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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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COUNTRY Hungary

REPORT

SUBJECT Computation and Reliability of Plan Result Figures

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The attached report concerning the computation and reliability of plan result figures is forwarded to your office for retention.

Enclosure: 1 report (4 pages)

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H U N G A R Y

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Economic

The Computation and Reliability of Plan Result Figures

1. The reliability of Plan result figures, quite apart from deliberate falsification by the central authorities, is seriously affected by the divergence between the official theory of the system of computation and its working in practice.

2. THEORY

The theory of the system is as follows:-

a) Production Value Plan prices: (termelesi ertek tervarak):

A catalogue, in three volumes, is published by the Planning Office Press (Tervgazdasagi Konyvkiado), 8 Grof Teleki Pal-utca, BUDAPEST V, containing a list of all commodities, whether produced in Hungary or imported, with their respective 'Production Value Plan Price'. These prices have not been amended since they were laid down in 1948.

b) Reports by Individual Concerns

All production concerns submit reports, containing both the quantities produced and their money values according to the 'Production value plan prices', to their parent Ministry once a month or, in the case of important products, once every ten days.

(i) Concerns with different lines of production report their results for each line separately as well as for their total production, (e.g. a metallurgical works has to report separately the quantities and values of pig-iron production, crude steel production, foundry production and rolled steel production, as well as those of total production).

(ii) Production for armaments has to be reported quite separately, whether the whole or only part of a concern's production is for armaments. These reports go to special sections in the Ministry responsible for directing armaments production.

c) Compilation of Statistics in Ministries

In each Ministry the reports coming in from concerns are received by the Statistics Section (part of the Planning Division), who combine the figures according to the type of product and prepare Monthly Statistical Reports.

(i) In the Ministry of Metallurgy and Mechanical Engineering, for example, the Statistics Section (leader Mihaly KALDOR) is subordinated to the Planning Division which is responsible to the First Deputy Minister. In the section stencil copies of the Monthly Report are made in the duplication room (leader Istvan MATUJA), and the Report, classed as Top Secret, is prepared in 40 numbered copies.

(ii) Armaments production is not included in the above Monthly Report, but compiled in a separate Monthly Report prepared by, and available only to, Directorates I and II of

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the Ministry, who have a statistical section of their own (leader Mrs. Sandor JUHASZ). Stencil duplication is carried out by a special duplication room (leader Tibor KOVACS) belonging to Directorates I and II.

d) Collation of Statistics by the Statistics Office

From the Ministries the Monthly Statistics Reports go to the Statistics Office (Sztatisztikai Hivatal), 5/7 Keleti Karoly-utca, BUDAPEST II. The Statistics Office works out the total results, submits them to the Council of Ministers and Party Headquarters, and also submits proposals for the quarterly and annual Plan results and indices to be published. After approval by the Council of Ministers, the figures are released for publication.

(i) The records of the Statistics Office are accessible only to officials with special authorisation, who are allowed to take away copies of records on loan provided they are returned on the same day.

(ii) No reports or records of armaments production are dealt with or held by the Statistics Office. It is believed that these must go to the Ministry of War.

3. PRACTICE

In practice, the following divergencies from the theoretical system all affect the reliability of the final figures:-

a) Plan Prices

In addition to the 'Production Value Plan Prices', which are constant, two other types of prices are used in invoicing and accounting, which are variable. The complexity of these three prices and the resulting confusion in accounting, intentional or unintentional, are systematically exploited by managements and workers to enhance production results.

The two other variable prices are as follows:-

(i) 'Cost Price' (orkoltsegi ar): i.e. the actual cost of production. This is a vague and unreliable value, as hardly a single concern in Hungary is capable of establishing true costs of production, owing to the following reasons:

A) Managements are not interested in their true cost prices, as their performance is judged by "current prices" (see below).

B) Accounting departments are not well-organised and incapable of coping with the complexities of keeping accounts with three different price schedules and with separate break-downs for armament products.

(ii) 'Current Price' (folyo ar): i.e. a level of prices authorised for each product by the Planning Office or the Ministry concerned. The 'Current Price' may be above or below the 'Production Value Plan Price'. (In the metallurgical industries both the 'Cost Prices' and the 'Current Prices' are generally above the 'Plan Prices'.).

b) At Factory Level

(i) Double Counting: Many concerns have separate lines of production, materials passing from department to department

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in the various stages of manufacture. This provides an opportunity of including the same material more than once in the returns, and thus falsifying the production figures. Even if an attempt were made to allow for this falsification, it would be practically impossible to do so.

(ii) Rejects: Another opportunity for falsifying production figures is in the quantities and values of rejects materials which are included in the Production Reports.

(iii) Stock-taking: There is frequent falsification in the assessments of partly finished products.

(iv) Lack of Control: The figures in the Production Reports are not checked effectively. The inspectors employed for this purpose are mostly inexperienced, and lacking in the moral courage necessary to oppose managements, workers and local Party representatives whose careers and pay packets are benefited by these falsifications.

(v) Armaments: The fact that production for armaments has to be reported separately enables those concerns which work partly for armaments and partly for civilian requirements to include items in both returns.

c) At Ministry Level

There is no reason to believe that figures are systematically tampered with in the Ministries, but there is a great deal of confusion. Two examples can be given:-

(i) On one occasion, the Minister for Metallurgy and Mechanical Engineering was shown figures for reject materials which differed considerably from those given in the reports.

(ii) On another, it was found in the same Ministry that production for a certain month had been computed at 'Cost Price', while the value of rejects was at 'Plan Prices'.

d) At Top Level

There is no proof that the Statistics Office, in consultation with the Council of Ministers and Party Headquarters, falsify the published indices. But, in the opinion of all thinking people, there is ample circumstantial evidence that the figures published are doctored in order to mislead both the internal population and those in the West who are trying to evaluate Hungary's industrial potential.

The following examples of the published Plan results being used for propaganda can be given:

(i) The case is known of one quarterly period in which metallurgical production had been bad, but nevertheless, to encourage the workers, the published indices suggested that the targets had been exceeded. It was found that the figures for rejects had been entirely left out by the Statistics Office.

(ii) During the same period the published returns for coal production showed a decrease, although in fact production had increased. This was because the Government wished to increase the coal workers' efforts by proving to them that they had been slack.

(iii) In another case, where a large advance over the preceding year was published for a particular line of production,

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it was found that the figures of two years earlier had been taken as the basis for comparison.

(iv) Before the Ministry for Metallurgy and Mechanical Engineering was set up, the Ministry for Medium Engineering was responsible for all armaments production. Gyula KOVACS, head of the secretariat of the latter Ministry, was once twitted by a fellow official because the Medium Engineering Plan had only been fulfilled by 97%. KOVACS replied, "Look at the U.S.S.R. Report for Medium Engineering (i.e. armaments). They too have underfulfilled the Plan. The political situation demands this method of reporting. Do you really think that BIRO (the then Minister for Medium Engineering) would tolerate the Plan for armaments being underfulfilled?" The U.S.S.R. figure for Medium Engineering during the same period was indeed about the same as that in Hungary.

4. GENERAL

a) Public attitude to Plan Results

The falsification of published Plan results in the main achieves its purpose of misleading people in Hungary, because the majority are not accustomed to think at all, or else do not have sufficient knowledge of any particular industry by which to judge the published figures. Those who do think keep their thoughts to themselves.

b) Availability of Reliable Figures to High Officials

Because of the falsification of returns by the individual concerns, accurate figures are not available at all. But, assuming that these falsifications are disregarded and that the results are used only for comparing one period with another, the Monthly Production Reports prepared in the Statistical Sections of the Ministries would be more reliable than the official figures published. Equally the Monthly Production Reports at ministerial level for armaments would be of limited use for comparing production in different periods.

c) Similarity to, and Co-ordination with, the U.S.S.R. and other Satellites

It is believed that the practice of reporting Plan Results in the U.S.S.R. and other Satellites, is, if not identical, very similar to that in Hungary. It is also believed that some of the falsifications are the outcome of policies centrally directed from Moscow, particularly of the published results for armaments in the former Ministry for Medium Engineering. It is not known by what liaison agencies this co-ordination is carried out.

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