvements which would at least have made a correspondingly higher output per head possible without any greater physical exertion. In practice, no such technological improvements (better tools) were introduced, the director just shrugged his shoulders, and the upshot was that the workers had to work faster after each revision merely to maintain the previous earnings. This, of course, was understood to be the essence of norm revisions. The authorities insured this by allocating an ~~at~~ 18% lower basic wages fund for the old 100% plan fulfillment level. Had the work norms not been revised to the desired degree, this would at once have showed in the wages cheque, and the authorities would have immediately noticed it and could have take punitive action. The allocation of this job to respondent was <sup>non-</sup>deliberate. They like the idea that a ~~an~~ party man, rather than a Communist, is carrying out this hated measure. The workers themselves cursed about it terribly. If the average degree of output revision had to be 18%,

respondent did not revise every job norm by 18% - those jobs which, on the evidence of the wages sheet, were paying well were revised upward to a proportionately greater degree than those jobs which paid less well. This meant, on the one hand, that a worker who greatly overfulfilled his norm in the previous period was hit harder by the revision than the worker who went relatively slow, - on the other hand, a bias developed against wage differentials. At the time of the first norm revision, the Communists expected a large scale revolt by the workers. None came and they felt relieved, - from then onward they were more confident about further turns of the norm screw. In 1954 the average wage in respondent's firm was between 900 and 1,100 ft. per month. This corresponded to the national industrial average, although in mining, wages were considerably higher. Respondent feels that in purchasing power, this wage is about 50% of the 1938 wage. (Interviewer's remark: his calculations to this effect are quite inconclusive.)

#### WORKERS' MORALE.

The only time when the workers' discontent was less acute and when their mood was less <sup>sullen</sup> ~~stagnant~~ and more hopeful was after July 1953. Although the actual material improvement was slight, there was at least a hope of better things, and they could open their mouths. Imre Nagy's policy was well intentioned but his promise of a higher standard

of living was not based on any greater resource -- availability. In the agricultural sector, Nagy could not abolish compulsory deliveries. But the government did allot to each peasant a five year delivery task so that he could plan ahead and know what he was up against. Knowing the limits of the compulsory delivery charge, he knew what the threshold was above which his work started to yield real fruit to himself. After Nagy's fall, this five year allocation was scrapped. The trend of consumer goods prices was, in reality, always upward. This did not always take the form of a rise of unit prices, but often a reduction of quality without a corresponding reduction of price. Needless to say, the workers were not fooled by these devices. The much advertised price reductions were only virtual. Only the unsaleable junk was reduced, while useful goods were never reduced. When the price of a <sup>really</sup> useful good was reduced, it was done in the following way: the price of bacon went up from 17 to 35 ft. per kilo, and then, among much fanfare, it was reduced to 30 ft.

#### PERSONAL

In the autumn of 1954, on a rationalization wave, respondent was dismissed, - he was out within one hour of delivery to his desk of the notice. He was asked to leave and did not even have to hand over the job to anyone. His former director attempted to find him a job in the country, but

within a week he found a job as production process planner in the Budapest Vehicle Building Factory (Budapest, Jasz St. 35), a somewhat smaller works with about 180 workers. The director was a man for whom political affiliation and kader sheet would not count. It was a puzzle how and why he could ignore these matters. Somebody high up must have been backing him. Otherwise, the organizational troubles and inefficiencies were much the same as at respondent's previous job. There was no substantial difference in this regard anywhere in Hungarian state industry. These troubles were a necessary consequence of the system. Personalities were molded into a type by it.

#### STANDARD ELECTRICAL.

In July 1956, respondent left voluntarily, he could no longer bear the atmosphere at his old job and had only small difficulty in securing approval of his notice. He had a job waiting for him at the Beloiannis works (the former Standard Electrical factory, Budapest, Fehervari St.) This enterprise was shortly before that time permitted to set up its own export subsidiary "Budavox" selling abroad the parent firm's telephones, telephone exchanges, microwave carriers, wireless transmitters, etc. This subsidiary was the fruit of the gradual de-centralization process. Before, a state monopoly did all the export selling on behalf of the electrical firms. The permission to the firm to do its own exporting was a definite improvement,

because old, competent people carried out the export business, and they were in close touch with the factory's technical personnel, - they acted more quickly and directly. Budavox was more mobile than the previous state monopoly, and it could spur on the enterprise to make export efforts. Compared to the methods respondent saw in foreign trade in 1949-50, the improvement in methods was considerable. Nevertheless, even here, too many people were interfering with each other's work. As to the Beloiannis (Standard) works, the view of the old hands was that it could just about hold its own as to technical standards relative to the average of Hungarian industry, and was falling behind compared to world standards. There was a relative deterioration internationally. It was starved of investment and research people. It had no future because of the primacy of heavy industry. Nevertheless, export sales were made because the domestic cost of production was not a decisive consideration in making export sales. Budavox exported as much as it comfortably could: if this was either more or less than that included in the plan, it was always possible to put it over the authorities, they would swallow everything. Budavox was determined to cover up on behalf of the parent firm and maintain the appearance of efficiency on the latter's part. E.g., an export failure was never a failure but a deliberate, planned cunning on the part of the sales department, - if an export order fell



through, the authorities were told that we are deliberately holding off to turn the market. Apart from anything else, it was difficult to sell abroad because they would not give passports to the Budavox people. Sales trips were always delayed if they took place at all. In Europe, Beloiannis was not competitive anyway, in Asia and South America it was a little better.

Having an insufficient wages fund allocation and needing an adequate one, respondent had to go to no lesser person than Jozsef Mekis, the Deputy Premier. Had this system of administration been deliberately set up by a Western Secret Service, it could not have been more destructive of productivity and development.

#### THE REVOLUTION.

Respondent was a member of long standing of the Peasant (Petöfi) party. The old members maintained no contacts whatever with each other. They first met when the radio had broadcast, on Wednesday the 31st of October, the news of the formation of the Petöfi party. At the first meeting, Ferenc Erdei was removed and Ferenc Ferkas took his place. Respondent became the party's information officer. Erdei washed his hands profusely, protesting that he has no desire for any leading position. His brother (the secretary of the Writers Union) was no better either. All the writers had merely been making amends for the crime of putting Communism across to the people during the 8 years prior to 1956.

By December, respondent "has had it", besides his connection with the Petöfi party and the Parasztözetseg (Peasant Union) was due to come up for consideration before long. Anyway, the nation's cause was clearly hopeless by then.

#### WASTAGE OF CAPITAL.

The socialist economy devours capital. It is frightfully capital - hungry. There being no free prices, it is utterly impossible to decide on the right capital allocation, and therefore the right allocation could only happen by accident. In all probability, the allocation will be bad. Reinforcing the absence of true prices is the immunity of new investment from an interest charge. Depreciation is usually falsely calculated and obsolescence is ignored altogether. The wastage of capital through mis-allocation is reflected in the need for a tremendously high ratio of investment in the national income. This is not accompanied by a corresponding real progress. The socialist enterprise (firm) never knows its own true nett worth because of the muddled state of its capital account. The values at which assets are carried are totally fictitious. Capital is treated as if it were a free good.