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The General Situation

1. Nationalization of Hungarian Industry began in 1946 with the coal mines and the heavy industry. Then, in the spring of 1948, nearly all industry was nationalized under the law which provided for the nationalization of all enterprises with more than 100 employees and of the most vital industries employing less than 100 workers. As a result of this, six of the largest plants producing most of the iron and steel and most of the machinery and ships were placed under the Heavy Industry Center (NIK). The most important reconstruction work (communications) and the reparations to be paid to the USSR and to Yugoslavia were to be taken care of by these plants which, due to war damages and to the inflation, private capital was unable to put into production rapidly or to bring to a high rate of production. The state thus had to intervene. The state, or rather the government, which was already half Communist, had no inclination to help private capital with loans, so that there was no alternative but to make these plants state property. The NIK was created to take care of this situation which was also brought about by the following contributing factors. Five large companies, which previously had been competing with each other, were unable to attain the desired output until their production had been coordinated under a unified management. There was a need of reorganization. The production program was primarily determined by the requirements of Soviet reparations and by reconstruction work, and the installations and the production potential of the plants would meet only half the requirements. It was necessary to plan a reorganization and redistribution of work among the various plants. 50X1-HUM this was realized during the first half of 1948.

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2. The success of heavy industry was the pride of the Hungarian government. Its production attained pre-war levels and in some fields even exceeded it. But this was brought about by great sacrifices. Hungarian economy was burdened by the large budgetary allocations which were set aside for heavy industry, to the detriment of other branches of national economy. These amounts benefited primarily the recipients of reparations - with the Soviet Union in the fore. During the first year, no great change in the organization of plants took place. Each plant retained its management and administration, and only distribution of the work among the different plants and the raw materials allocations were the job of the NIK. Even the former representative body of

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industry, the Industrialists' Association (GYOSZ) continued in office. Thus, for example, the question of wages was discussed between the different plants, the NIK, the trade unions, and the plant owners. The NIK had over 1,000 employees and the administration of the plants was even larger. This over-bureaucratization was the cause of flagging production and of enormous production costs. This double administration not only caused delays, but, according to complaints by the trade unions and statements by the government, the managers of the different plants sought only to protect the interests of their own plants, and the Industrialists' Association sought only to protect the interests of capitalism (although its majority consisted of representatives of nationalized enterprises), so that the government had to intervene and nationalize the NIK also. The Industrialists' Association was dissolved and wage disputes were settled henceforth by the newly created wage board. The measures for nationalization of the NIK were as follows:

a. Nationalization of the production by coordination of the plants, division of operations between the different plants according to their facilities, and lowering of cost price by economy of coal and electricity and lowering of the overhead.

b. Reintegration of work discipline, suppression of the political activities of the workers, prohibition of salary increases and of overtime payments, introduction of production quotas, increase of individual output of the workers by means of production contests and payment of bonuses.

c. Reduction of the number of employees, reduction of the number of managers and members of the board and of their dividend payments, abolition of non-essential jobs created for political reasons and of the cost of entertainment.

3. According to a bulletin of the NIK administration which appeared 1 May 1948, the nationalization measures were successfully put into effect, and the deficits of the plants, which had been evidenced for years, were eliminated. Technical measures, particularly the national redistribution of work among the plants, had a great deal to do with this; but, on the other hand, the deficit could not have been eliminated without keeping wages on the same level, despite the higher prices, so that, because of the enforced rate of production and the higher individual output, wages were lowered with respect to production. Also the capacity of the plants was almost completely utilized, and the administration costs, written off against surplus production, were thereby reduced. By the general nationalization of 31 March 1948, other plants of heavy industry which had not been part of the NIK (including the aluminum industry which, strictly speaking, did not belong to heavy industry), became state property. The whole industry, 80 percent of which is nationalized, is divided into over 30 industrial departments, with heavy industry and five other branches making up main group no. 1. For each main group, the Ministry of Industry organizes the general management which is charged with the over-all direction of the industry.

Description of the principal heavy industry plants

4. The Heavy Industry Center (NIK) is composed of the following plants:

1) Hungarian State Iron, Steel and Machine Building Plant (MAVAG) with one plant at Budapest, one metal products plant at Győr , a metallurgical plant and rolling mills at Diosgyör (near Miskolc). These plants make armaments. The Budapest plant produces railroad engines, agricultural machinery, various machine parts, metal structures (bridges), etc. During the war it also built about 100 tanks (7-ton and 15-ton vehicles), trucks and buses. The production of ballbearings was also started in this plant and at present it provides all of Hungary's requirements. The retreating German troops demolished the factory, but war damages have been repaired and the plant has been enlarged through large investments. The

MAVAG personnel is 23,000 at the present. The most important production figures for 1947 were as follows:

Pig iron	12,000	tons per month
Raw steel	18,000	" " "
Cast iron	2,000	" " "
Cast steel	800	" " "
Forgings	2,000	" " "
Sheet iron	9,000	" " "
Railroad engines	60	per month
Agricultural machines	1,000	per month
Metal constructions	500	tons per month

2) Manfred Weiss Plant at Csepel near Budapest

Forging and rolling mills, forging and stamping shops, drawn steel tube shops, metal goods, bicycles, motors, tools, sewing machines, agricultural machinery. Before the war, the plant also manufactured ammunition and aircraft. During the war, the plant also built several hundred light tanks, cross-country vehicles and trucks. In 1944, the plant was seriously damaged by bombing and suffered from other war damage and from dismantling by the Russian troops. It was rebuilt through large investments and at the same time enlarged. The first Hungarian aluminum plant was also associated with this enterprise, but since its capacity was low, the new aluminum plants are more important. The plant employs 21,000 persons at present. Its most important production figures as of the end of 1947 were:

Raw steel	12,000	tons per month
Cast iron	2,000	" " "
Cast steel	200	" " "
Forgings and stampings	1,500	" " "
Drawn products	8,000	" " "
Agricultural products	1,500	" (sic) per month
Tools	200	" " " "
Bicycles	5,000	" " " "
Bicycle motors	700	" " " "
Sewing machines	1,000	" " " "

3) Rimamurany-Ozd Steel Mills (RIMA) at Ozd (Northern Hungary)

Forging and rolling mills, foundries, forging and stamping shops, with 14,000 employees at present. The plant was slightly damaged by the retreating Germans, but the damage was quickly repaired. Production figures as of the end of 1947:

Pig iron	19,000	tons per month
Raw steel	25,000	" " "
Cast iron	800	" " "
Cast steel	400	" " "
Forgings and stampings	350	" " "
Sheet iron	17,000	" " "

4) Ganz & Co., Electromechanic Products, Railroad Cars, and Shipyard at Budapest

Consists of three plants: the machine plant, the railroad car and electrical equipment plant at Budapest, and the shipyard at Ujpest near Budapest. The machine factory builds Diesel engines and generator gas engines, gears, smelting and rolling equipment, turbines, pumps, reduction motors, brick moulders, threshing machines, railroad cars, and self-propelled railroad cars. The electrical equipment plant manufactures generators, dynamos, electric motors,

transformers, circuit breakers, and electric meters. The shipyard builds barges (500 to 1000 tons), river boats, boats for the Danube shipping (1200 tons) dredges, metal structures, bridges, boilers, pulleys, foundry equipment, and steam hammers. During the war, the plant also made several hundred light tanks, shells, and anti-aircraft instruments. The shipyard has built 4 ships of 2500 and 4000 tons. In 1944, the plant machinery was slightly damaged by bombing and the electrical equipment plant was partially destroyed during the siege of Budapest. Most of the damage has been repaired, and the plant has 10,000 employees at present. Production figures as of the end of 1947 were:

Motors	50	per month
Various machinery	200	" "
Railroad cars	300	" "
Buses	4	" "
Electric motors and generators	500	" "
Transformers	200	" "
Electric meters	2,000	" "
Ships	20	" year
Bridges	6,000	" "
Cast iron	1,400	tons per month
Cast steel	600	" " "
Forgings	400	" " "

5) Hungarian Railroad Car Factory, Gyõr (RABA).

Construction of railroad cars, bridges, motors for self-propelled railroad cars, trucks, and buses. In 1944, the plant was badly damaged by bombing and most of it had to be rebuilt. At present it employs about 5,000 workers. Productions figures as of the end of 1947:

Railroad cars	200	per month
Trucks and buses	50	" "
Metal structures	3,000	" year
Cast steel	350	tons per month
Forgings	300	" " "

5. The heavy industry plants not associated with the NIK are the Lang factory, the Hungarian Steel Mills, and the Hofherr-Schranz Works; the last two employ 2000 workers each. Lang produces Diesel engines and generator gas motors, steam turbines, steam engines, boilers, equipment for chemical plants, and metal constructions. The Hungarian Steel Mills make mostly steel forgings and stampings and steel alloys. Hofherr-Schranz produces agricultural machinery and tractors, but, in comparison to the NIK plants, its production is very small. After the organization of the Hungarian industry, the aluminum industry was made part of the chemical industry. Hungarian bauxite reserves, assuming a production of 1 million tons per year, will last 200 or 300 years. At present, not even half of that amount is being exploited, because the domestic aluminum plants are not capable of treating that much ore. Prior to the occupation of Hungary, most of the bauxite went to Germany. It is planned now to increase the exports to the USSR as soon as sufficient Danube shipping facilities are available. During the war, a plant for treating bauxite was constructed on the Danube between Esztergom and Komarom, with an annual production capacity of 60,000 tons of aluminum. This plant was not completed during the war and was also damaged by bombings, but it was put into operation during 1948. The plant at Magyarovar has a capacity of almost 10,000 tons. There are also aluminum plants at Csepel, Ajka, and Szekesfehevar, all of them in the mining and industrial

region between the Danube and Lake Balaton. Present production seems to be around 60,000 tons per year. It was planned to increase production through the use of cheap electric power to be obtained from Yugoslavia. Agreements had been concluded with Yugoslavia for the construction of hydroelectric plants which would transmit power to Hungary, but these agreements are suspended at the present.

The Financial Situation and the Three-Year Plan

6. Outside of the nationalized steel mills (MAVAG), the former plants of Lang, Ganz and Hungarian Steel Mills belonged to the interests of the Hungarian Credit Bank, RIMA and RABA belonged to the Hungarian Commerce Bank, and the MW plant was in the hands of the Weiss family, although, during the war, bank capital also acquired an interest in it. The banks also furnished the necessary credits for the plants, while MAVAG was maintained by the State. Most of the plants operated at considerable loss in the period between the two wars, and MAVAG, especially, was a heavy burden on the State treasury. The situation began to improve in 1936, and by the outbreak of the war, most of the plants were showing a profit; heavy industry obtained its maximum profits during the war. After the collapse, the companies found themselves in an extremely bad situation. Although production had already started in 1943, war damages, lack of raw materials, and lack of work discipline permitted only a low level of production. In the same year, inflation occurred which caused the companies to lose their operating capital. However, the greatest losses were caused by reparations which, for the most part, had to be borne by heavy industry. The USSR computed the reparations in terms of 1938 prices, and deliveries at the prevailing price. In that manner, the plants were reimbursed by the Reparations Office, in charge of regulating the deliveries for the State treasury, only for one-half or one-third of their production costs. The State granted credits to the companies until it took them over in 1946. At that time, they were indebted almost to the full value of their assets. After nationalization, the losses continued to increase, mostly for the following reasons:

a. Plant capacities were only partially utilized.

b. Production costs increased, because of the increasing bureaucracy and the growth of the administration.

c. The output of the workers was only 70 or 80% of the pre-war level.

d. Because of the high cost of living, wages had to be increased (on an average of 15 percent after the stabilization), while the prices of the main products of the heavy industry remained the same.

e. The plants which had previously produced expensive machinery and exported it at good prices mostly to the West and overseas, had lost their export markets and had to turn to cheap mass-produced goods for the East.

7. At the end of 1946, the Reparations Office owed 103 million forint (the official rate of exhange, $1 - 15 forint, the actual rate, $1 - 20 to 22 forint) to the NIK plants alone for their deliveries, and in 1947, it could pay off only half its debts. The production deficit of the NIK plants for 1947 was:

MAVAG	27 million	
RIMA	50 "	
M.W.	10 "	
Ganz	5 "	
RABA	- 3 "	(profit)
	89 million	

In the program of the 1947 Three-Year Plan, 86 million were used for investments, and another 150 million have been earmarked for this purpose during 1948.

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8. According to the NIK management, the value of the production at the beginning of 1947 reached 67 million per month, with 65,000 workers employed, while by March 1948 production had reached a monthly value of 168 million, with a personnel of 72,000. On the other hand, the 1948 prices are higher than those of the past year, so that the real value of increased production is less than the figures indicate. The deficit was overcome, and at the end of 1948, production was to reach 200 million per month. Thus production should be high enough to cover the investments planned under the Three-Year Plan for the NIK plants. According to the above data, the pre-war production of 1938 has already been exceeded by 2 percent, but, in reality, this is not the case, since the figures were based on the official rate while the real value is approximately 20 percent less. It should also be noted that the plants worked at full speed only during the war, most of them with three shifts, and that the production figures exceeded those of 1938 by 60 to 100 percent. Such production figures could not be obtained at present even with the plants working at maximum capacity; first of all because of the lower individual output, secondly, because less expensive products are being made. The production goal set for the heavy industry in the Three-Year Plan may be realized in 2½ years.

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Markets

9. Before the war, heavy industry supplied the domestic market and also exported goods having an annual value of 60 to 80 million pengö (15 to 18 million dollars).

These exports brought in large sums of sound foreign currency. Items exported were mostly machinery, railroad engines, motors, finished metal and electrical products. During the first years of the Soviet occupation, the only supplies to the domestic consumers went to public enterprises, primarily for rebuilding communications. A large part, approximately 25 percent of the reparations to be furnished, had to be supplied by heavy industry, so that some plants had to work almost exclusively on reparations contracts. As a result, exports went down nearly to zero. Since 1947, heavy industry has resumed exporting, but mostly only to the Soviet Union and Yugoslavia, countries which, in order to have reparations deliveries continued, have ordered the necessary products (mostly only railroad equipment and electrical apparatus) on the basis of reciprocal trade agreements. Because of Hungary's need for vital materials from the West and also for Western currencies, the government is therefore insisting on the resumption of former trade relations with the West. Contracts for the shipment of motors, bicycles, and sewing machines are about to be concluded with South American countries

The value of the exports should be about 150 to 200 million forint (8 to 10 million dollars) per year.

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Raw Material Supply

10. The most important raw materials required by Hungarian heavy industry were supplied before the war, by neighboring countries, but its greatest supplier, Germany, no longer exists. Coal comes mostly from domestic mines, but coke must be imported. After the war, coke was imported from Poland for a while, but deliveries were halted in 1947 and the Soviet Union has promised to supply it. Iron ore came mostly from Czechoslovakia, crude iron came from Germany and from Rumania. At present, domestic production is being increased to the utmost, but it cannot cover more than a part of the demand. Under the trade agreement with Yugoslavia, that country, as well as Russia, will supply iron and manganese. There is difficulty in getting supplies of copper, electric insulating material, apparatus, instruments, measuring equipment, etc. which used to be imported from the West

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tools. Because of political events in Yugoslavia, export and also import of raw materials have suffered severely. In accordance with the decision of the Cominform, Hungary has joined the boycott against Yugoslavia and has halted deliveries. However, since Yugoslavia was ahead in her deliveries of raw materials, and thus has large credits in the trade balance with Hungary, it is to be expected that she, too, will halt all deliveries.

Personnel Questions

11. The heaviest losses of heavy industry, for which there is no compensation, are the losses of key personnel. Not only the active managers of the plants, but also the qualified technicians have left. The best-known ones fled to the West before the Soviet occupation, the others one or two years later, after they had come to the conclusion that, although they held a privileged position under the Communist regime, their position was untenable. Many also became victims of the purge. The strength of the Hungarian heavy industry lay in the ability of its specialists, since the plants, as compared to world industry, were neither very large nor very well equipped, but quite obsolete. Nevertheless, the exceptional ability of the engineers was always sufficient to keep the factories on a very high level by their technical perfection. These men are now lacking, and therefore progress is impeded. At first, the members of the "ancien regime" were left at their posts by the new government. These were the men who would go along with any regime and who became convinced Communists where they had been convinced capitalists before. But sooner or later, one after the other, they were dismissed to make room for a Party member. Furthermore, once the plant was running again, the Communist government had no further use for their ability. The Plant Councils and the Trade Unions gained more and more influence. They should have concerned themselves equally with the production program and the administration of business, but they limited themselves to personnel questions and concentrated on the removal of their hated superiors. However, the new Communist substitutes, who were charged with enforcing to the letter the prescribed quotas, were worse bosses than the men they had replaced, and against them the workers were powerless. The level of individual output has also gone down greatly, and there are many more non-qualified workers than before, and fewer specialists, since the prime objective is no longer the manufacture of precision machinery but mass production. The wages correspond to 50 percent of the pre-war wages, but their actual value is much less; on the other hand, greater and greater output is demanded. Production contests, backed by a great publicity, exhaust the workers. On the whole, the morale of the workers and, even more so, of the specialists, of the white-collar workers, and of the engineers, is very low.

Possibilities of Development

12. As already stated, the plants are utilized almost to their full capacity, and in some cases even overworked; but despite this, because of low individual output and production of lower-grade goods, production does not reach the high level previously attained. There can be no doubt that the rational redistribution and strict delimitation of production between plants and between the various production operations, the unified management of an enterprise employing 80,000 people, the exchange of technical experience, the suppression of competition, etc., are means which stimulate production and whose advantages are unmistakable. Thus, for instance, the production of ore in the Ozd mines has been increased by 10 percent in one year and the coke consumption of the blast furnaces at Ozd and Diosgyör has been decreased by 7 to 9 percent. Furthermore, the proper distribution of work to the different plants and the proper utilization of waste products have done much to increase production and reduce overhead. But at present, the possibilities are nearly exhausted. From the point of view of quality, production can hardly be improved; new plants would have to be built and the raw material supply developed. Mass production is also limited.

As far as quality and technical perfection are concerned, no great improvement has been evident and there can be none, since there is a lack of qualified personnel. Hungarian heavy industry is not geared to mass-production; it is quite similar to the Swiss mechanical industry. Primarily, it should have the place that it used to occupy in the world market due to its high technical standards. But when compared to the gigantic industry of the Soviet Union, it can never play more than a secondary role as a supplier of mass produced goods for the Eastern countries.