

Interviewer's Note: The following is not intended as a full scale interview, but will merely outline the respondent's professional background, and explore those areas of the Hungarian economy about which he is best informed. Respondent's name and address have been forwarded to the Project Office in order that he might be contacted if the Project is interested in further information or a special study by him.

I was an employee of the Hungarian National Bank from 1932 until April, 1957. From 1933 until 1944, I worked for the foreign currency department, but was dismissed when the Germans occupied Hungary. After the war I returned to the National Bank and from 1948 until I left Hungary I was the head of the Economic Study Department -(Közzgazdasági Tanulmányi Osztály.) The Bank dealt with the circulation of currency, credit, <sup>and</sup> was the highest regulator of foreign currency transactions. In the past the National Bank was a private credit bank, <sup>it is nationalized</sup> now, <sup>and</sup> under the Communists, <sup>it</sup> is in charge of short-term credit. In this respect it is very similar to the Soviet Gosbank. It has three credit departments dealing with agriculture, industry, and trade. The other major departments <sup>handle</sup> ~~manage~~ currency circulation, foreign currency, and economic planning. The Department of Economic Planning -(Tervgazdasági Igazgatóság)- dealt with the credit and budget plans, <sup>and</sup> included the Economic Study Department whose head I was. This department prepared theoretical <sup>analyses</sup> ~~analyses~~, reports and summaries. In this depart-

ment we received statistics on credit and monetary circulation from our branches, and we prepared reports based on this information. The Planning Department in its present form was established in 1954, with three sub-divisions. A primitive seamstress, a friend of Rákosi's, was made head of the department. I remained head of my division, but I also participated in the directing of the ~~the~~ credit plan. The National Bank, like the Gosbank, is supposed to control and supervise the allocation of credit to various industries, but this is a mere fiction. The bank was often almost forced to allocate credit to a factory, in opposition to the plan, in order to prevent a bottle neck in production.

In 1948, when the bank still had its <sup>old</sup> ~~own~~ personnel, the regime was extremely distrustful towards it, and therefore it was placed under the Ministry of Finance because the minister was trusted more. Later, when the old guard had been replaced, the bank became more independent, although it was still formally under the Ministry of Finance until spring 1956. The president of the bank acted like a deputy minister. For the last six months before the Revolution, when László Háy was made the head of the bank, the bank was independent of the Ministry. In 1946, an old-style gentleman, Ferenc Jeszenszky, was named head of the National Bank and remained its head until 1951, when he was nominated to the ~~the~~ supreme court. He was a ~~an~~ Social Democrat who ~~had~~ entered the CP when the two parties were merged. He was deeply reactionary inside,

although <sup>he</sup> acted like a good Communist on the outside; a shrewd man. In 1951, János Vörös, a tailor, who had been an underground Party member before the war, was named head of the bank. He was a very intelligent person, and did a very good job as head of the bank. He was the only true Communist I ever met. He had a sense of humor, and was very pleasant to work with. He died in September, 1955, at the age of 41 or 42, from overwork. He was not only president of the bank, but also worked at Party headquarters, and had an ambition to attend the university. When there was an inter-regnum. In the spring <sup>of</sup> 1956, László Házy an old Moscovite, a member of the Party's ~~at~~ top echelons became president ~~mx~~ of the bank. He was an old intellectual, a doctor, who participated in the 1919 Revolution in Hungary. It was he who had my job when I returned to the bank in 1945. He was very dogmatic politically, but had remained intact otherwise. He was a Rákosiite and attempted to suppress the liberal currents in the bank in 1956. He was thrown out of his job during the Revolution and Kádár didn't bring him back because he was ~~xxxx~~ Rákosi's man. After the Revolution, Dénes Szántó, the second <sup>highest</sup> ~~official~~ <sup>official</sup> ~~head~~ of the bank - a bureaucratic career - was appointed president. He is a primitive Jewish intelligentsia type, a sainted Communist, a pious follower of the Party.

After August, 1954, the head of the Planning Department was a woman, a Mrs. Csincsá, Ilona Nemesi, who was a typical worker káder

career and a graduate of the Party Academy. She was an awful person, and would have liked to break my neck but fortunately I was on good terms with Vörös who appreciated the good job I was doing. I was also friends with Háry, who <sup>had been</sup> ~~was~~ my boss in 1945.

The personnel replacements and reorganization of the National Bank took place in 1948. The fact remained, however, that the old personnel functioned far more efficiently than the ~~new~~ Party people and new college graduates who replaced them. Some of these new people were utter ~~stupid~~ caricatures, dead wood, sent to us by the College of Economics. The responsible work was still done by those ~~members~~ of the old personnel who <sup>had</sup> ~~were~~ not <sup>been</sup> dismissed. A great many people were dismissed from my department. On what basis? It was the job of the personnel (káder) department to find enemies and kick them out, and to discover good Communists among the personnel. They might bring some sort of concrete charge against a person, claiming that he had made a reactionary comment, or that he doesn't participate in community work. When this ~~was~~ happened, I tried to defend the employee by saying that "he is capable of development - ~~fej~~ (fejlődésképes) ~~személy~~, etc." Of a total of about 1,000 employees, only about four to five dozen were allowed to keep their jobs. In my department a proportionately high number of old employees <sup>was</sup> ~~were~~ kept; from a total of 50 about ten were allowed to remain, thanks to Vörös who liked me. He, too, tried to ~~maneuver~~ vis-à-vis the regime. It was not always

possible to save all of our employees; sometimes it was necessary to sacrifice people. It was considered a big thing that I was able to keep even ten of the old people. There were a few <sup>e</sup> useful employees among the new staff, chiefly former employees of the old banks. It was women who did the káder work; I remember one, a Swabian (sváb) cook, a Comrade Mrs. Engelhart. She came to see me to discuss the káder development program, the principle being that all comrades capable of development, especially the good kádery, should take courses, should continue to study. She sent them to statistical and language courses. About those she considered politically suspicious she said: "They are not capable of development". When she came to see me, we checked a list of bank employees to decide who was to attend extra courses. One of the people on the list was Gyula Illyés who <sup>had</sup> received a sinecure from Imrédy, in the old days, and had kept it until now. Engelhart said: "<sup>This</sup> ~~man~~ Illyés, I think ~~xxx~~ he should attend ~~the~~ a course in statistics." I told her that ~~that~~ was hardly possible, since Illyés was a Kossuth prize writer. She said: "Oh well, in that case, forget about <sup>it.</sup> it."

The National Bank was one of the few organizations in the country which had a truly overall view of the Hungarian economy. For one thing, since the bank could allocate credit to the state enterprises, we had access to all statistical and other information pertaining to these enterprises. The branches of the bank collected local information which was sent to us for analysis.

We of the economic department also made visits throughout the country; for instance, I had my own collective farms which I inspected<sup>d</sup>. We prepared confidential reports for the ministers, especially<sup>f or</sup> those dealing with the economy; the Planning Office, the Statistical Office, and Party headquarters. All economic information was classified in Hungary; even the volume of shoe-string production was a military secret. Since everything was broken down into details, the National Bank was one of the few agencies which could give an overall picture. In addition, we had to prepare reports on special subjects, such as: how to organize credit, what type of interest policy should Hungary adopt, how to create purchasing power, etc.

One of the chief subjects was the question of where the money was. This problem<sup>excited</sup> ~~excited~~ all the economic and political leaders. There was a considerable fluctuation in the circulation of money and it was our job to find out why. The entire peasant policy of the regime was mirrored in this fluctuation of currency circulation. The methods we worked out for finding out where the money was, why its circulation fluctuated, ~~was~~<sup>were</sup> far better than the methods worked out by the Poles, East Germans and Russians. Subsequently we discovered that the Russians had extremely primitive methods for this same purpose. We worked on this subject for many years, in fact ever since 1950. Two or three times a year, we prepared a comprehensive analysis of it. Such dramatic fluctuations, which

are due to the large sums of money going to the independent peasants and the private sector, maszek, do not exist in Russia. These fluctuations reflect changes in the distribution of national income, the inequalities between the income of the peasant and the worker. In the last three years, there was a three-fold increase in <sup>the</sup> circulation of currency, and Rákosi demanded an explanation of this.

In a planned economy like Hungary the circulation of money can be broken down into cash and non-cash transactions. The state enterprises have to keep accounts at <sup>the</sup> a national bank and their transactions are almost completely without money. The enterprises used cash only to pay their workers wages, and to buy supplies from the peasantry. The cash was the (in) hands of the population. With various statistical tricks, we discovered that there was a proportionality between the income of the population and the cash circulation in the country. The national income was divided into an investment base and a consumption base. The consumption base was divided into: 1) wage income. 2) peasant income, 3) other income. Money circulated at different speeds; wages circulated very quickly, and ~~xx~~ were spent in two weeks. The average worker was unable to save, and only had about one week's wages on hand. The money in the hands of the peasants circulated slowly; they received money less frequently and at <sup>un</sup> certain intervals.

and therefore they had to have reserves. Peasants saved a part of their cash income. In the town a few big earners deposited their savings in banks, but the peasants were mistrustful of banks and saved their cash. (The <sup>recent</sup> currency reform in East Germany was put into effect in order to wipe out the cash savings of the peasantry.) One of the questions posed to us was how the wage and peasant incomes were distributed around the average income.

We asked: <sup>to buy?</sup> which consumer goods does the peasant want? We found out that there was one thing which the peasants wanted to do passionately; to build houses for themselves. There were one and a half million independent peasant households in Hungary, many of which wanted to build houses for the young members of their families. However, there was a shortage of building materials in Hungary.

Until June 1953, the peasant was oppressed to such an extent that he was not able to save or hoard money. During Rakosi's peasant-fleecing policy the circulation of money did not rise, since the peasant incomes were limited and cut down. Instead, the peasants even had to spend their old savings. When Imre Nagy came into power in 1953, the peasant policy was relaxed, and as a result there was a tremendous increase in the circulation of money until 1955. Then Rakosi imposed his old policies and stagnation followed until after the Revolution when as a result of the abolition of the delivery quotas, the circulation of money jumped



again..

We tried to establish how this income was distributed among the peasants, to find out how many of them could amass assets of any size. We found out that those who had holdings of over ten holds and those who farmed intensively and had their land near towns could save considerable amounts. Approximately three hundred thousandx peasants in Hungary had savings or assets of some importance. After 1953, after some of the pressure at least was removed from the peasants, they were far better off than the workers with whom the circulation of money remained swift. The worker was at the mercy of the regime far more than the peasant since the latter could do what he wanted with any products he had left after the payment of his delivery quota. All that the worker could do to augment his income was to steal; all the workers stole and those who didn't were treated as traitors<sup>by their colleagues</sup> even though their refusal to steal was due only to inhibitions. After 1953, the peasant's economic conditions were not bad at all. They suffered under the political pressure exerted upon them, of course, what with forc<sub>e</sub>d collectivisations, taxes and administrative measures. They constantly suffered from the crude commassation of land<sup>(tagositas)</sup> to which they were subjected. This meant that the land of independent peasants was ~~xxxx~~ incorporated in a collective farm and the peasants received very poor land, usually in outlying districts, in exchange. This had a catastrophic effect on Hungarian agricul-

ture because it made the peasants feel insecure and made them neglect their land.

In my job I often have to visit the villages and I saw a great many collective farms which made a mixed impression on me. The National Bank had provincial branches which were in charge of the collective farm's credit. The employee of the branch would usually take us to the collectives. When I visited Topolca, I told the branch representative to take me to two collectives, to the best and to the worst of the district. The best was a pleasant, attractive, fairly small collective farm of ~~far~~ four to five hundred holds concentrating on vineyards and cattle. The president was an intelligent, pleasant farmer. One received a very pleasant impression here, a feeling of cooperation, of socialist building in the  $\kappa$  best sense of the word. At the worst collective farm, we didn't find a single soul on the collective lands at 4:00 p.m., although it was spring. The members of the farm were all ~~working~~ working their own land. The most grotesque collective I saw was at Parcag - a collective of over 3,000 holds near the Rumanian border. This collective farm produced a variety of things, including cotton. I insisted on looking at the cotton fields in spite of the fact that they tried to dissuade me from it. We drove past corn fields and I commented on how tall and healthy the corn looked. I was told that this corn grew on the household plots of the members. On coming to the next field, they said: "But

this is common kolkhos land". The corn ~~was~~ on this field was about one meter shorter than on the former and was full of weeds. Finally I asked: "when are we getting to the cotton fields?" "This is it," I was told. The field was neglected and full of weeds. Nothing else but weeds grew on it. I said: "You won't get any cotton on this field." The president of the farm agreed with me. ("Itt nem lesz gyapot!" "Az nem!"). He said that the production plan received from the District Council insisted that his collective plant one hundred holds of cotton. They ~~planted~~ planted the ~~new~~ cotton but it froze. Then they tried to get permission from the Council to plant corn instead but the Council insisted that they plant cotton again on the same land. They followed the order, but didn't even bother to hoe the cotton, knowing that it would freeze anyway.

As I pointed out before, ever since 1953, the circulation of currency had shifted towards the peasant. The purchasing policy of the regime was an impossible solution or no solution at all. What happened was that the peasant fulfilled his compulsory delivery quota and whatever he produced above that he sold <sup>to the state</sup> at a higher price regardless of the volume of production and regardless of the laws. In ~~an~~ effect a single state purchasing organ was faced with one and a half million peasants. One would think that in such a case the state would be in a monopoly situation but actually it was ~~by~~ the peasant who was in this situation. Usually the time when the

state started to purchase the peasants' surplus products, the warehouses were empty and the state was forced to ~~pay~~ <sup>pay</sup> the prices demanded by the peasant, in order to fulfill its export obligations. Usually Hungary made debts abroad in the first quarter year and tried to discharge this debt by exporting agricultural products in the fourth quarter. Because of this constant pressure of foreign debts what happened was that we sold wheat and rye <sup>abroad</sup> in the fall when it brought in low prices, and next spring when the prices were high, we were forced to buy second-rate grain from France. We at the bank brought up this subject in one of our financial reports stating that we needed ~~the~~ stock-piles of agricultural products in order to do things according to plan, in order <sup>to</sup> solve the problem of purchasing from the peasant. Today Hungary receives 3-4<sup>th</sup> month reserve supplies from the Russians especially in grain and fodder.

There was a constant contradiction, <sup>in the regime's</sup> ~~with the regime's~~ peasant policy and this problem has not yet been solved. 60 to 70 percent of the peasantry consists of independent farmers even today, and if these independent farmers are dissatisfied then they won't work, whereas if they are satisfied they refuse to enter the collective farms. In the Hungarian papers this problem is treated with self-contradictory and grotesque whining. They ~~would~~ would like the peasant to produce more, but they would also like to prove that ~~independent~~ independent farming is uneconomical and no good, thus forcing the

peasant into <sup>the</sup> kolkhoz.

The private sector - maszek - also had money but not all of it in circulation, since it banked some of its money. There was a fluctuation in the size of the private sector; in 1953, there were only 40,000 trade permits in Hungary, while at <sup>the time of</sup> Imre Nagy's fall there were 110,000. Rakosi then withdrew some, and the number of trade permits fell to ~~about~~ <sup>less than</sup> 100,000. At the height of its flourishing the private sector was responsible for 15 percent of the currency circulation of the country. The fact is that the large nationalized industries were unable to compete with the private sector, even in prices, because the private sector could cheat on taxes, had less overhead, and was more flexible with regard to time. At the nationalized factories the repair of a car took weeks and weeks partly due to a lack of parts. The private sector automobile mechanic, on the other hand, smuggled spare parts from Vienna. Their earnings were very high. Just to give you an example, I earned 3,000 forints a month, the president of the bank had 5,000, ~~the~~ a minister had about 5,000, whereas a private sector mechanic or stove builder could earn 10-20-30 thousand forints a month. Voros said to me: "I don't mind if they earn twice as much as a minister, but when I discover that they earn four times as much as a minister, then something is wrong."

Essentially the currency circulation mirrored the basic disease of the Hungarian economy; it indicated, it revealed that

the Hungarian economy was basically on the wrong track. It revealed that the investment policy was incorrect because it was dominated by political considerations, and not considerations of economy. The national income was too low for the amount of effort involved. Too large a segment of the national income was used for investments; and here I condemn not only the fact that 20-40 percent of it was invested <sup>but that it was invested</sup> in ways which had harmful consequences. The Hungarian export industry was backward and incapable of competition. The chief problems were: 1) the unprofitable nature of the Hungarian economy 2) backwardness in exports 3) unduly high investments 4) a lack of reserve supplies which was detrimental to the national income, at the expense of the workers.

In August 1956, the National Bank, for the first time, debated this problem and our report was sent to the Council of Ministers with the signature of the president of the bank - László Háy. We also invited people from the ministries, etc., to discuss this problem. However, all criticisms, <sup>and</sup> comments on the shortcomings of the investment and export policy were removed from the report, in spite of the fact that these were the two basic faults, ~~causes~~ ~~investment policy~~, because Háy didn't dare to take the responsibility of attacking these policies in a report addressed to the Council of Ministers.