

21 MARCH 1957

RFE NEWS & INFORMATION SERVICE - EVALUATION AND RESEARCH SECTION

Background Report
(Hungarian Research)

THE MANAGEMENT OF HUNGARIAN ENTERPRISES

1./ Links Between Industrial Enterprises and Upper Organs

Strictly speaking, industrial concerns in Hungary are under State ownership. The State asserts its proprietary rights through the intermediary of ministries' industrial and production departments. The three leaders of an industrial enterprise -- the director, the chief engineer, and the chief accountant -- are appointed by the ministry and can be relieved of their posts at any time. Through these three leaders, the State authorities exercise full control over the enterprise.

The enterprises were under constant and strict control by the special executives of the production management. The production plan and all the other plans -- first of all the cost of production plan -- had to be approved by the production board and their execution was controlled by it down to the smallest details. This exaggerated centralization went on undiminished until the outbreak of the revolution.

The State, however, not only asserted its rights toward the enterprises but it also had heavy obligations to them: it had to guarantee the losses of the enterprises and to come up with their full amount in cash quarterly. In practice this was done so that the balance account of the enterprise was checked by the production management, and after approval the deficit had to be paid to the enterprise.

It was understood that the enterprise profits belonged to the State and the total sum was deducted by the appropriate ministry from the enterprise account. This meant that in practice the "State proprietor" maintained these enterprises which worked at a deficit out of the payments from the profitable ones. The enterprise could keep for itself only a small part of the profits for investment, rewards and welfare purposes.

The principle of financial interest should have meant that the workers of the enterprise had a share in the profits. This was done through the premiums. However, until 1955, apart from a few exceptional cases, only the fulfillment of the production plan was rewarded with a premium and only recently did they begin to give a bonus for the cost of production plan and for results achieved

by the enterprise. However, only the leading technical and administrative staff had a share in the enterprise profits; the ordinary workers had not. Consequently, previous to the revolution, one could not speak of the workers' financial interest. Therefore the workers did not care about good results and spared neither the material nor the machines.

2./ Economic Relationship between Enterprise and State from Budgetary Point of View

The close relationship between State and enterprise as described above is reflected in the budget figures. Fiftyfive or 60 per cent of all the income items figuring in the budget are made up of the payments of taxes and profit. The income influx from taxes and profits is called the double channel payment system.

This double payment system had a twofold purpose: financial and political. Its financial aim was that under all circumstances the State was to obtain the income derived from taxes. In any case the State collected the purchase tax after the enterprise production had to be paid off, irrespective of whether the enterprise worked at a profit or at a deficit. Therefore, this was a certain income for the budget. The rates of purchase tax were very high, generally between 25 and 45 per cent, but there were even higher rates.

As the purchase tax of consumer goods was calculated in the enterprises' cost of production and therefore also in the planned State prizes, these taxes had to be paid ultimately by the public on all those goods on which taxes were charged. The purchase tax on consumer goods was highest, whereas articles not coming under this classification or services were either tax-free (for example products serving investments were tax-free) or had a low tax rate.

The political reason for the maintenance of this double payment system was that the enterprises should have a profit payment in order to reward the technical and administrative leaders and for the remuneration of the directors, through which the regime wished to keep up the principle of financial interest toward the workers or rather the illusion of it. After the payment of taxes, nothing was returned to the enterprise except a small portion of the profits.

Whether the enterprise paid the state under the heading of profit or taxes was finally only a question of planning. By keeping the same price level intact, they could manipulate with either a higher rate of taxes and a lower profit percentage, or with a lower rate of taxes and a higher profit percentage. The higher the plan for a rate of taxes the lower the profit percentage, which is most disadvantageous from the point of view of the living standard.

Taking this into consideration, we can state that the Hungarian budget respecting the price system in Hungary was very anti-social, because the population had to pay high taxes and the share of profits given to the workers was very small.

The following table⁺ illustrates the share paid in by the firms in the budget:

During the First Five-Year Plan (in milliard forint)

	1950		1951		1952		1953		1954	
	Plan- ned	Ac- tual	Plan- ned	Ac- tual	Plan- ned	Ac- tual	Plan- ned	Ac- tual	Plan- ned	Ac- tual
Turnover tax	8.1		13.0		26.2		27.7	28.3		
Firms' profit paid in	3.1	15.4	4.0	3.8	5.5		8.9	4.9	34.8	34.0
Other payments by firms			4.6		5.0		3.6	3.7	3.0	
Cooperative income		1.4			0.6		0.9	1.0	1.1	2.2
Total of social sector	11.2	16.8	21.6		37.3	35.4	41.1	37.9	38.9	36.2
Total budgetary income	20.1	25.5	29.6	33.9	42.8	42.5	52.3	49.9	49.8	45.3

Unfortunately the table is incomplete, especially the data on actual figures paid in under the headings of tax and profit is missing. But taking into consideration that by a 100 per cent plan fulfillment the state lifted the tax from the firms and that plan fulfillment always reached about 100 per cent, the planned and actual tax can be regarded as identical. Apart from this the following can be ascertained from the table:

The amount paid in tax and profit (first two items in table) constitutes approximately 55 to 58 per cent of the total national income; in 1954 it rose to over 70 per cent.

The actual figures never reached the total planned to be paid in profits, although the plan was overfulfilled.

⁺ United Nations Economic Bulletin For Europe, August 1955.

Another interesting conclusion is that in comparison with the tax the amount paid in profit shows a low proportion and has a tendency to decrease.

In 1955 -- the interregnum between the two five-year plans -- according to the budget prepared by Karoly OLT ("Szabad Nep", February 10 1956), 57.5 per cent of the budgetary income was made up of the turnover tax paid in by nationalized firms. Thus there was no considerable difference compared with previous years. Karoly OLT did not submit any data on the fulfillment of the profit plan; the analysis for 1954 is also missing. All he mentioned was that the number of firms working at a loss higher than planned was considerable. Probably on aggregate the firms did not fulfill the lowly-fixed profit plan (the reason why the Minister of Finance did not mention it.) For a characteristic comparison it is interesting to have a look at the double-channeled payment method and tendencies in the Soviet Union:

	In milliard ruble					
	1951	1952	1953	1954	1955	1956
Turnover tax	247.8	246.9	243.6	243.3	233.7	271.2
Profit paid in	48.0	58.5	70.3	92.8	117.5	107.3

According to this, tax paid in between 1951 and 1955 showed a tendency to decrease while profit paid in was constantly increasing. Thus the amount of the turnover tax was gradually decreased which presumably resulted in increased real wages and a rise in the standard of living. Large profit bonuses and other allocations could be paid out which meant that larger sums reached the hands of the workers. The difference between the two indices revealed itself especially in 1955, probably due to the new economic course. (Economic Survey of Europe, 1955/56, p. 184.)

Effect on Workers of National Economic Policy Regarding Enterprises

1. The exaggerated centralized direction of firms was based on the principle of economic democratic centralism and was the economic projection of the same principle of political leadership. It was just as non-democratic as the political leadership -- simply completely centralized. It was not only in the most important matters that the State interfered through the various ministries with firms' affairs, but also in the smallest details including personnel questions. No role was left to the workers in managing the firms.

The conception of social property became completely lost in the totalitarian, state-run, higher leadership and changed into a peculiar national capitalistic economic policy. The workers did not feel in any way that they were the owners of capital equipment. They did not even have a body to safeguard their interests as the trade unions had no prestige or say in the management.

At the same time the Communists proclaimed the principle of "The factory belongs to us." The contrast between principle and fact did not only deepen disappointment and embitterment but instinctively led the Hungarian worker to find a social and economic system which would guarantee some possibility of practically enforcing its social ownership.

This was the psychological and direct economic reason that the working class seized on the idea of the workers' councils with such elemental force after October 23 1956, -- and in which it hoped to find its revolutionary aims and confidence.

2. The State did not only centrally direct the firms but also took away every profit from them and the worker did not benefit even from the small profit repayments. Thus he was not interested in the profit, only in earning as high wages as possible, no matter legally or through wage frauds. The state, by forcibly driving production through the medium of the ministries, did in fact increase work intensity. It increased production and productivity at all cost, by neglecting safety and accident prevention measures, by illegal overtime and senseless work competition.

All these things played a decisive role in the fact that the working class joined battle for the ideas of the revolution with weapons and by means of a general strike which for 12 years it had been unable to stage and which surpassed any strike the world has seen.

End.