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ECONOMIC INTELLIGENCE REPORT

LIGHT INDUSTRY IN HUNGARY
1947-57



CIA/RR 95
31 July 1957

CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS

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(ORR Project 38.910)

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FOREWORD

This report analyzes the conditions and prospects of light industry in Hungary before and after the rebellion of October 1956. Light industry plays an important part in determining the level of living and the allocation of resources and is to be emphasized increasingly in 1957 as an aftermath of the rebellion.

The industries included in light industry are textiles, clothing, leather and footwear, woodworking, and paper and printing. Among the topics discussed in this report are the change in ownership and control of light industry, the building up of productive capacity since the end of World War II, the efforts made toward solving the chronic shortage of raw materials, and the effects of the October rebellion on the status of light industry.

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LIGHT INDUSTRY IN HUNGARY*
1947-57

Summary and Conclusions

In 1957 the absolute priority traditionally given heavy industry in Communist Hungary is being modified, and raw materials, manpower, and foreign exchange are being allocated to favor light industry,** the food processing industry, and agriculture. Under present plans, investment in 1957 will amount to about 9 percent of national income, compared with an annual average of from 18 to 20 percent of national income in 1945-55.*** For the time being the Hungarian government is maintaining relatively high levels of consumption, not only by reducing the tempo of its industrialization program but also by depleting stocks and by borrowing. "We are living," said a Hungarian spokesman recently, "on reserves, on gifts, and on loans."

The change in the status of light industry and other sectors of the economy concerned with the production of consumer goods is attributable to the rebellion of 23 October 1956. In part the rebellion was caused by the longstanding resentment of the people over the failure

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 May 1957.

** The term light industry as used in this report includes the following industries: textiles, clothing, leather and footwear, woodworking, and paper and printing. Although the term does not include the food processing industries or the industries producing appliances and other consumer durables, these industries are brought into the discussion when necessary, and there is a separate section on consumer durables (IX, p. 26, below).

*** Unless otherwise stated, figures for production, investment, foreign trade, and other over-all economic activities are taken from official Hungarian announcements. Figures for postwar production generally exclude production by private and cooperative industry, a procedure followed in the official statistics of Hungary. Because official figures for production by industry as a whole and by major sectors of industry represent the gross value of sales of industrial ministries, these figures involve some double counting of production -- for example, where the production of one ministry is a raw material for another ministry.

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of the government to improve living conditions rapidly. The immediate effects of the rebellion on light industry were a drop in production, reduction in commercial inventories of the products of light industry and in imports of raw materials for light industry, and a deterioration in factory discipline. In the first quarter of 1957, production in light industry was restored to three-fourths of the pre-October level; but many serious problems remain, notably the restoration of control over costs of production in light industry and the elimination of the large adverse balance of trade. One of the striking features of the plan of the government to stimulate production of consumer goods in 1957 is the attention being given to reviving artisan production in such fields as tailoring, custom shoemaking, and upholstering.

Even if the government supports light industry in 1957, production probably will be no greater than in 1956, and the level of production in 1956-57 is estimated to be 16 percent below that of 1955. Although production has declined, wage rates in light industry are now 10 percent above the rates of early 1956. Consequently, the government will have to face the problem of tightening up factory discipline in order to reduce costs of production. Moreover, the de-emphasis of investment in 1957 is temporary, and by the end of 1957 pressures probably will have risen in the government and Party for the resumption of priorities for heavy industry.

The background of the events in light industry in 1956-57 lies in the revolutionary measures adopted by the Communist government of Hungary since the end of World War II. The emphasis placed on the rate of industrial growth as the basis of economic policy has resulted in the steady long-run decline of the relative importance of light industry, even though in absolute terms light industry has continued to grow. In 1938, about 35 percent of the gross value of industrial production in Hungary was accounted for by light industry; in 1948, about 29 percent; and by 1957, only about 21 percent. Under the original Second Five Year Plan (1956-60), the share of light industry was to represent 18.6 percent of the gross value of industrial production by 1960.

The private sector of light industry declined steadily between 1947 and 1953 and by 1953 accounted for only 2 percent of the value of production. When the "new course" was announced in July 1953, plans were made to increase the importance of the private sector, and by 1955 it accounted for 5 percent of the value of production. The revival of

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artisan activity planned for 1957 suggests that the relative importance of the private sector of light industry will be maintained or even expanded in 1957.

I. Introduction.

The rebellion of 23 October 1956 in Hungary was partly the result of the longstanding failure of the Communist government of Hungary to insure better living conditions for its people. As a consequence of the rebellion the regime has re-examined the status of light industry and, at least in 1957, will modify the absolute priority traditionally given heavy industry and will favor light industry in the allocation of raw materials, manpower, and foreign exchange. Investment in heavy industry is to be curtailed, especially in those branches of heavy industry for which Hungary lacks raw materials. A detailed account of the immediate and long-term effects of the October rebellion on light industry follows in II, below.

This report traces developments during the period after World War II in the important branches of light industry in Hungary in terms of production, growth in capacity, quality of product, and availability of raw materials. Changes in the labor force of light industry, in the composition of foreign trade, and in the relative importance of the Sino-Soviet Bloc and the West as markets and sources of supply for the products of light industry are treated in separate sections.

Underlying the entire discussion is the concentration of the Communist rulers on the building up of the heavy industrial strength of Hungary at the expense of immediate improvement in living standards. It was this dogmatic insistence on the priority of investment over consumption that played an important role in setting the conditions for the October rebellion. There is no question of an abandonment of the goal of forced industrialization; there is only the question of how long the present emphasis on production by light industry will last.

II. Effects of the October Rebellion.

The immediate effect on light industry of the October rebellion in Hungary was a drop in production. Phrases used in the official press

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to describe conditions were "production at an insignificant fraction of the same period last year" or even "production at a standstill." Although the rebellion started late in October 1956, production even in October dropped perceptibly below that in September, an indication of the unsettled political and economic conditions that preceded the actual rebellion. In the months of November and December, production of light industry was less than one-third of what it would have been if the rebellion had not taken place. The production of 3 important products of light industry, with production in September 1956 equaling 100, was as follows 1/*:

<u>Product</u>	<u>1956</u>			
	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>
Cotton fabrics	100.0	58.3	6.1	22.7
Knitwear	100.0	71.6	9.7	26.5
Leather footwear	100.0	79.0	12.7	31.7

At the same time that production was declining so sharply, industrial payrolls were being maintained under a conciliatory government policy, with the result that consumption of the products of light industry ran far ahead of production. The value of commercial inventories of four important products of light industry at the beginning and at the end of the last quarter of 1956 declined as follows 2:

<u>Product</u>	<u>Million Forints**</u>	
	<u>Inventory</u>	
	<u>1 October 1956</u>	<u>31 December 1956</u>
Cotton fabrics	513.8	209.7
Woolen fabrics	420.6	137.3
Knitwear	238.1	91.8
Leather footwear	613.6	243.3

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** Current prices. See the second footnote in IV, p. 10, below, for a discussion of forint values.

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Another effect of the rebellion was a decline in exports of the products of light industry and in imports of raw materials used in light industry. Thus, in October and November 1956, Hungary imported only 4,100 tons* of raw cotton, an amount equal to 51 percent of the imports of raw cotton in the same period in 1955.

The rebellion caused considerable physical damage to public buildings and apartment houses, especially in Budapest, but the facilities of light industry for production were relatively unharmed. Workers were not so shortsighted as to engage in wholesale destruction of facilities necessary to any future amelioration of their low standards of living.

As a result of the rebellion, lines of authority in light industry were disrupted. Factory workers enjoyed a short-lived local autonomy in the form of workers' councils, which were supposed to plan production, to set work norms, and to settle grievances at the plant level. In December the government planned the merger of the Ministry of Light Industry and the Ministry of the Food Processing Industry, but the merger was abandoned shortly thereafter.

In the first quarter of 1957 the situation in light industry was successfully stabilized by the new Kadar government, and those lasting effects of the rebellion which could be expected to continue through 1957 became apparent. First, the government conceded the necessity of a 1-year moratorium on the absolute priority traditionally given to heavy industry. Investment in 1957 is to be about 9 percent of national income,** compared with an annual average of from 18 to 20 percent of national income in 1945-55. Consumption, including military expenditures, is to account for 91 percent of national income. Available raw materials and foreign credits are to be used to restore production in the light and the food processing industries rather than to continue the development of heavy industries little suited to the economic resources of Hungary. Production of consumer goods, as shown in Tables 1 and 2,*** is expected to account for almost 57 percent of total industrial production in 1957, compared with 53 percent in 1956.

* Tonnages are given in metric tons throughout this report.

** According to the original revision of the Plan for 1957, investment was to be only 5 percent of national income. The increase in investment reflects a gradual reversal of the position held immediately after the October rebellion, when substantial improvement in standards of living was anticipated.

*** Appendix A, pp. 31 and 32, respectively, below.

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In January 1957, production in light industry had been restored to 68 percent of the September 1956 level, and, in February, production advanced to 77 percent of the September level. If this rate of increase were to continue, production in light industry for 1957 as a whole could equal production in 1956. The level of production in 1956-57, however, is estimated to be 16 percent below the 1955 level. Exports of the products of light industry will be limited to 10 to 15 percent of production compared with 30 to 40 percent before the rebellion. The partial restoration of production in light industry in the first quarter of 1957 and the easing of export requirements did not solve the problems of depleted stocks or of excessive wage payments. In the first quarter of 1957, people still had to queue up for a number of manufactured consumer goods.

Even though production in light industry is restored to prerebellion levels, costs of production hardly can be brought back to prerebellion figures. In January and February 1957 the industrial plants of 6 ministries, which earned a profit of 110 million forints in January and February 1956, incurred deficits of 1,430 million forints. Part of these deficits were caused by operation below capacity, but official commentary makes it plain that 2 other contributory factors were the 10-percent wage increase of 1956 and the failure to "consolidate work discipline." Because the grinding pace of work was one of the major causes of the bitterness felt by workers in the period before the rebellion, the regime will find it difficult to restore previous norms of production.

In 1957, as part of the program of the government to support consumer goods industries, a revival of artisan activity is planned in such traditional lines as tailoring, custom shoemaking, and upholstering. The decline in artisan activity in Communist Hungary is illustrated by a report that from 1 January 1949 to the end of 1953 the number of artisans and their employees declined from 377,000 to 51,000 as a result of the emphasis by the government on industrialization.

The situation in 1957 probably cannot continue indefinitely, because the Hungarian economy is not paying its way. A government spokesman admitted, "We are living on reserves, on gifts, and on loans." Foreign aid from the Sino-Soviet Bloc during the last quarter of 1956 amounted to 2 billion forints and continued at approximately the same rate in the first quarter of 1957. A large part of this aid has been in the form of consumer goods necessary to maintain living standards and to reduce upward pressure on prices of consumer goods. The contin-

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uation of an unfavorable balance of trade in 1957 is illustrated by the report that imports in January and February were 42 percent above the same period of 1956, whereas exports were 14 percent below.

As soon as political control is more firmly established and industrial production recovers to prerebellion levels, the Communist government of Hungary may be expected to revitalize the long-run program of industrialization. Beyond 1957, therefore, if the concessions made to light industry and the consumer sector are to be continued, the government will have had to achieve remarkable success in solving the grave economic problems cited above.

III. Developments from 1947 to 1956.

Developments in light industry that took place in the decade prior to the October rebellion help to explain the growing popular resentment felt against the Communist regime. In common with Communist governments in the other countries of the Sino-Soviet Bloc, the government of Hungary in the prerebellion period had favored the expansion of production of producer goods at the expense of production of consumer goods. Of the gross value of industrial production in the prewar year of 1938, light industry accounted for 35 percent and the food processing industry for 30 percent, or a combined total of 65 percent,* as shown in Table 2.** Under the Communists in 1948 the percentage of consumer goods to total industrial production already had fallen to 58 percent, and by 1953 to 50 percent (see Table 2). At this time, under the "new course," consumer goods received more attention in government planning, and the percentage of consumer goods to total production went up to about 53 percent for the next 3 years. The food processing industry rather than light industry accounted for this advance. Changes in the absolute level of production in light industry in the postwar period and production figures for these years are shown in Table 1.***

The relative share of consumer goods and producer goods in total industrial production in Hungary is shown in the accompanying chart, Figure 1.**** Production of consumer goods decreased from more than 65 percent of total industrial production in 1938 to 50 percent in 1953.

* Prewar and postwar figures are comparable; the sector covered in 1938 approximates what is now state and local industry.

** P. 32, below.

*** P. 31, below.

**** Following p. 8.

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Although the relative position of consumer goods has increased since 1953, the original Plan for 1960 anticipated that consumer goods again would account for only 50 percent of total industrial production.

The gross value of production of consumer goods and producer goods is shown in the accompanying chart, Figure 2.* After 1952 the growth in production of consumer goods is shown to have been concentrated in the food processing industry, with production by light industry leveling off.

In August 1947 the economy began to operate under the Three Year Plan (1947-49). Under this Plan, light industry reached 62 percent of its prewar level of production by the end of 1947 and 86 percent in 1948. 3/ The goals of the Three Year Plan were to restore industry to its prewar level and to achieve a greater degree of industrialization as a basis for ultimately improving the standard of living. A report was issued for the first year of the Plan (1947-48), and nothing was reported again until 1949 when it was announced that the Plan was to be finished ahead of schedule and that the First Five Year Plan would begin in 1950. 4/ Although production by light industry was behind schedule in 1947-48, by 1949 light industry had exceeded the Plan, reaching 116 percent of its prewar (1938) value of production and 29 percent of the gross value of industrial production.

The Three Year Plan was completed 6 months ahead of schedule, and the First Five Year Plan, which followed, firmly established the trend started in the first year of the Three Year Plan. Increased industrialization, which was to be the basis for ultimately raising the standard of living, was the foremost goal of the planners, and the standard of living temporarily was subordinated to this increased industrialization. During the First Five Year Plan the development of heavy industry was stressed at the expense of light industry, and although production by light industry increased considerably, this increase was well below that of heavy industry.

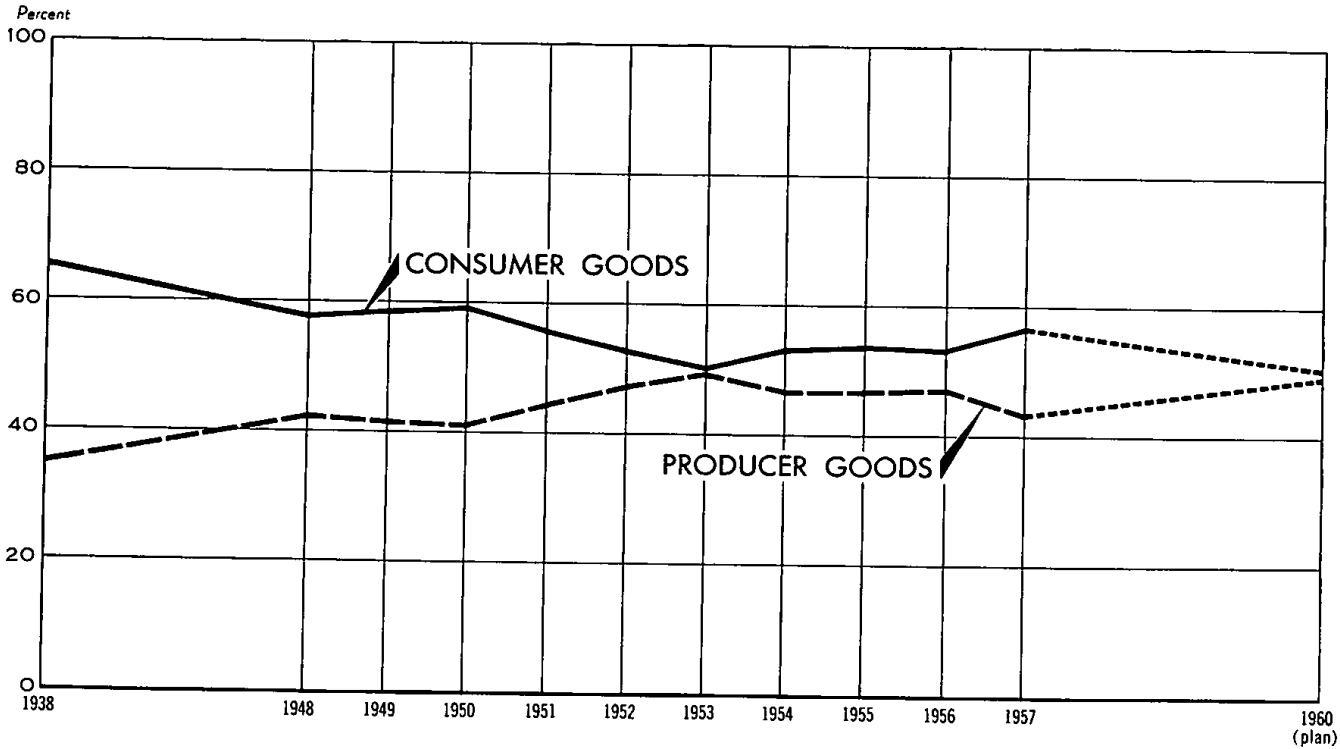
In 1950 the value of production by light industry increased by 28 percent above that in 1949; and in 1951, by 29 percent above that in 1950. By the end of 1951, however, light industry accounted for only 26 percent of the gross value of production of industry compared with 35 percent in 1938. The entire consumer goods sector represented only 56 percent of the total value of production compared with 65 percent in 1938.

* Following p. 8.

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PERCENTAGE OF CONSUMER GOODS
AND PRODUCER GOODS IN TOTAL INDUSTRIAL PRODUCTION
1938, 1948-57, and 1960 plan

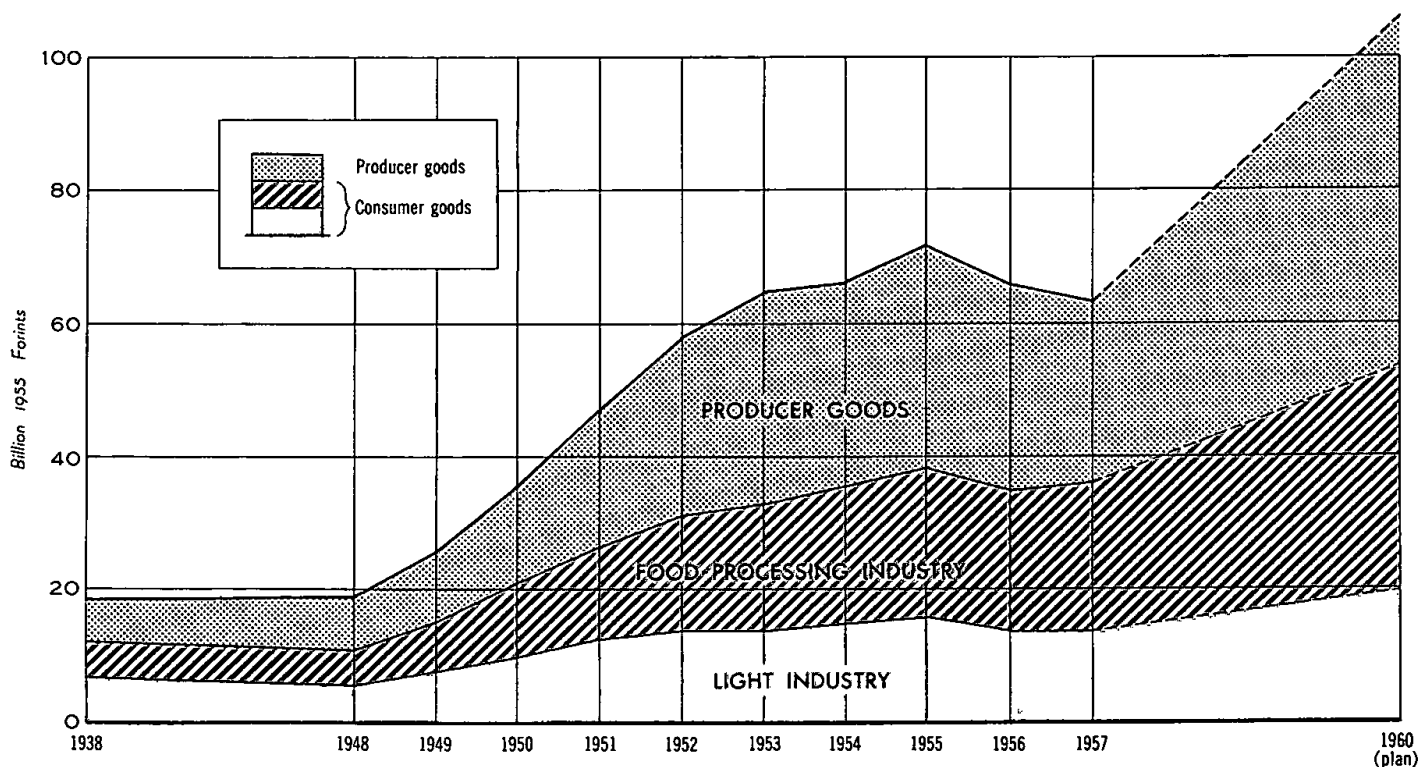
Figure 1



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Figure 2

HUNGARY
GROSS VALUE OF PRODUCTION OF CONSUMER GOODS AND PRODUCER GOODS
1938, 1948-57, and 1960 plan



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The First Five Year Plan was revised and accelerated in 1951, and all goals were raised, including those for light industry. In 1952, however, production by light industry was only 13 percent above that in 1951. A reduced rate of growth at this time continued into the first half of 1953, and the second major revision of the Plan was announced in July as the "new course."

The "new course" reiterated the ultimate goal of a higher standard of living. The principal goals of the "new course" were to make more goods immediately available to the consumer, to increase agricultural production, and to develop those branches of heavy industry producing durable consumer goods. The general development of the engineering and basic industries was to continue, but at a reduced rate, until some degree of economic balance had been restored. The "new course" contained no specific plans to increase production but provided only for the attainment of goals which were either the same or lower than those in the original Plan. Plans were made to increase production as well as investment during the second half of 1953 in order to make up for the serious underfulfillment in the first half of that year and to make possible the fulfillment of the original plans for 1953. In spite of the efforts made during the second half of the year, the goals were not attained. Production by state and local enterprises of light industry in 1953 increased 0.2 percent above that in 1952, and the food processing industry showed an increase of 11 percent, which was below that in the previous year. 5/

In the first part of 1954, heavy industry failed by a wide margin to meet its goal for the production of durable consumer goods. The food processing industry continued to feel the effects of a poorly equipped agricultural labor force, and light industry continued to be faced with shortages of raw materials. These conditions prevailed throughout 1954, and by the end of the year the new program was seriously lagging behind planned goals. Production by the state and local enterprises of light industry increased only 6 percent. At the same time the value of production by heavy industry decreased 4 percent.

In 1955, Hungarian industry was more successful in fulfilling production plans than in 1953 and 1954. The Plan called for a 7.1-percent increase in light industry, compared with a 5.7-percent increase in industry as a whole. 6/ The Plan was fulfilled, and the value of production by the state and local sector of light industry increased 8 percent above that in 1954, compared with a similar 8-percent increase for industry as a whole. In 1955 the state and local sector of light

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industry produced 22 percent of the value of production by industry as a whole, and the consumer goods sector accounted for 54 percent.

IV. Second Five Year Plan (1956-60).

Under the original Second Five Year Plan (1956-60), which was canceled as a result of the rebellion, light industry was to reduce imports of raw materials by developing the synthetic fiber industry and by increasing domestic sources of raw materials. The Plan provided for the extensive use of modern techniques of production that were designed to increase both the quantity and the quality of goods. A directive of September 1954 stated that the only priority for light industry would be for articles produced for export and for articles that otherwise would have had to be imported. 7/ In accordance with this directive the production plan for 1956, compared with that for 1955, called for a decrease of 3.8 percent to compensate for a reduction in imports of raw materials. 8/ By 1960 the domestic supply of goods produced by light industry was expected to have risen 40 percent above the supply in 1955. A reduction in the export of the goods of light industry, particularly of cotton fabric, was expected to contribute to the achievement of this goal.

In 1949, Hungarian planners were misled by the rapid rates of growth achieved in industry during the Three Year Plan. They underestimated the extent to which these rates were the result of underemployed labor, underutilized capacity, and a temporary surplus of raw materials -- conditions which made possible a higher rate of return on investment. If it is assumed that light industry in Hungary had reached approximately 45 percent of the prewar value of production* at the time the Three Year Plan began in August 1947, then for each forint** of investment, light industry produced 31 forints of additional goods by the end of 1949. During the following 5-year period the shift from the

* The values of production by light industry in 1938, 1946-47, and 1947-48 were used to estimate the value of production at the beginning of the Three Year Plan.

** Forint values are given in terms of 1955 Plan prices unless otherwise indicated. At the official rate of exchange the forint-dollar ratio is 12 to 1. The extent of overvaluation in the official rate of exchange, however, is shown in the forint-dollar ratio of 23 to 1, recently established by the Hungarian government for tourists and for international-exchange transactions not involving the movement of commodities.

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reconstruction and repair of damaged plants to the construction of new plants resulted in only 23 forints of additional goods being produced for each forint invested. During this period, however, there had been an increase in the amount of investment allocated to light industry. An accurate comparison of the relationship of production to investment between these two periods cannot be made, because of the increase in size of the capital stock, changes in maintenance and repair costs, and changes in the lag between new investment and new output.

Under the Second Five Year Plan as originally adopted, light industry was to produce about 5 forints of additional goods for each forint of planned investment.* The 25-percent increase in production that was planned for 1956-60 was largely contingent upon increased utilization of present capacity and increased productivity of labor.** It is expected that light industry will represent only about 20 percent of the gross value of industrial production in Hungary by 1960.

Plans for light industry are being modified as a result of the economic crisis. The Second Five Year Plan is being replaced by a One Year Plan for 1957 and a Three Year Plan for 1958-60. The basic objective of the One Year Plan is stated to be that of raising the standard of living of the workers. In line with this objective the 1957 goals for the production of consumer goods will be greater than production in 1956, investment will be cut, a larger share of national income will be allocated to consumption, and exports of consumer goods will be reduced where necessary in order to increase the quantity available for the domestic consumer. Hungary has obtained loans from non-Soviet Bloc countries as well as from countries of the Soviet Bloc and is increasing its imports of consumer goods. In addition, independent craftsmen and artisans' cooperatives are being encouraged to broaden their productive activities in order to increase the supply of consumer goods. 2/

The long-term effect of the present situation on production by light industry is not as yet clear. Industrial objectives probably will be modified in accordance with the directives of the Council of Mutual Economic Assistance (Sovet Ekonomicheskoy Vzaimopomoshchi -- CEMA),

* This relationship is subject to the same qualifications mentioned in the preceding paragraph.

** For example, 90 percent of the increase planned in the production of wool fabric and 40 percent of the increase planned in the production of knitwear must be accomplished without additional investment.

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whereby Hungary will concentrate its resources chiefly on those industries which can produce at an advantage in comparison with other Satellite countries. Also prominent is the problem of modifying production, trade, and financial policies in order to build up depleted reserves, to raise the domestic level of consumption, and at the same time to avoid inflation.

V. Organization.

In Hungary, nearly all consumer goods except processed foods are produced under the jurisdiction of the Ministry of Light Industry. The exceptions are those durable consumer goods, such as household electrical appliances, produced by heavy industry. The Ministry of Light Industry was organized in 1949 to administer the textile, clothing, and footwear industries. At that time a Ministry of Local Industries was responsible for production of many durable consumer goods and for the production of some textile goods as well as for such services as shoe repairing and tailoring. In 1954 the government placed local industries, cooperatives, and independent artisans under the supervision of the Ministry of Light Industry. 10/ In 1956 the following industries were under the jurisdiction of the Ministry of Light Industry: textiles, clothing, leather and footwear, woodworking, and paper and printing.* 11/

State and local industry comprise the most important part of production by light industry, accounting for approximately 80 percent of the total value of such production during 1949-56. This sector of production was formed chiefly from enterprises which employ more than 10 persons and which had been taken over by the state in 1949. The remainder of production by light industry is carried on by small private enterprises and by cooperatives.** Until recently the policy of the Hungarian government has been to drive private enterprises out of business or into cooperatives, with the result that the value of production by private industry has declined. Private enterprises produced approximately 20 percent of the value of production of light industry in 1949, 2 percent in 1953, and about 5 percent in 1955. During

* A few enterprises of the chemical and machine-building industries are also under the jurisdiction of the Ministry of Light Industry. These enterprises probably are concerned with products such as synthetic fibers and machinery for the textile industry.

** In addition, there is some home handicraft production, especially in rural areas. The importance of this production in the prewar period is not known, but it is negligible at present.

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the same period the importance of cooperative industry has increased from about 3 percent of the value of production of light industry in 1949 to about 15 percent in 1955. 12/ The need for increased production of consumer goods is leading to the encouragement of private industry, particularly since January 1957. Incentives for private industry are to include a reduction in the tax burden on the independent artisan and the provision of an adequate supply of high-quality raw materials at reasonable prices. 13/

VI. Investment.

The investment by Hungary in light industry may be divided into three major categories: (1) investment for the reconstruction and repair of plants and equipment damaged during World War II and for the replacement of equipment taken as reparations by the USSR, (2) investment for the construction of new plants and for the expansion of existing facilities, and (3) investment for the development of substitutes and new processes. The first of these categories and, to a limited extent, the second were basic characteristics of the goals of light industry under the Three Year Plan (1947-49); the second also was a characteristic of the First Five Year Plan (1950-54); and the third will dominate the 1956-60 period.

1. Three Year Plan (1947-49).

To regain prewar levels of production, Hungary invested 227 million forints, at current prices, in capital equipment for light industry during the Three Year Plan. 14/ This investment represented only 7 percent of gross industrial investment whereas investment in heavy industry represented about 89 percent and that in the food processing industry, 4 percent of the total. The textile industry received about 70 percent of the funds invested in light industry. Most of these funds were spent to increase spinning capacity, 15/ which had been either destroyed during the war or reduced as a result of reparations.

In 1947, cotton-spinning capacity in Hungary was about 60 percent of the 1938 level, 16/ and the spinning mills were unable to produce enough yarn to supply the weaving mills adequately. Because Hungarian production of textile machinery was negligible, most of this machinery had to be imported. During the Three Year Plan, 100,000 spindles were added to the capacity of the textile industry, and at least 90,000 of these spindles were imported.* Of the spindles imported,

* Excluding 30,000 spindles in the cotton-spinning mill at Szeged, which was not completed until 1950.

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72,000 were purchased from England, and a minimum of 18,000 from other countries. 17/ These additions helped Hungary regain prewar spinning capacity by the end of the Three Year Plan. In 1949 there were 320,000 spindles for cotton in Hungary.* 18/

During the Three Year Plan, investment funds were used to complete the viscose works in Nyergesujfalu** and to build a new spinning mill in Szeged. The viscose works is the only known rayon and fiber factory in Hungary. In 1948 the daily output of this factory was 5,000 kilograms (kg) of rayon and 2,000 kg of staple fiber. New machinery, presumably of Swiss manufacture, was added in 1949. 19/ Further expansion was planned during the First and Second Five Year Plans.

The cotton-spinning mill at Szeged, although not completed until 1950, was the most important construction in light industry during the Three Year Plan. This mill was equipped with 30,000 spindles obtained from the USSR. Weekly production was planned to be 50,000 to 60,000 kg of cotton yarn. 20/

There are no data available on losses of capacity in the footwear, paper and printing, and woodworking industries during and after World War II. The losses, however, were probably small compared with the losses in the textile industry, and investments allocated to these industries were therefore also small.

2. First Five Year Plan (1950-54).

The achievements of the Three Year Plan served as the basis for the industrial expansion called for by the First Five Year Plan. The priority of heavy industry was demonstrated by the apportionment of 90 percent of industrial investment funds to heavy industry. Under the revised plan, investment in heavy industry was to total 37.5 billion forints, in light industry 1.8 billion forints, and in the food processing industry 1.7 billion forints. The division of investment funds among the branches of light industry, in billions of forints, was to be as follows 21/:

* The number of spindles in place and added in major cotton-spinning mills in Hungary in 1949, 1954, and 1960 (Plan) is shown in Appendix B, Table 5, p. 36, below.

** Construction was begun during World War II but had to be discontinued.

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<u>Branch of Industry</u>	<u>Amount (Billion Forints)</u>
Textiles	1.050
Clothing	0.261
Leather and footwear	0.139
Woodworking	0.103
Paper and printing	0.287

Construction of 34 plants was planned originally for light industry as follows 22/: 20 plants for the textile and clothing industries, 2 for the leather and footwear industries, 9 for the woodworking industry, and 3 for the paper industry. The revised First Five Year Plan, announced in 1951, reduced the number of new enterprises in light industry to 29. This reduction may be attributed to governmental re-emphasis on the development of heavy industry and to a shortage of raw materials, which limited the growth of production by light industry.

Actual gross capital investment in industry in Hungary during the First Five Year Plan amounted to 29.7 billion forints in current prices. Of the gross capital investment in industry, 27.4 billion forints were used by heavy industry, 1.2 billion by light industry, and 1.1 billion by the food processing industry. 23/

During the First Five Year Plan, not more than 10 of the 29 plants scheduled for construction were completed and put into operation. 24/ In addition to the 10 new plants, many existing plants were expanded. Although the construction plan for light industry was not fulfilled, the following important results were achieved by light industry during the First Five Year Plan:

a. The addition of 100,000 spindles to the textile industry made possible a 42-percent increase in the production of cotton yarn. Of these spindles, 40,000 were located at the new 100-million-forint spinning mill in Kaposvar. 25/ This mill began operation in 1952, and its additional spinning capacity was expected to increase by about 5,000 tons production of cotton yarn in Hungary. 26/ The spinning capacity of mills in Lorinci and Kobanya Hegy was increased by the addition of 30,000 spindles in 1952. 27/

b. Facilities for the manufacture of flax and hemp products were expanded. A new flax factory in Mikosdpusztá and a hemp factory in Sarkad were put into operation in 1954. The hemp factory was expected to effect a 10-percent increase in production of hemp fiber. 28/

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c. A firm basis for a large-scale clothing industry was developed. The most important factories built between 1950 and 1954 were those at Bekescsaba, Zalaegerszeg, and Budapest. 29/ The machinery for these plants was supplied by the USSR, and production was scheduled for domestic, civilian, and military consumption as well as for export.

d. The viscose works in Nyergesujfalu was expanded. This increase of capacity made possible the plan for increased production of rayon.

e. A straw-cellulose factory was constructed in Szolnok in 1954. 30/ This factory enabled Hungary to reduce imports of wood for the manufacture of cellulose by substituting domestically available straw and rice hulls.

f. The leather factory in Pecs and the Tisza Shoe Factory in Szolnok were expanded. 31/

Under the "new course" of July 1953, investment funds were re-allocated in favor of light industry, bringing the percentage of total investment for 1953 up to the level of investment set by the First Five Year Plan as revised in 1951. Actual investment in light industry in 1953 was 323 million forints, or 2 percent of total investment. 32/ In 1954 the investment plan for light industry was not fulfilled, and heavy industry again received priority development.

3. Transition Year (1955).

The investment plans for 1955 and 1956 were more realistic than those for previous years. In 1955, fewer funds were allocated to total investment. Proposed investment in light industry was increased, although it was still low -- about 420 million forints 33/ -- and proposed investment in heavy industry was decreased.

Investment in 1955 was used to complete projects begun during the First Five Year Plan. The most important plant built by light industry in 1955 was a new spinning mill in Miskolc. 34/ Operation at total capacity was not expected to be reached until 1958, but partial operation began in 1955. Machinery for this plant was imported from East Germany, an important supplier of textile machinery to Hungary.

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4. Second Five Year Plan (1956-60).

The Second Five Year Plan (1956-60) called for a 20-percent increase in total investment in Hungary over the level of 1950-54. 35/ Investment for light industry was to be 3 percent of total investment, compared with 2 percent under the First Five Year Plan. Despite this increase in investment for light industry, it is expected that light industry by 1960 will represent only about 20 percent of the gross value of industrial production. Total investment in light industry, however, was to be 92 percent higher than under the First Five Year Plan. The major goals for light industry under the Second Five Year Plan were the expansion and improvement of present plant facilities rather than the construction of new plants. These goals were to be achieved by the construction of additions to the existing plants, by installing improved types of machinery, and by improving techniques of production.

The utilization of synthetics and substitutes was one of the chief goals of the Hungarian investment plan for light industry. 36/ Success of this program would have enabled Hungary to decrease imports of raw materials and thus to increase the supply of foreign exchange available for importing higher priority goods.

A new synthetic fiber plant in Nyergesujfalu was to be constructed, 37/ and facilities for spinning and weaving synthetic fiber were to be expanded. For example, the construction of a spinning mill at Kistarcsa to process wool yarn mixed with synthetic fiber was begun during 1956. The cost of constructing this mill was originally estimated at 20 million forints. 38/

5. Plans for 1957.

Total planned investment for 1956 was 11.6 billion forints, but plans to increase the proportion of national income to be allocated to consumption in 1957 have necessitated a 30-percent reduction in planned investment. This most recent revision of the Plan allocates 8.2 billion forints to investment, in contrast with the 5 billion forints allocated to investment by the Plan as originally revised.

According to the most recent revision of the Plan, approximately 500 million forints, or 17 percent of industrial investment, is to be allocated to light industry and the food processing industry. This figure for 1957 is only 66 percent of investment in the same industries in 1955, but the percentage of industrial investment

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to be allocated to light industry and the food processing industry in 1957 is approximately the same as that in 1955. Investment in light industry in 1957 will be concentrated on maintenance and repair of equipment rather than on the construction of new plants.

VII. Labor Force.

The rise in the value of production by light industry since 1949 is the result of an increase in the number of workers engaged in production of light industry and, to a lesser extent, a rise in the productivity of labor. In 1954 there were 210,000 workers and employees engaged in the state and local sector of light industry, or 60 percent more than in 1949. The number of workers engaged in production rose by 61 percent during the same period and represented 79 percent of all workers and employees in 1954. Textile workers and employees constituted about 50 percent of the total number of workers and employees in the state and local sectors of light industry in 1954 and 1955, and garment workers accounted for approximately 17 percent more. 39/

State economic policy is reflected in shifts in the distribution of the industrial labor force. The number of workers and employees engaged in the state and local sector of light industry has declined as a percentage of total industrial employment from about 30 percent in 1938 to 25 percent in 1949 and 23 percent in 1955. Conversely, heavy industry employed 58 percent of all industrial workers and employees in 1938, but 62 percent in 1949 and 66 percent in 1955. 40/

The labor force of light industry includes members of industrial cooperatives and private artisans as well as workers and employees in state and local enterprises. In 1955, probably 50,000 productive members and employees of the industrial cooperatives were engaged in light industry. As of 31 December 1955 there were also about 94,000 independent artisans in Hungary, who employed more than 4,600 employees and 11,000 apprentices to supplement their own productive activities. Approximately 29,000 of the 94,000 artisans were engaged in the clothing and footwear industries. There were almost 8,000 cabinet makers and a small number of jewelers, decorators, and members of other trades that are closely connected with the production, repair, or servicing of nonfood consumer goods. 41/

The Second Five Year Plan (1956-60), as originally adopted, did not provide for large additions to the labor force of light industry. Instead, the Plan was to be fulfilled by the development of substitutes for scarce

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raw materials, the fuller utilization of existing plant facilities, and a rise in the productivity of labor. According to the Plan, the productivity of labor in light industry was to increase 20 percent by 1960. 42/

The rise in production by light industry during 1949-54 was achieved primarily by an expansion of the number of workers rather than by an increase in output per worker. In 1954 the labor force in the state and local sector of light industry was 60 percent larger than in 1949. The value of output per worker in light industry, however, had risen only 25 percent, whereas output per worker in heavy industry was 56 percent above the level of 1949. Output per worker in light industry declined in 1953 and 1954. This decline was partly a result of shortages of coal and electric power and of difficulties in obtaining raw materials. In 1955 the productivity of labor in light industry rose 6 percent compared with that in 1954 and almost reached the 1952 peak.

The 20-percent increase in the productivity of labor in light industry envisaged by the original Second Five Year Plan will not be attained, because of the continuing need for repair and modernization of equipment, the need for improvement in the supply of raw materials for light industry, and the need to lessen popular dissatisfaction with the Kadar regime. Although the number of workers employed in the textile industry is to be increased by 11,400 in 1957, the problem of increasing production through a rise in the productivity of labor remains to be solved.

VIII. Important Branches.*

A. Textiles and Clothing.

The textile industry of Hungary began to develop on a large scale after World War I. From 1920 to 1929 the number of spindles used in cotton mills increased from 30,000 to 243,000 and the number of spindles used in woolen mills from 6,000 to 69,000.** 43/

* Production of selected goods by light industry in Hungary in 1938, 1949-56, and 1960 (Plan) is shown in Appendix A, Table 3, p. 33, below.

** The major wool-spinning and weaving mills in Hungary are shown in Appendix B, Table 6, p. 37, below.

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World War II delayed the development of the textile industry, and war damage and reparations reduced the available capacity. As a consequence the Three Year Plan (1947-49) of Hungary provided only for the attainment of the prewar level of production in light industry. The Plan, which was completed in 2 years and 5 months, not only was fulfilled ahead of schedule but also was successful in socializing the greater part of industry. By 1948, 74.8 percent of the textile workers were in the socialist sector, which contributed 78.8 percent of the gross value of production. 44/

The textile and clothing industries accounted for 16.4 percent of the gross value of industrial production in 1955, compared with 18.6 percent in 1949 and 15.8 percent in 1953.* 45/ These industries are the most important branches of light industry, representing 74 percent of the value of production of light industry in 1955, compared with 66 percent in 1949. The clothing industry increased its production by 402 percent between 1949 and 1955, compared with a rise of only 80 percent in the value of production of the textile industry during the same period. 46/ The rapid gains made by the clothing industry resulted largely from a considerable amount of new construction and from the substitution of large-scale factory production for artisan handicraft production. 47/

1. Cotton Textiles.

On the basis of the number of workers and the volume of output, cotton textiles are the most important branch of the textile industry of Hungary. During 1938-55, cotton accounted for about 45 percent of the value of production of textiles. 48/

Before World War II the majority of cotton enterprises in Hungary were concentrated in Budapest and its suburbs. A smaller number of enterprises were located in western Hungary, near the centers of raw material imports at Győr, Sopron, Szombathely, and Pápa. Several other enterprises were located east of the Danube River at Baja, Békéscsaba, and Mezőtúr. 49/ The most important new construction during the postwar period has been at Szeged, Kaposvár, and Miskolc.

Since the end of World War II the cotton textile industry has been hampered by the lack of domestic raw materials. The First

* The above percentages are based on figures for the value of production which exclude private and cooperative production.

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Five Year Plan (1950-54) provided for the cultivation of cotton along the Tisza River, but the climate in this area has not proved satisfactory.

During the First Five Year Plan, production of cotton textiles increased by 34.9 percent. Production in 1955 reached 234 million square meters (sq m), or about 91 percent of the original goal of the First Five Year Plan. ^{50/} Recent data on production seem to indicate that the rate of growth of production of cotton textiles is leveling off. The original Second Five Year Plan (1956-60) provided that production of cotton textiles would increase only 6 percent, and Hungary undoubtedly will attempt to rely increasingly on synthetic textiles to supply domestic consumption needs. Consumption per capita* of cotton cloth was 10.3 sq m in 1955, compared with 11 sq m in 1950 and almost 15 sq m in 1938.** ^{51/} In 1955, only about 45 percent of production appears to have been consumed domestically, compared with 90 percent in 1938.

Production of cotton fabric in 1956 was 181 million sq m, or 11 percent below production in 1951. The principal reasons for this sharp decline in production were labor problems and shortages of raw materials which prevailed during the fourth quarter of 1956 as a result of the rebellion of 23 October 1956. It is expected that production of cotton fabric in 1957 will increase to more than that in 1953 and that a larger proportion of production will be allocated for domestic consumption than occurred in 1955.

2. Woolen Textiles.

The woolen textile industry of Hungary is less important than the cotton textile industry. The greatest hindrance to the development of the woolen textile industry is a lack of raw materials, most of which are imported. Woolen textiles account for about 20 percent of

* Consumption per capita includes goods purchased in retail stores, at market places, or directly from producers, as well as goods originating from private production and consumed in public institutions such as hospitals and military installations.

** On the basis of a postwar conversion rate, consumption per capita of cotton cloth was 14.7 linear meters (lm) in 1955 and 15.7 lm in 1950. A prewar conversion rate was used to obtain 1938 consumption per capita in square meters; consumption per capita in 1938 was reported to be 18.5 lm.

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the value of production of textiles in Hungary. Approximately 98 percent of the woolen cloth is sent to the Administration for Readymade Clothing. The main centers of production are generally the same as those of the cotton textile industry -- Budapest, Gyor, Sopron, Szombathely, and Baja.

Production and consumption of woolen textiles decreased during the First Five Year Plan. Although the First Five Year Plan had called for domestic consumption to increase from 1.8 sq m per capita in 1949 to 3.6 sq m in 1954, 52/ actual consumption per capita of woolen fabric was only 2.2 sq m in 1955, 24 percent below consumption in 1951.* 53/

According to the original Second Five Year Plan, production of woolen textiles was to increase by 35 percent. The large increases planned for the production of woolen textiles, compared with the plan for cotton textiles, were the result of lower production of wool under the First Five Year Plan. Planned production of woolen textiles for 1960 was actually only 12 percent above the level of production of 1951. Production per capita of woolen textiles in 1960 was originally planned to be only 3.5 sq m. There was an 8-percent decline in production of woolen textiles in 1956, compared with 1955, and the goal for 1960 probably will not be attained.

3. Flax and Hemp Textiles.

The flax and hemp textile industry of Hungary is supplied with domestically produced raw materials. Neither the supply of raw materials nor the available capacity, however, are sufficient to meet consumption needs. The First Five Year Plan called for the reconstruction of old plants and the construction of several new plants to meet domestic needs. Production of linen textiles in 1955 was 22 million sq m, or 101.2 percent above that in 1949. In 1956, only 20 million sq m of linen textiles were produced. The original Second Five Year Plan did not give a goal for 1960. Increases in production, however, will depend on the ability to grow additional hemp and flax.

The principal flax factories are found in Budapest, Gyor, and Komarom. The hemp industry is concentrated in Budapest and Szeged. 54/

* On the basis of a constant conversion factor, consumption per capita of woolen fabric was 1.3 lm in 1949, 2.1 lm in 1951, and 1.6 lm in 1955.

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4. Silk and Synthetic Textiles.

The textile industry of Hungary probably will have to depend on the establishment of a modern synthetic cloth industry on a large-scale basis to offset the shortages of cotton, wool, and natural silk raw materials. An increased use of synthetic fibers in the textile industry of Hungary is especially important in view of current policy which calls for a reduction of imports wherever possible.

Production of silk and synthetic textiles increased 23 percent from 1949 to 1954. (See Appendix A, Table 3.*) The original Second Five Year Plan provided for a 30-percent increase in the production of silk and an increase in the use of nylon, perlon, orlon, and other synthetic fibers.

The original Plan for 1960 provided that the proportion of synthetic threads in silk, knitted goods, and haberdashery was to exceed 17 percent in contrast with 3 percent in 1955 and that viscose synthetics in cotton fabrics were to exceed 16 percent in contrast with 8 percent in 1955. 55/ Although the increase in the use of synthetic threads would reduce raw material imports of these items, even further increases must be planned and accomplished in the production of synthetics before light industry can supply itself through domestic resources.

5. Knitwear and Clothing.

The production of knitwear (excluding stockings) in Hungary increased by 222 percent during the First Five Year Plan, exceeding the Plan by 10 percent. 56/ In spite of large increases in the industrial production of knitwear from 1949 to 1954, production in 1954 reached only 93 percent of the level of production in 1938. Production in 1955 increased to 5,057 tons, or 14 percent above that in 1938. This increase amounted to 7 percent per capita. In 1956, about 4,800 tons of knitwear were produced in Hungary. Production of knitwear probably regained pre-rebellion levels during the first quarter of 1957.

The First Five Year Plan provided for an unprecedented development of the readymade clothing industry. Clothing, formerly produced by artisans and concentrated in small enterprises, was to become a large-scale industry with low overhead costs, producing a

* P. 33, below.

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high-quality product. Most of the new enterprises were built east of the Danube River.* The center of the industry, however, remains in Budapest.

The ambitious plans for the clothing industry were not fulfilled. The industry reported a 355-percent increase in the value of production during 1950-54, although the Plan had called for an increase of 750 percent. 57/ The total number of readymade men's suits manufactured during 1955 would have provided 1 suit to only about 25 percent of the men of 15 years of age or over in Hungary as of 1 January 1956. Based on the number of coats manufactured in 1955, each adult male could obtain a coat only about once in every 5 years. The number of women's dresses and suits manufactured during 1955 would provide 1 such item per year to only about 20 percent of the women of 15 years of age or over. A woman could buy a readymade coat only once in a little more than 5 years if Hungary were dependent on domestically produced readymade coats for its total supply. 58/

Increases in production during 1957-60 will depend on the ability of the textile industry to supply the necessary yarn and fabric. Production of readymade clothing was planned to increase 28 percent during the Second Five Year Plan. This relatively small rise in production reflects the low rate of investment and the stabilization of the labor force during the Plan period.

B. Leather and Footwear.

The leather and footwear industry of Hungary depends to a large extent on imports of raw materials. In 1938, 75 percent of all the leather used in the production of leather items was imported. There has not been any indication that this condition has changed. The leather industry is concentrated in Budapest and in the main animal husbandry areas around Szekesfehervar, Simontornya, Mohacs, Pecs, and Debrecen. 59/

Nearly 80 percent of the supply of leather in Hungary is used for the production of shoes and boots. During the last 5 years the footwear industry has undergone an extensive development, which has resulted in a 199-percent increase in capacity. In 1955, production

* To a large extent, new enterprises were constructed in the area along the Tisza River, where Hungary was experimenting in cotton growing. See pp. 20-21, above.

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of leather shoes reached 12.4 million pairs, and total production of footwear, including rubber footwear, reached 14 million pairs. The production of leather shoes in 1956 was 44 percent greater than that in 1951 but was 13 percent below production in 1955. The original Second Five Year Plan called for a 16-percent increase in the production of leather shoes.

Almost all of the production of leather shoes in Hungary is retained for domestic consumption. In 1950, consumption per capita of leather shoes was 0.62 pair, compared with 1.06 pairs in 1955. The consumption per capita of leather shoes in 1955 was lower than that in 1954 (1.12 pairs per capita). 60/

The fur industry is very closely related to the leather industry and is also under the jurisdiction of the Ministry of Light Industry. Hungary has received help from the USSR in producing the better grade of fur products. The center of the fur industry is in Budapest. 61/

C. Woodworking and Paper.

The woodworking industry of Hungary contributed 8.3 percent of the value of production by light industry in 1955, compared with 6.3 percent in 1949.* 62/ Because most of the domestically available wood is used as fuel, the industry is almost completely dependent on imports, principally from the USSR, Czechoslovakia, Rumania, and Austria. Deliveries have been irregular, and specifications disregarded. As a result, shortages of raw materials are the most important obstacle to the development of the woodworking industry. Obsolete machinery continues to be a factor contributing to unsatisfactory conditions in the industry as a whole, even though the furniture industry received machinery valued at 5.5 million forints in 1953 and 1954. 63/

An important branch of the woodworking industry is that producing furniture. Although statistics on production of furniture are not available, the Hungarians claim that the industry satisfies domestic requirements and permits a significant portion of production to be exported. Such claims are noteworthy because the industry must rely almost completely on imported raw materials. 64/ Most of the furniture is of the luxury type, produced for export in small handicraft

* The percentages are based on figures for gross value of production which exclude production by private and cooperative enterprises.

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enterprises. Furniture for mass consumption is produced in the factories. The First Five Year Plan attempted to shift the emphasis away from handicraft production to mass production of low-cost, high-quality furniture, without sacrificing the export market. Such a radical shift was probably impossible on a scale large enough to supply other than the domestic consumer. The export market probably will remain the responsibility of handicraft enterprises.

The paper industry, too, is seriously affected by a shortage of raw materials. In order to alleviate this difficulty, plans have been made for the use of domestically produced straw as a substitute for scarce woodpulp.

The development of paper processing began in the period between World Wars I and II but did not satisfy domestic needs. Production of paper in 1938 was 55,000 tons, 29 percent of which was used in the printing industry. During the Three Year Plan the industry began to develop on a large scale and in 1949 produced 71,000 tons of paper, 20,000 tons of which were used in the printing industry. By 1955, production of paper increased 48 percent over 1949, and the Second Five Year Plan stipulated that production in 1960 would be 56 percent above that in 1955. This ambitious goal probably will not be met, because of a 6-percent decline in production in 1956, compared with 1955. Production of paper is concentrated in and around Budapest, Szentendre, and Miskolc.

IX. Consumer Durables.*

Current production of consumer durables in Hungary is low, although double that in 1949. The production of radiobroadcast receivers tripled from 1949 to 1954 and almost doubled from 1954 to 1956. The increase in production of bicycles from 1949 to 1954 was only 27 percent and from 1954 to 1956 only about 10 percent. The production of household sewing machines doubled from 1949 to 1954 and increased by about 44 percent from 1954 to 1956. The increased emphasis on the production of all these items in 1955 was the result of efforts made to offset the failure of heavy industry to meet the goals of the Five Year Plan in 1954.

* Production of radiobroadcast receivers, bicycles, and household sewing machines in Hungary in 1938, 1948-56, and 1960 (Plan) is shown in Appendix A, Table 4, p. 34, below.

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During the First Five Year Plan, approximately 70 percent of the radiobroadcast receivers and 66 percent of the bicycles produced were sold through the retail trade network. 65/ In 1955, retail sales of consumer goods were 5 percent higher than in 1954. The number of bicycles sold in 1955 was 60 percent above the level of 1953 and 18 percent above that in 1954. Sales of stoves have also increased considerably, the 1955 level having been 83 percent higher than that in 1954. 66/ The domestic supply of durable consumer goods rose during the first half of 1956, and sales, stimulated by the introduction of the installment buying plan during February 1956, increased considerably.

X. Foreign Trade.

Until 1945, about 70 percent of total Hungarian exports were agricultural goods: In 1949, exports of livestock and food represented 43 percent of the total but in 1955 only 28 percent. Exports of machinery and industrial raw materials expanded from 40 percent of total exports in 1949 to 54 percent in 1955. Exports of nonfood consumer goods had to be increased to help offset decreases in agricultural exports and to provide foreign exchange for the imports of raw materials for light industry. Exports of nonfood consumer goods amounted to only about 8 percent of total exports in 1937, 17 percent in 1949, 25 percent in 1951, 22 percent in 1952 and 1953, and 18 percent in 1955. The trade pattern for imports of nonfood consumer goods also has changed. In 1937 these imports constituted about 8 percent of total imports but in 1954 and 1955 only 3.9 percent. 67/

Textiles are the most important single item among exports of nonfood-consumer goods. The position of Hungary in the world textile and fiber trade has shifted from that of net importer before World War II to that of net exporter. 68/ Trade in cotton goods exemplifies the interest in increasing exports of textiles. On the basis of available production and consumption data, the export of cotton fabrics in 1938 was estimated to be equivalent to 10 percent of total production. Including finished articles, the export of cotton goods in 1955 represented approximately 50 percent of total production of cotton goods. 69/

exports by Hungary of cotton and rayon goods to the Satellites amounted to from 75 million to 80 million meters in 1953-54, or less than 50 percent of the total exports of these items. 70/

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Exports of nonfood consumer goods also include some footwear and readymade clothing and less essential goods such as radiobroadcast receivers, bicycles, sewing machines, furniture, and toys. A

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conference on foreign trade held in July 1954 emphasized that the export of consumer goods, particularly to non-Soviet Bloc countries, must continue even at the expense of the domestic market so as to retain existing markets. Domestic shortages of consumer goods were to be met in part by imports from other countries of the Soviet Bloc. 71/

In 1955, 45 percent of Hungarian imports came from the West. 72/ Hungary, however, has had difficulty in marketing some types of consumer goods in the West because of the high costs of production and the inferior quality of the products. This difficulty in marketing domestic products, in turn, has made increasingly difficult the repayment of the large debts to the West which were incurred as the result of former credits extended for imports. As originally adopted, the Second Five Year Plan (1956-60) called for an increase in exports of the products of heavy industry and a reduction in exports of consumer goods, especially cotton textiles. In conjunction with this reduction, Hungary expected to reduce imports of textile raw materials by increasing the use of synthetic fibers. Exports of the goods of light industry during the Plan period were to center as much as possible around such items as peasant embroidery, luxury furniture, and non-essential consumer goods. The fulfillment of this Plan depended on Hungarian ability to export an increasing amount of machinery and agricultural products. The export plan for 1956-60 was ambitious, and there would have been a long delay before its effects were apparent to the domestic consumer.

The October rebellion and the subsequent disruption of foreign trade have brought about some modification of foreign trade policy. Present policy appears to favor the domestic consumer, and exports of goods of light industry are to account for about 12 percent of production, compared with about 35 percent before the rebellion. Increased efforts also are being made to obtain consumer goods from other countries of the Soviet Bloc and from the West in order to increase the supply of goods available for domestic consumption. Substantial exports of industrial products, however, will be necessary during 1957-60 to pay for these imports. Recent policy statements emphasize the fact that foreign trade will not become less important, because Hungary needs imported raw materials for both heavy and light industry. 73/

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XI. Capabilities, Limitations, and Intentions.

A. Capabilities.

Hungary can increase the availability of consumer goods immediately by increasing imports and reducing exports of these items. Such actions can only give temporary relief, however, because Hungary lacks foreign currency and is dependent on imported raw materials to maintain existing levels of production. Furthermore, the export of consumer goods always has been an important part of Hungarian trade with the West, and until markets for products of heavy industry can be developed, consumer goods will continue to be exported.

Hungary can improve its supply of raw materials by developing the synthetic fiber industry and by using domestically available substitutes for scarce raw materials. Some progress has been made in these fields, and it is expected that considerable gains will be made in the next 5 years. It is inconceivable, however, that imports of raw materials for light industry will be reduced significantly within the next few years, partly because of the need of light industry for an increased quantity of raw materials to meet goals of production.

Production of consumer goods by private industry can be increased through the encouragement of independent artisans by the state. Such a policy probably will be effected in 1957 as part of the effort to increase the availability of consumer goods for the population.

B. Limitations.

The development of light industry in Hungary is limited by its dependence on imports of raw materials both from the USSR and from the West. The supply of raw materials from the USSR is reportedly unsatisfactory because of late deliveries and poor quality. Imports from the West, although satisfactory, are not desirable, because of the scarcity of foreign exchange in Hungary.

Light industry in Hungary is limited because of the large amount of obsolete machinery in place and because of the inability of Hungary to provide new equipment from domestic production. Unless existing equipment can be replaced or modernized, Hungarian light industry will be unable to increase the productivity of labor, to reduce costs of production, to meet ambitious goals of production, or to improve the quality of production.

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The concentration of enterprises in the Budapest area is another limitation of light industry in Hungary. Such centralization makes light industry dependent on an elaborate system of distribution and requires that raw materials be transported long distances for processing. The concentration of light industry in the Budapest area was slightly lessened during the First Five Year Plan (1950-54) as a result of new construction in eastern and southern regions. Although the heaviest fighting of the October rebellion was concentrated in and around Budapest, damage to installations of light industry in this area is not believed to have been extensive or permanent enough to retard production by light industry.

C. Intentions.

Present policy in Hungary is geared toward an immediate improvement in the levels of living of the population, largely through a rise in the domestic consumption of consumer goods. The resulting emphasis on production by light industry, however, is only of a temporary nature, and the priority development of specific branches of heavy industry probably will be resumed by 1958 or 1959.

As part of the program to increase domestic consumption, Hungary intends to abandon temporarily its long-range foreign-trade objectives and to increase the imports and reduce the exports of consumer goods during 1957. It is expected that by 1959 Hungary will have reestablished its plan to supply itself with domestically produced goods of light industry.

Hungary intends to alleviate the shortage of raw materials for light industry by developing its synthetic fiber industry and by using domestically available substitutes for scarce raw materials such as wood pulp. For example, the proportion of synthetic threads used by the silk, knitwear, and haberdashery industries was planned to exceed 17 percent by 1960, compared with 3 percent in 1955. In the cotton textile industry the proportion of synthetic threads was planned to be more than 16 percent by 1960, compared with 8 percent in 1955.

The quality of goods of light industry is to be improved. Fulfillment of qualitative goals is hindered by the poor condition of the machinery for light industry and by the emphasis on meeting quantitative goals of production.

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APPENDIX A

STATISTICAL TABLES

Table 1

Gross Value of Production of Consumer Goods
and Producer Goods in Hungary a/
1938, 1948-57, and 1960 (Plan)

Billion 1955 Forints

<u>Year</u>	<u>Light Industry</u>	<u>Food Processing Industry</u>	<u>Total Consumer Goods</u>	<u>Producer Goods</u>	<u>Total Industrial Production</u>
1938	6.4	5.6	12.0	6.4	18.4
1948	5.5	5.4	10.9	8.0	18.9
1949	7.4	7.7	15.1	10.7	25.8
1950	9.5	11.4	20.9	14.5	35.4
1951	12.3	13.8	26.1	20.8	46.9
1952	13.9	16.7	30.6	27.4	58.0
1953	13.9	18.5	32.4	32.2	64.6
1954	14.7	20.5	35.2	30.8	66.0
1955	15.9	22.4	38.3	33.2	71.5
1956	13.4	21.4	34.8	30.9	65.7
1957	13.4	22.4	35.8	27.3	63.1
1960 (Plan)	19.8	33.7	53.5	52.7	106.2

a. For methodology, see Appendix C. Absolute figures for 1949-57 and 1960 (Plan) exclude production by private and cooperative industries. Absolute figures for 1938 and 1948 are computed from official indexes, which probably included in their coverage those production facilities that were taken over by the state after 1947.

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Table 2

Consumer Goods and Producer Goods as a Percentage
of the Gross Value of Industrial Production in Hungary a/
1938, 1948-57, and 1960 (Plan)

Year	Percent				
	Light Industry	Food Processing Industry	Total Consumer Goods	Producer Goods	Total Industrial Production
1938	34.8	30.4	65.2	34.8	100.0
1948	29.1	28.6	57.7	42.3	100.0
1949	28.7	29.8	58.5	41.5	100.0
1950	26.8	32.2	59.0	41.0	100.0
1951	26.2	29.4	55.7	44.3	100.0
1952	24.0	28.8	52.8	47.2	100.0
1953	21.5	28.6	50.2	49.8	100.0
1954	22.3	31.1	53.3	46.7	100.0
1955	22.2	31.3	53.6	46.4	100.0
1956	20.4	32.6	53.0	47.0	100.0
1957	21.2	35.5	56.7	43.3	100.0
1960 (Plan)	18.6	31.7	50.4	49.6	100.0

a. Table 2 is derived from the data in Table 1, p. 31, above.

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Table 3

Production of Selected Goods by Light Industry in Hungary a/
1938, 1949-56, and 1960 (Plan)

Product	Unit	1938	1949	1950	1951	1952	1953	1954	1955	1956	1960 (Plan)
Cotton fabric	Million square meters	146	166	177	204	212	207	224	234	181	247
Cotton yarn	Thousand metric tons	21	31	35	40	42	41	44	46	36	49
Woolen fabric	Million square meters	20	23	27	31	23	16	21	26	24	35
Woolen yarn	Thousand metric tons	12	8	12	14	10	7	9	12	10	15
Linen fabric	Million square meters	10	11	16	17	19	20	21	22	20	N.A.
Silk (including synthetic) fabric	Million square meters	12	13	15	16	17	15	16	20	19	26
Knitwear	Metric tons	4,440	1,280	1,585	2,180	2,671	3,069	4,124	5,057	4,769	7,800
Clothing	Million 1955 forints b/	695	950	2,049	3,531	4,385	4,287	4,326	4,770	4,300	6,106
Footwear											
Leather	Million pairs	3.5	3.8	5.8	7.5	9.1	8.5	10.7	12.4	10.8	14.4
Rubber and other	Million pairs	1.2	0.4	0.5	0.6	0.9	1.2	1.5	1.6	1.5	1.8
Total footwear	Million pairs	4.7	4.2	6.3	8.1	10.1	9.7	12.2	14.0	12.3	16.2
Paper	Thousand metric tons	55	71	81	91	94	99	104	105	99	164
Printing paper	Thousand metric tons	16	20	26	27	27	29	32	28	27	N.A.

a. For methodology, see Appendix C.

b. At the official rate of exchange, 12 forints equal US \$1.

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Table 4

Production of Radiobroadcast Receivers, Bicycles,
and Household Sewing Machines in Hungary a/
1938, 1948-56, and 1960 (Plan)

Thousand Units

<u>Year</u>	<u>Radiobroadcast Receivers</u>	<u>Bicycles</u>	<u>Household Sewing Machines</u>
1938	N.A.	74	N.A.
1948	24	81	N.A.
1949	70	137	12.9
1950	100	157	18.5
1951	165	185	23.0
1952	140	218	24.8
1953	150	136	22.9
1954	215	174	27.0
1955	373	217	46.1
1956	400	193	39.0
1960 (Plan)	455	410	68.5

a. For methodology, see Appendix C.

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APPENDIX B

DATA ON COTTON MILLS AND WOOLEN MILLS

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Table 5
Number of Spindles in Place and Added
in Major Cotton-Spinning Mills in Hungary a/
1949, 1954, and 1960 (Plan)

Area	Mill	Location	Number of Spindles		
			In Place 1949	1954	Added 1960
Pest	Magyar Pamutipar	Ujpest	44,000		
	Goldberg Samesfrai <u>b/</u>	Budapest	32,000		
	Francia-Magyar Pamutipar <u>c/</u>	Budapest	24,000		
	Dreher-Hagenmacher	Budapest	30,000		
	Kistext	Kispest	20,000		
	Magyar Fonoipar	Pestszentlorinc	70,000		
	Lorinci Fonoipar	Lorinci		14,000	
Gyor-Sopron	Kobanyai Fonoipar	Kobanya Hegy		16,000	
	Gyor Pamutfonogyar	Gyor	35,000		
Veszprem	Perutz Testverek	Papa	19,500		
Csongrad	Szegedi Textil Kombinat	Szeged		30,000	
Somogy	Kaposvari Textil Muvek	Kaposvar		40,000	
Borsod - Abauj-Zemplen	Textil Muvek	Miskolc			36,000

a. For methodology, see Appendix C.

b. After nationalization this factory was named Kelenfoldi Kombinat Textil Muvek.

c. After nationalization this factory was named Szombathelyi Pamutipar.

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Table 6

Major Wool-Spinning and Weaving Mills in Hungary a/
1956

Area	Mill	Location
Pest	Magyar Gyapjufono es Szovogyar b/	Budapest
	Hazai Fesusfono es Szovogyar b/	Budapest
	Magyar Posztogyar b/	Csepel
	Budakalaszzi Gyapjuszovetgyar	Budapest
	Ujpesti Gyapjuszovogyar	Ujpest
Gyor-Sopron	Burettfono Fesusfonogyar	Budapest
	Gyori Gyapjufono Szovo, Festo, es Kikeszitogyar	Gyor
	Soproni Fesusfonalgyar	Sopron
	Soproni Poszto es Fesusfonalgyar	Sopron
Vas	Takarogyar	Szombathely
	Koszegi Nemez es Posztogyar	Koszeg
Bacs-Kiskun	Bajai Gyapjuszovetgyar	Baja

a. In 1949 there were 107,600 spindles in the Hungarian woolen industry, but no specific information on their distribution is available. No significant additions to wool-spinning capacity have been made since 1949. For methodology, see Appendix C.

b. These are the three largest woolen mills in Hungary.

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APPENDIX C

METHODOLOGY

1. General.

The Hungarian Statistical Handbook published in 1956 is the chief source of the statistical tables appearing in this report. Figures which did not appear in the handbook were computed on the basis of official indexes, Plans, and reports of Plan fulfillment. These reports have been checked whenever possible to determine their consistency.

2. Methodology for the Tables.

Table 1*: The gross value of production of producer goods is considered to be the equivalent of production by heavy industry, and the gross value of production of consumer goods is taken as the sum of production by light industry and the food processing industry. The gross value of production of consumer goods and producer goods excludes production by cooperative and private industries, which is normally less than 10 percent of total industrial production.

The Hungarian Statistical Yearbook is the source of absolute figures for the gross value of production of consumer goods and producer goods in 1955 and of index numbers for 1949-55. 74/ The figures for 1938 and 1948 were computed from separate official indexes. 75/

In estimating the gross value of production for 1956, reports on Plan fulfillment for the first and second quarters of 1956 76/ and reported production by total industry for 1956 were considered. 77/ It was assumed that the plan for light industry for the third quarter of 1956 was fulfilled by 100 percent and for the fourth quarter by 50 percent. 78/ The fall in production by the food processing industry in the fourth quarter of 1956 is estimated to have been severe enough to bring production for 1956 to a level 5 percent below production in 1955. The estimate of the gross value of production by heavy industry for 1956 was obtained by subtracting the value of production of consumer goods from total industrial production.

* P. 31, above.

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The gross value of production by total industry and light industry for 1957 is an estimate based on reported production in January and February 1957 79/ and the assumption that prerebellion levels of production would be regained gradually during 1957. It is estimated that the gross value of production by the food processing industry in 1957 will equal production in 1955. The gross value of production by heavy industry in 1957 is a residual.

The figures for 1960 were derived from a percentage increase reported in the original Second Five Year Plan. 80/

Table 2*: Table 2 is derived from the data in Table 1.**

Table 3***: Production of cotton, woolen, linen, and silk fabrics, knitwear, and paper in the years 1938 and 1949-55 [redacted]

50X1
50X1

[redacted] Production of all commodities, except cotton fabric, knitwear, and leather footwear in 1956 was estimated on the basis of planned production for 1960, 82/ Plan fulfillment during the first half of 1956, 83/ and an estimated sharp drop in production during the last quarter of 1956 as a result of the October rebellion. Estimates of production in 1956 have a range of error from plus 15 to minus 10 percent. Production of cotton fabric, knitwear, and leather shoes in 1956 [redacted]

50X1

Production of cotton and woolen yarn in 1938, 1949, and 1950 [redacted]

[redacted] Production of cotton yarn in 1952 was [redacted] twice that in 1938. 86/ Production in 1951 and 1953-55 and planned production for 1960 were estimated by relating the production of cotton yarn to the production of cotton fabric in 1950.

50X1
50X1

50X1

Production of woolen yarn during the years 1951-55 and planned production for 1960 were estimated by relating the production of woolen yarn to that of woolen fabric in 1950.

Production of clothing in 1955 and an index for the years 1949-55 [redacted]

[redacted] Production in 1938 was reported in 1947 forints, 88/ which were converted to 1955 forints on the basis of production in 1949. Production in 1949 was reported in both 1947 and 1955

50X1

* P. 32, above.
** P. 31, above.
*** P. 33, above.

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forints. Planned production for 1960 was reported to be 28 percent above that in 1955. 89/

Production of leather and rubber footwear in 1938 [redacted] 50X1
[redacted] Production of leather footwear during 1949-55 [redacted] 50X1
[redacted] The percentage increase planned for total 50X1
footwear in 1960 was applied to leather footwear. 92/ The estimate
of production in 1956 was computed in the same way as were other
estimates for 1956.

Production of rubber footwear in 1949 [redacted] 50X1
and production in 1950 and 1951 was based on the assumption that the
rate of growth was the same as planned in the Three Year Plan (1947-49).
Production in 1953 was estimated to be equal to prewar production and
was reported to be 30.2 percent above that in 1952. 94/ The estimate
of production in 1954 was arrived at by interpolation, and production
in 1955 was reported as 5.9 percent above that in 1954. 95/ Planned
production for 1960 is the difference between the plan for total foot-
wear and that for leather footwear.

[redacted] 50X1

[redacted] 50X1

[redacted] 50X1

3. Conversion Factors for the Textile Industry.

One lm of cotton fabric equals 0.7 sq m. 102/

One lm of wool fabric equals 1.4 sq m. 103/

One lm of silk fabric equals 1.0 sq m.

- * P. 34, above.
- ** P. 33, above.
- *** P. 36, above.
- **** P. 37, above.

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