

## **How power slips out of one's hands –**

### **the political transformation process in Hungary between 1988-1990**

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#### **Introduction**

The issue of the fate of the assets of the Hungarian Socialist Workers' and Peasants' Party (in the following "HSWP") was only a subject of discussion during the period of political transformation. As my research shows, it is not possible to determine exactly the amount of party assets. According to a rough estimate and including its affiliated organisations its assets probably did not exceed 100 billion Forint (acc. to nominal value of 1990 approx. 18.3 billion NT / 558 mill. USD), and a large portion of it has been transferred to the state budget. Compared to the tangible assets and property that were embezzled during the spontaneous and "orderly" privatisation between 1988 and 1998 or to the costs of the so-called bank consolidation after 1993 (355 billion Forint / approx. 65 billion NT / 2 billion USD) the amount of funds embezzled from party assets does not make such a big difference.

The recession that occurred after the transformation caused much larger upheavals comparable to the Great Depression. Though GNP (gross national product) only shrank by about 15% between 1989 and 1993, agricultural production decreased by 35% and industrial production by 33%. Inflation in the years from 1989 to 1997 ranged between 20 to 35%, real wages decreased by 30% and unemployment increased to 13%. Due to a lack of historical awareness, the average Hungarian citizen, however, does not blame the HSWP for these shockwaves. Rather free market economy, foreign capital and western influence were blamed for bringing disaster to Hungary. These social conditions did of course not facilitate an investigation into the responsibility of the former state party.

The HSWP differs fundamentally from all other Communist parties, because up to 1990 it was in leading charge of the political and economic transformation process and let but little room for manoeuvre to the opposition. The Hungarian "transformation" can thus not actually be described as a process of negotiations between the opposition and the party, as was the case in Poland, Czechoslovakia or in East Germany. In those countries the opposition forced the ruling parties to negotiations. The leadership of the HSWP on the other hand recognised quite early the advantages of a free market economy and therefore – not without furthering its self-interest – worked for economic transformation.

#### **The economic and political situation at the beginning of 1988 and the party's concepts for political transformation**

Not later than by the oil crisis of the early 1970s, the Hungarian economy was no longer productive. In order not to let the standard of living drop any further, the political leadership became constantly dependent on Western loans. The intensifying Cold War during the presidency of Ronald Reagan also worsened the generally critical economic situation. In this situation the political leadership was forced to engage in far reaching economic and legal reforms but without giving up the precondition of a one-party-system. The recurrent Western loans were, however, used to make up for budget deficits rather than to finance structural changes. How great demand was for such loans, can be seen from the fact that the loan of more than 1 billion DM (approx. 22.5 billion NT / 690 mill. USD) granted by West Germany

on October 7<sup>th</sup>, 1987 had to be used to balance current amortisation instalments and thus the whole sum was exhausted within a few months. By this time the state was finally bankrupt.

The concept introduced from 1987 by the young party economist Miklós Németh (secretary for economic issues in the Central Committee since 1987, Prime Minister since 1988) did include economic measures, but was actually aimed at introducing a „regulated market economy” (VAT law, poll tax). But it was obvious, that these reforms would have to have political consequences.

At this time, even the members of the Central Committee didn't take the belief in communist goals very serious. On August 29<sup>th</sup>, 1988, Csaba Hámori, member of the Politburo, went as far as to openly describe communism as a „utopia”. The backbone of dictatorial rule was therefore not only broken in the field of finances but also in the minds of the rulers.

On instruction from the Central Committee since autumn 1988 at least three different teams were studying concepts for transformation. Of these only the concepts from the team of agricultural reformer Pál Romány are so far available to academic research. They developed five theoretically possible solutions, but discarded retaining power by the use of force as unfeasible and morally unacceptable, a conclusion for which “our level of civilisation” alone was a sufficient reason. The second version included a return to the period of coalition governments between 1945 and 1948 with a leading role for the Communist Party and establishing “friendly” parties in Parliament. The third version required the existence of a hostile opposition in parliament and free organisational opportunities for all parties. According to the fourth version, leadership should remain in the hands of the leftist parties, but not in the hands of the HSWP. Romány and his colleagues – righteously – expected chaos from this solution. As a last option they also discussed the total relinquishment of power and transformation into a free market economy. In their meetings as late as January and February 1989 the Central Committee and the Politburo still held the opinion that the one-party-system could be maintained, if necessary one would have to introduce a mock party system (solution 2 of the Romány study group). In order to manipulate, a distribution of seats in Parliament prior to the elections was suggested. Negotiations with the opposition should include the “third party”, ie the party's satellite organisations, such as trade unions, Patriotic People's Front etc., in order to ensure a majority of 66%.

Events, however, brushed aside such plans, as the newly independent Parliament passed a law on association and assembly on January 10<sup>th</sup>, 1989. After this the beginning of the founding of new parties was merely a question of time. It was the same case with demonstrations: according to the new law, demonstrations in public that had been applied for could no longer be prohibited.

On May 8<sup>th</sup>, 1989, the Minister of the Interior, István Horváth, wrote in his paper prepared for the Central Committee that the objective of transformation would be „*pluralist democratic socialism*”, that „*would be much closer to the period between 1945-1948 than any other period during the last 40 years.*” From this one can conclude that the party followed a hardline stance: if transformation was inevitable, then the state security organs should as far as possible participate in organising the other parties (as had been the case between 1945-1948).

The resolution of the Politburo meeting on December 12<sup>th</sup>, 1988 also pointed to the fact, that issues of party assets should be clarified. On February 28<sup>th</sup>, 1989, the Politburo decided that all real estate that had been nationalised from private property in 1977 should be restored (2306 items of real estate property with an alleged nominal value of 5.1 billion Forint (approx. 937 million NT / 28.5 mill. USD), that however only represented a fraction of real market value). The HSWP, however, wanted to keep such real estate property of which it had received the right of use in 1977. During the next meeting on May, 2<sup>nd</sup> the issue of asset

separation was discussed: a considerable proportion of the HSWP property in fact had come from the enforced unification with the Social Democratic Party. Claims to property from the new parties were also discussed. The HSWP leadership was unanimous in its opinion that restorations of any kind could only be made to the State, the opposition parties were not to be included in negotiations on this issue.

On June 13<sup>th</sup> the "round table" negotiations with the opposition began. The opposition's precondition for negotiations was that all participants agree to account for their party's assets. This demand was first accepted by the HSWP on June 24<sup>th</sup> but revoked only two days later. The leadership of the HSWP insisted that the party was only accountable to its members. Its representative, Politburo member György Fejti, said in the Politburo meeting on June 24<sup>th</sup>, that it was not necessary to conclude an agreement whatever the cost. The HSWP could also get the most important bills through Parliament on its own and that it was in favour of an early election of members of Parliament and of a direct election of the President.<sup>1</sup> The background was that according to the party's assessment the opposition was still quite weak and the HSWP candidate, Imre Pozsgay, was at the time still quite popular among the population.

The opposition did not generally criticise this tactical decision. Its spokesman, Iván Pető, when accepting negotiations insisted on the generally accepted premise, that the introduction of a multi-party system should not cause society any additional costs. The HSWP's refusal, however, also meant that financing all other parties was a responsibility for the national budget.

In reaction to the HSWP's delaying tactics, the opposition parties began to prepare a petition for a referendum on the four principal issues: (1) **settlement of accounts with the HSWP's assets**, (2) dissolution of the workers' militia, (3) dissolution of the party organisations on the workplace, (4) election of the next president by the new Parliament. In the weeks between June and November events started happening very fast. The HSWP dissolved itself on its 14th Convention, where the successor party, the HSP (Hungarian Socialist Party) was founded. **Parliament passed laws on the first three issues** so that during the vote on November 26<sup>th</sup> only the election of the President was still open to vote. During these summer months the HSWP thus lost the initiative, but it could still actively influence political events and the newly founded HSP that emerged from the HSWP disposed formally and informally of important means of power, especially in the economic field.

### **The passing of new laws on the social and economic issues**

Hungary enjoyed a special status among the countries of the Warsaw Pact, which can be seen from the transformation process that began at an early date. That this was made possible, is due to the insight of the HSWP's leadership: although their loyalty to Moscow never decreased, they did use existing elbow room. János Kádár and his comrades had never forgotten the events of the 1956 revolution and concluded that it was essential to provide the population with relative prosperity. The special construction of the Hungarian dictatorship has been described by journalism and political science with such terms as "the merriest barracks of the Eastern bloc", "goulash-communism" or "refrigerator-socialism".

After signing the Helsinki agreement in 1975, but especially in the wake of ever greater financial reliance on the West, the system relaxed even further. For example, as early as 1981 Hungary joined Interpol and in 1982 joined the IMF [International Monetary Fund] and the World Bank. The electoral act of 1983 demanded the nomination of several candidates in

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<sup>1</sup> MOL M-KS-288f. 5/1072 öe.

every constituency and also provided for a vote on voting a member of Parliament out of office, if 10% of persons entitled to vote were in favour of such a vote. In 1987 the laws on value added tax and poll tax were introduced, representing a further great step towards a market economy. On December 23<sup>rd</sup> 1987 the law on a worldwide valid passport was passed: any Hungarian citizen could now travel to the West without any restriction.

In 1988 a number of measures were introduced with the aim to stabilise the situation and to mobilise the population for the reforms of the HSWP. After the party convention in May, when János Kádár was toppled from power, „socialist pluralism” was openly proclaimed. In autumn the parties finally operated in the open and nearly every week there was a spontaneous mass rally. On October 10<sup>th</sup>, 1988 the act on private enterprises was passed. On March 22<sup>nd</sup>, 1989 the strike act was passed. On May 2<sup>nd</sup>, Hungary began with dismantling the barriers on its Western border. Six days later, the First Secretary of the Politburo, János Kádár, was dismissed and the Politburo’s and Central Committee’s privileges in appointing leading national positions abolished. On July 13<sup>th</sup>, 1989, the act on “transformation” or rather “spontaneous” privatisation was passed. According to this act, businesses could privatise themselves if the management of these businesses paid the estimated value of their companies to the treasury. The value of these companies was determined by their management themselves. The number of plc-companies rose from 451 (end of 1988) to 4485 (end of 1989). The value of these “spontaneously” privatised assets is estimated at 130 billion Forint (approx. 5% of the total national assets – 24 billion NT / 726 million USD). Between September 26<sup>th</sup> and October 30<sup>th</sup>, Parliament passed a number of acts, that transformed Hungary from a People’s Republic to a parliamentary republic with a President and a Constitutional Court etc, that up to this day form the foundation of political life in Hungary. It has to be stressed that all of these acts were passed by a Parliament whose members up to 1985 were mainly selected from HSWP members. This fact also makes clear, that the role of the HSWP during the transformation process was far more determining than that of the opposition.

### **The “spontaneous” privatisations of the Hungarian Socialist Workers’ Party – methods of embezzlement and manipulation**

The party and its affiliated organisations possessed vast assets. This included mainly real estate property and companies, especially printing companies and newspapers. The real estate property included several valuable rest homes that as early as 1987 had been in commercial use. Here one must add that the party until early 1989 had never paid taxes or social security contributions – which means that the party in this way received indirect subsidies by the state, the amount of which, however, is hardly possible to establish. According to internal calculations the party’s assets in 1989 were 8.6 billion Forint (1.57 billion NT / 48 mill. USD), of which 7.4 billion (1.35 billion NT / 41 mill. USD) came from real estate property. However this real estate was registered as well below market value: the opposition suspected that the actual value in some cases was 30 to 40 times more than the values entered on the books.

The first scandal concerning the internally established party enterprises erupted on August 28<sup>th</sup>, 1989. The company „NEXT-2000” was established on June 23<sup>rd</sup> with a capital stock of 2.9 mill. Forint (532,000 NT / 16,200 USD), five days later 30 items of real estate property, office equipment and computer systems were transferred to this company, thereby increasing its capital stock to 1.263 billion Forint (232 mill. NT / 7 mill. USD) (probably the real value of these properties was 10 to 30 times as much). The court responsible for registering companies, however, refused registration, because from July 1<sup>st</sup>, 1989 according to the new land act it was no longer possible for the HSWP to transfer rights of use for real estate to third parties.

Gábor Hován, the vice-director of the economics department in the Central Committee said on August 28th, that this party enterprise planned to engage in 30 [!] different fields of activities. Two days later he said in a surprisingly frank interview, *“nowadays the good ideas do not necessarily come from the minds of the top leadership. Also for this reason, I am proud of the fact that the first plc [private limited company] wasn’t established in Budapest, but in Veszprém, on the initiative of the Politburo there. (...) also in other counties such enterprises have already been established. There is no other solution.”*<sup>2</sup>

This affair triggered a nationwide scandal. Even the reformists within the HSWP called the establishment of such plc-companies “intolerable” and demanded that those responsible should be called to account. The opposition that since June 13<sup>th</sup> had been engaged in “round table” negotiations with the HSWP on the issue of transformation, described this affair as a breach of agreements, as the HSWP had vowed on the outset of the negotiations not to confront the other parties with any *fait accompli*. The HSWP insisted during the “round table” negotiations that they were not prepared to cut back on party asset issues. During the Central Committee meeting on September 1<sup>st</sup> data on party assets were made public. It was stated that since 1957 20 billion Forint (3.67 billion NT / 111 mill. USD) had come from membership fees. These allegedly covered 75% of all costs – according to other sources this percentage, however, was no longer correct since 1981 or 1986, when membership fees had been reduced [!] for political reasons. Party assets had been estimated at 8.6 billion Forint (1.58 billion NT / 48 mill. USD). Pál Iványi openly admitted during the Central Committee meeting that the objective of the plc-transformations was to retain the rights of use to real estate property, „though the impression it made cannot be described as nice” – thus describing his own actions.<sup>3</sup>

The HSWP’s refusal to account for its assets had severe consequences. All other parties agreed that it was not possible to continue negotiations with the HSWP on this basis. Even within the HSWP there was resistance against these manipulations. A spokesperson of the Budapest reformists said openly: *“We must admit that a major part of the party assets did not come from voluntary payments, because people were often compelled to become a party member. The party assets could often be used to build luxurious villas and hunting lodges for the party bigwigs, because their salaries were paid for from the national budget. The party’s assets must – except for the necessary infrastructure – be declared state property. In this way the oligarchs will lose their most important tool.”*<sup>4</sup>

**The opposition used the opportunity to make the issue of party assets part of a referendum. Due to the enormous pressure from within and from outside the party, the party leaders were forced to pass a resolution three days before the referendum that revoked the morally untenable establishment of companies** and on November 23<sup>rd</sup> 1989 the “Next-2000” plc was dissolved. Altogether the party established 24 plc’s within this short period of time with a start-up capital of 1,670,510,000 Forint (300 mill. NT / 9.3 mill. USD), their actual value, however, must have been far higher. All these new established companies, however, had to be dissolved by 1992.

But privatisation by other means continued. This included the sale of the largest daily newspaper „Népszabadság”. This newspaper was only able to achieve the highest circulation (around 500,000), because it was the party organ. During privatisation not only tangible assets were sold, but also market shares, whereas this market share did not develop under free conditions. However, it was not the national budget that received the proceeds, but the party.

Another method of embezzlement was the selling of the headquarters of the Communist Youth Federation (abbr. in Hungarian: KISZ). Two storeys of the building had been rented to

<sup>2</sup> [daily newspaper] Népszabadság, September 1st, 1989, p.5.

<sup>3</sup> Novák Zoltán: Az MSZMP reformköre, VI. rész, 46.o.

<sup>4</sup> Népszabadság, October 4th, 1989, p.9.

a bank before and it was sold to this bank on June 22<sup>nd</sup>, 1989 for 950 million Forint (174 mill. NT / 5.3 mill. USD). The proceeds were allegedly used to finance the inflated apparatus of KISZ (since April 22<sup>nd</sup>, 1989 renamed DEMISZ) that was only dismantled after several months. The National Audit Office established that the sales contract concluded on April 22<sup>nd</sup> was actually illegal, because DEMISZ had not yet been registered as owner in the real estate register. It stated that it was highly questionable that a civil association employed an apparatus beyond its means and financed this apparatus only by selling its tangible assets that it had been given to by the national budget for charity purposes. A new civil organisation could only be registered if its revenues were safeguarded. In the case of DEMISZ, the statutes did not mention any revenues, so its financial basis could only be KISZ assets, that were still used, bearing interest and outhoused into other companies. Dr. István Hagelmayer, President of the National Audit Office, demanded that DEMISZ be stripped of its assets and he also demanded a court investigation that, however, the top authorised signatory refused.<sup>5</sup> Apart from the illegality of the sale and the misuse of budget resources there is the question whether there was a further extra-contractual and therefore untaxed agreement...

### **The collapse of the concepts of the HSWP and of the State Security organs**

The above mentioned political concepts of the Politburo and the Central Committee were carried out by the state security organs. From internal reports of the state security their growing uncertainty is evident. After all, it was the state security that was assigned the role of the silly billy: after securing the political scene, their role was over and they came away empty-handed.

The state security had no concepts of its own and in contrast to other socialist countries it was not a state within a state. It made a bogeyman out of anyone according to current party decisions. From 1988 these decisions weren't taken seriously by the party itself, with the consequence that the state security felt increasingly uncertain.

József Horváth, the chief of Internal Defence said in October 1987 during a state security conference, that the atmosphere in society was tense and in this context *“we must acknowledge that the search for a new course is part of socialist democracy, and it will also be possible to advocate extreme opinions openly (...). If necessary, we must also be prepared for the need to keep those qualified target persons under surveillance that influence society, even when they will be regarded as a politically acceptable opposition.”*<sup>6</sup>

Horváth's statement is important, because at this time a „politically acceptable opposition” in Parliament was not yet a topic of discussion, however, it was clear to the HSWP that tolerating such a group in politics would become unavoidable.

It is significant that on the part of the state security no trace towards an orthodox restoration can be found. Horváth and his comrades saw themselves as tools of the party, and there was no hint at all from the top leadership that could signify a desire to slow down reforms. On the contrary, from January 1989 the state security also began to keep the “leftist” discontented party members under surveillance. This measure can be regarded as unique, as any surveillance of party members required approval by the responsible party organisation.

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<sup>5</sup> Állami Számvevőszék könyvtár, R/27, jelentés a volt KISZ KB székház eladásának ügyében végzett vizsgálat tapasztalatairól 1990 szeptember 7. V-20/14/1990.

<sup>6</sup> Állambiztonsági Szolgálatok Történelmi Levéltára (Archives of the State Security Services, in the following: ÁSZTL), 1.11.6, 58.doboz, BM III/III CSF. Intézkedési Terv az MSZMP KB 1987 júliusi határozata, az erre alapuló kormányprogram végrehajtásának elősegítése érdekében szükséges feladatok végrehajtására, 82-87.o.

Not only the politicians from the Central Committee, but also the leaders of the state security organs had at this point lost all faith in communism. Horváth said openly during a meeting of party activists on January 25th, 1988 that a communist society as a political programme was unrealistic. In other words, he thus admitted that the HSWP did not have any realistic programme at all.

*“We must also acknowledge that this state [ie communism] will not be realised not only during our lifetime but neither during the lifetime of our grandchildren. When the dictatorship of the proletariat was proclaimed, we intended to realise the task of many generations by means of a cavalry attack, we charged forwards and occupied areas that we couldn’t hold. Social developments have their own rules, unfortunately sometimes we consciously work against them.”*<sup>7</sup>

After the summer of 1988 the leaders in the Ministry of the Interior were more and more afraid that events could become uncontrollable and that riots and armed clashes might occur. This conclusion is not surprising, as there were nearly weekly mass demonstrations with tens of thousands of participants. However, there is no indication that the Ministry’s leadership planned any retaliation. The Ministry’s “orthodox” version included only a return to the conditions between 1945-1948. This is easily understood, as the state security leaders knew this period and its means of political manipulation well from their own experience.

From the only scantily available material it seems that the method of undermining and manipulation was mostly successful with the “historic” parties, certainly because the state security had carried out 40 years of preparatory work in their “area of expertise”. It is no coincidence that during and after the transition period there were continuous scandals among these parties (small peasants, Christian Democrats, Social Democrats) and that virtually all of these organisations dissolved within a few years. The state security’s plan actually seemed to work, because on March 15<sup>th</sup>, 1989, Hungary’s main national holiday, the small peasants and Social Democrats agreed to celebrate together with the HSWP.<sup>8</sup>

The Stasi conference on February 6<sup>th</sup>, 1989 also discussed elements of Minister István Horváth’s proposal. The chief of Internal Defence described the situation as highly problematic: *“Our enemies have not only gained legality, but they also are marking reference points in a political landscape that is not theirs. Today we are dealing with an enemy, who is clearly aiming at coming into power and the issues are getting ever more complicated. (...) We are getting no orientation from the Party about the objectives of our work. But we, being the organs of state security cannot afford to stand by watching. (...) But it could be a problem if this organisation becomes independent.*

*Therefore: we should not act independently, but we should always assume that the last order is valid. It is our task to remain in operative contact with these alternative groups. (...) We need these operative positions everywhere, where hostile individuals are operating and we must also keep in touch with those journalists that can be used in a positive way, on whom we can rely. On this issue we must examine the possibilities of “management” [ie: purposeful sponsorship].”*<sup>9</sup>

During the state security conference on June 5<sup>th</sup>, 1989 the twilight of the gods could be felt, but even at this time there were no reactions that demanded a U-turn. The social context for this was the state funeral for Imre Nagy and his government, who had been executed in 1958 on the orders of János Kádár and which was going to take place a few days later. That the state security was not only to watch this event, but also to take part in organising it, filled all concerned with helplessness and confusion. József Horváth said when instructing his officers: [...the benchmark for our actions will be], *to what extent we can assist in a*

<sup>7</sup> ÁSZTL 1.11.6., 58.d., 1988 január 25-i parancsnoki aktívaértekezlet, 62.o.

<sup>8</sup> ÁSZTL ÁBMHT 294. doboz, 6.sz. heti tájékoztató, 176.o.

<sup>9</sup> ÁSZTL 1.11.1, 58.doboz, emlékeztető az 1989 február 6-i parancsnoki értekezletről.

*transformation process without eruptions and in the stepping down of the leading party. (...) we must help the party to win the election campaign. (...) it is a great and important task, to make clear to our network of unofficial collaborators that if ever, it is in this moment that we are connected to each other by a total congruence of interests. Now we can make the greatest contribution in order that the transformation to the rule of law shall happen in a peaceful way under the leadership of the HSWP. Should this not be the case, then we must fear that the secrets will come to light.”<sup>10</sup>*

At this time, the chief of the Head Office III (State Security), Ferenc Pallagi, began with compiling those orders that did not conform any more to the „new conditions”, with the purpose of repealing them. For this task he scheduled a period of 30 days. His subordinate, József Horváth, chief of Internal Defence (III/III.) apparently tried to sabotage this work as he himself envisaged an accelerated reviewing process that would take one to two years.<sup>11</sup>

On June 20<sup>th</sup>, 1989 colonel Benkő (vice director of the counter-intelligence administration) informed the secret services of the “friendly” socialist states (including the member states of the Warsaw Pact except Romania) that the introduction of a multi-party system was an irreversible fact and that the Ministry of the Interior was no longer led by the party. He emphasised the “positive” role of US ambassador Mark Palmer in the transformation process, probably in order to reassure the Soviet comrades.<sup>12</sup>

Apart from the uncertainty, the officers of the state security also suspected that the sudden lack of interest of the HSWP for their work involved the risk that the so far readily used organisation could be made the scapegoat on the altar of political transformation. On the conference on November 6<sup>th</sup>, 1989, Horváth held a speech that was already marked by the new coalition government: *“we must make it clear [to the decision makers], that apart from secret intelligence and experts, a multi-party system also requires a legitimate government. Therefore a new coalition government does not mean a fundamental existential problem, although a certain change of personnel in the higher ranks is conceivable. (...) It is in our interest to safeguard total independence of the services from the parties. Employment therefore must exclude membership to a party. In order to give credibility to our independence and objectivity in the face of the public, we must make this sacrifice. We are working under extremely difficult and complicated conditions, but in order to avoid stressful situations, we must get used to these conditions because they are going to be normal within a multi-party system. It is important that we facilitate consolidation with our means, because the political leaders are unfortunately unable to appear forceful enough to influence the current state of society.”<sup>13</sup>*

On November 9<sup>th</sup>, the service members began to address each other by “Mister” instead of “comrade”.

The last major instruction of the state security officers took place on November 21<sup>st</sup>, 1989. On this occasion the chief of Internal Defence said that all operative positions were to be retained. Concerning the upcoming elections, *“we should not be too restrained, but we should rather be omnipresent. We are therefore neutral, we do not take part in the daily political struggles, but the intelligence system in the realm of politics must be retained and be kept operating. We can only then guarantee internal security, if we always know what the extremists in the parties are planning. (...) The future of society as a whole depends on how the now fragmented left will be able to develop into a significant political force. We must*

<sup>10</sup> ÁSZTL 1.11.1, 58.doboz, 63.o., 1989. június 5-i parancsnoki értekezlet.

<sup>11</sup> Varga László: Világ besúgói egyesüljétek. Budapest, 2006, 101.o.

<sup>12</sup> Bundesbeauftragter der Stasiunterlagen (BStU) [(Germany:) Federal Representative of the „Stasi” (East German Secret Police) archive], MfS, Abt.X., Nr. 9., 142-144.o.: „Information of the Hungarian brother organ on the current situation in the HPR [Hungarian People’s Republic].

<sup>13</sup> ÁSZTL 1.11.6., 8. doboz, 133.o.



*support this process, but without any unlawful actions. (...) Whether the services need a „lord” or not, we can only answer that the services need no „lord” who again stands above the law and passes on his expectations to the services. (...) The processes going on in Eastern and Central Europe have been interpreted in various ways by us and others, however – as these processes have not yet come to an end – we can pass no final judgement. But it is certain that the former political institution called “socialism” is bankrupt, the political leaders built their own kind of socialism and used us as their tools. (...) If during transformation only the values of bourgeois democracies are to come into play, then the current members of the services will probably need to look for a new job.”<sup>14</sup>*

The search for a “new job” actually proved not too difficult for most state security agents. Some of them found employment in the successor organisations, others established private security enterprises and many got a job in the “privatised” companies.

### **The finale: how the party assets were accounted for**

The referendum and a previous resolution of Parliament obliged the HSWP (or HSP) to account for its assets. Public opinion was also interested in the question, to what extent the assets came from membership fees.

September 30th, 1989 was chosen as reporting date for the accounting. According to the accounting the party’s assets on this day amounted to 8.4 billion Forint (1.54 billion NT / 47 mill. USD). Of this amount 7.4 billion Forint (1.36 billion NT / 41.3 mill. USD) came from real estate property. The National Audit Office that had been established on January 1st, 1990 and immediately started operating had drawn up its first report by February 19th, 1990. This report established that the HSWP (or HSP) hadn’t accounted for its assets in due form. Especially real estate property was generally undervalued. Many real estate properties had not, or only incompletely, been entered in the assets register.

The party’s revenues between 1970 and 1989 came from the following sources: 17.920 million from membership fees (3.29 mill. NT / 100,000 USD), 3.159 million contributions from companies (untaxed; 580,000 NT / 17,600 USD), 2.254 million sundries (413,000 NT / 12,600 USD), 5.718 million of subsidies from the treasury (slightly over 1 mill. NT / 32,000 USD), altogether 29.051 million (5.3 million NT / 162,000 USD). During the same period expenses amounted to 23.638 million (4.34 million NT / 132,000 USD), so the party was able to save additional resources of 5.413 million Forint (1 mill. NT / 30,000 USD).<sup>15</sup>

The act LXXIII/1990 obliged the party repeatedly to account for its assets and the report of the Audit Office from February 15th also obliged the party to do the accounts. The report that was completed in January 1991 came to the same conclusion: the party was not able to account for its assets. It was only established that the number of real estate property decreased from 2,641 to 365, but even there legal evidence was mostly missing.<sup>16</sup>

Not only the HSWP but also its affiliate organisations owned assets in the billions. This included: the Communist Youth Association (or DEMISZ), the pioneer’s association, the Hungarian-Soviet Friendship Circle, the National Peace Council and the Hungarian Rural Defence Association. According to the act LXXIII/1990 these associations were also obliged to account for their assets. Especially the Rural Defence Association was revealed to possess

<sup>14</sup> ÁSZTL 1.11.6, 8. doboz, 62-67.o.Emlékeztető az 1989 november 21-i siófoki parancsnoki összevonas megnyitójáról. Előadó: dr. Horváth József r. vezérőrnagy.

<sup>15</sup> Állami Számvevőszék könyvtára, R/1-b, Jelentés az MSZP bejegyzési kérelmével egyidejűleg a bírósághoz benyújtott vagyonmérleg vizsgálatáról. 3.sz. melléklet, 5.o.

<sup>16</sup> Állami Számvevőszék könyvtára, R/34, ÁSZ jelentés az 1990 évi LXXIII. Törvény alapján az MSZP (mint az MSZMP jogutódja) vagyonelszámolása hitelességének ellenőrzéséről.

large assets, because it had real property everywhere and certain activities such as driving schools were a monopoly of the Rural Defence Association.

In many ways the accounting was only of a formal character. The accuracy of the entered values had not been checked in any way. The Audit Office checked only for legal evidence and compared the data used for accounting with the entries in the land register, in other words it only checked the accuracy of the accounting evidence.

None of the mentioned associations was able to account for its assets during the first round. In some cases, such as the Communist Youth Association (or DEMISZ) the shrinkage of property was especially dramatic: of 2.6 billion Forint (477 million NT / 14.5 million USD) in 1988 only 86 million (15.8 million NT / 480,000 USD) were left in 1990! If one bears in mind that DEMISZ as late as 1989 received 800 million Forint (147 million NT / 4.47 million USD) of subsidies from the treasury and that it founded six companies (that later went bankrupt) by using these funds, then the dimension of this shrinkage of assets becomes especially evident.

By April 1992 all organisations except DEMISZ were at least able to formally account for their assets, but only because the Audit Office for reasons of “not replaceable loss of data” did not insist on further verifications.

One can conclude that the HSWP or HSP and its affiliated organisations got off rather lightly from these checks on their assets. Actually, it didn't necessarily have to turn out that way, because the HSP only received 10% of votes in the 1990 elections. The structures of transformation that determined future developments were, however, mostly created by the HSWP.

In the years between 1989-1991 a rather strange kind of transformation took place in Hungary. The old political system was completely dismantled. There was also a social change in everyday political life. The least changes, however, took place within the elite of the economy. It was a popular saying that “the only thing that many top officials retained of Marx was capital”. The last director of the Department for Agitation and Propaganda in the Central Committee, János Barabás, became the head of Hungexpo, the national trade fair association; the director of the department for academic science, András Knopp, became the representative of the German tobacco company Reemtsma; the head of the youth association DEMISZ, Imre Nagy, privatised the company CAOLA and present-day Prime Minister, Ferenc Gyurcsány, managed to rise to become a billionaire through his business activities. These individuals' property certainly didn't come from party assets. The connections that they were able to use to acquire their property, however, all dated from the time of one-party-rule.