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**Legal characterisation and detection of financial crimes,
1945 –1956**

Theses of doctoral (PhD) dissertation

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Budapest, 2020

I. Preliminaries of research and research questions

After the end of World War II, the destruction, the suspension of production, the costs of provisions for the occupying Soviet army, the reparations and the highest inflation that had ever been recorded meant considerable burdens on the country and ruined its economy. The situation demanded prompt and radical action, but the stances of the political parties – in line with their goals – were different regarding the methods and extent of state intervention. The communist party leaders who had returned from Moscow argued that the restoration of the economy and financial balance should inevitably be accompanied by not only the change of the institutions of economic policy and financial administration – which was later implemented mainly through political purges – but also the forceful alteration of the structure of society. The economic policy which was established in Hungary was characterised by total vulnerability: the political and economic framework had been determined by the Soviets, whose main purpose was to achieve a world power status through a long-term settlement in the occupied countries, i.e. establishing a “sphere of influence”. In the hope of “skimming” all profits, they wanted to introduce their own ideological, political and economic methods in an unchanged form in these countries. All this required radical procedures, which used legislation and the application of the law as tools. Legislation related to economic administration – an extremely diverse area – often changed, which had a harmful impact on the stability of criminal judgement.

The leaders of the communist party – following the Soviet model – believed that the most effective method of crisis management was criminal proceedings which permeated all spheres of life, and therefore criminal law became the main tool of economic management. Criminal provisions had to follow the current political guidelines, and they also had to cover the tasks and problems arising from the changing economic situation. Therefore, the lawmakers created framework laws, which delegated it to secondary, lower-level administrative norms and judicial practice to present the changes in political directions and sanction behaviours that were judged undesirable. Politics – and, similarly, legislation – did not differentiate between interests protected by communal and individual law, and, in fact, the protected legal subject was in all cases the state itself and the current legal conditions. Consequently, there were no other crimes but political ones: it could be an ‘attack’ directed against the order of the state, the administration and the economy. According to the views of the one-party state led by Rákosi, economic difficulties could be surmounted by the enhancement of administrative measures and a more efficient implementation of criminal proceedings.

In my dissertation I explore the legal characterisation, classification and detection of financial offences committed in the period from 1945 to 1956, namely those offences which directly or indirectly endangered revenues in the national budget and threatened the financial-administrative activities of the state. In the framework of the

rule of law, these offences, e.g. “tax fraud” (today: budgetary fraud), albeit being complex, can be easily defined based on their characteristics, and – irrespective of ideology – their objective is to obtain illegal financial benefit. My inspiration to research this topic was my interest in examining how it worked in the framework of a dictatorship – where not only the wording of legislation but also the practices of their application demonstrate in what ways and to what extent the state wanted to intervene in law and economy, and what economic policy objectives motivated the state to employ criminal law procedures. I also wanted to investigate how the communist political elite could exploit economic and legal regulations to build out and strengthen its power and what impact it had on the society. The purpose of my dissertation was therefore to highlight the special role of economic crimes, including financial ones. During my research I examined the legal characterisation of these as well as the role of courts and the detection of criminal offences based on legislation, archival sources and contemporary press material available.

II. Research methodology

While preparing my dissertation I aimed to explore some of the most significant financial crimes of the examined era with scientific standards, in a comprehensive way, based on legal sources and, at the same time, illustrated with case studies. In addition to factual analysis, I placed an emphasis on introducing judicial legal practice, the legal characterisation of the cases from the perspectives of lawmakers and the appliers of the law as well as the methods of detection. At the beginning of my research – with the aim of setting the directions of research – I formed the following hypotheses:

1. The legal proceedings associated with financial crimes had an important role in the forceful alteration of the social structure. Therefore, financial crimes also reveal, and it can be traced through the proceedings too, that the changes imposed on the society did not happen in an ad hoc manner but occurred in a planned way, following the Soviet pattern.
2. The wording and structure of the legislation already inherently determined the commitment of offences.
3. In the cases of financial crimes, political bias is evident in court judgments and so is the intention that the sentences should reflect the ideology of the state party.
4. As financial crimes attract widespread public attention, they are especially suitable for the power to use them for propaganda purposes.
5. The detection of financial crimes and the implementation of legal proceedings require special expertise, which lead to the assumption

that in addition to the police other specialised law enforcement authorities with the necessary expertise also participated in them.

In line with these hypotheses, I divided the dissertation into five large units after the introductory chapter. Firstly – as a basis for further research – I examine the economic, and especially financial, situation after World War II: including the changes of budgetary revenues and the burdens on the national budget, also mentioning how the Soviets-controlled communists consciously obtained the positions which were important for financial management from late 1944. I discuss the “reorganisation plan” of the communist party, the tools and consequences of its implementation, the decision-making mechanisms of the three-year plan and the first five-year plan – and, more generally, of planned economy – as well as their impact on the economy.

After this, I show the legal environment that was created after World War II, examining the connections between the tools of economic management and criminal law, and finding an answer to the question how political concepts used criminal law sanctions as a tool. In a separate chapter of the dissertation I discuss five financial offences, and also examine how the legal characterisation of these changed after the change of the political system following World War II.

I introduce the actors of law application in separate chapters – discussing the role of the special courts in addition to regular ones –

as well as the types of sanctions which could be imposed for financial offences, with a special emphasis on pecuniary penalties.

Finally, in a separate chapter I discuss the detection of financial crimes, the roles of law enforcement authorities that participated in it, their scope and changes in their scope, their cooperation and the preliminary concepts that served as bases of the detection and legal characterisation of the supposed or real offenders.

In addition to analysing available literature, I consulted a wide range of economic management, financial management and criminal legislation and included them in my dissertation as it was important to have an in-depth knowledge of the laws, decrees and other legal tools so that I could examine how the political intentions (together with the application of law, which was increasingly dominated by it) exploited and bent the written law after 1945 in order to implement the forceful economic and social changes according to its purposes.

I use examples and case studies as illustrations to the peculiarities of certain criminal states of facts, the contradictions in the application of law and the methods of detection. I used material from the press and archival sources. I researched primary sources at the Historical Archives of the Hungarian State Security (ÁBTL), the Budapest City Archives (BFL) and the Hungarian National Archives (MNL OL). At the BFL I searched for documents among the economic crimes files of criminal case records of the Budapest Municipal Court, especially

documents of the usury courts and workers' courts. At the ÁBTL I partly worked with investigation material produced during the investigation process, and I also included documents related to the operation of the Economic Law Enforcement Department, which I found while browsing the documents related to the political law enforcement department. At the MNL OL I examined the records of the Secretariat of the Central Leadership of the Hungarian Workers' Party, examining what directives were formulated at the level of party leadership in connection with economic/financial criminal proceedings. In addition, I tried to find statistics of criminal proceedings of the era in documents created by the Ministry of Justice.

III. New findings

As regards the hypotheses formed at the beginning of my research, the following results have been found:

1. The framework for economic policy was defined by the Soviets. Elements of Soviet planned economy were used in, for instance, the restructuring of the Hungarian financial and bank system, making it possible to centralise the financial and credit processes. A Soviet pattern was apparent in the three-year plan which commenced in 1947, and it can be recognised in its totality in the five-year plan beginning in 1950 as well as in tax policy. As Hungary belonged to the Soviet occupation zone, the occupiers treated the country as a warehouse of raw materials and resources, which could be exploited best by imposing their own economic and political concepts, using all tools to achieve this. In addition to obtaining political influence, they could not let the Hungarian society recover after World War II either economically, financially or even morally. Criminal law was an excellent tool for this, as it removed the individuals from the production by physical confinement, deprived them of their savings, if they had any, and even of the basic funds for their everyday living with pecuniary penalties and other side penalties – for example, withdrawal of licences for business activity or banning from a given town –, and the sentence – or the press coverage which often followed it – did not only torture the “criminal” morally but also his family. This is how the political power secured that social resistance had been

broken. Consequently, proceedings related to financial crimes had an important role in the forceful alteration of the social structure.

2. By establishing new financial management and obtaining decision-making positions, the communist power could create a legal environment which encapsulated in itself the – often unavoidable – opportunities for committing crimes for any member of the society – even without any political motivation. It can be clearly traced in the case of, for instance, taxation. On the other hand, administrative legislation changed so frequently and its scope was so diverse that it led to a high degree of uncertainty. Neither workers nor peasants knew when they had committed an offence. Thus, the wording and structure of legislation (administration regulations) – the application of the so-called “general states of facts” – could ensure the commitment of offences just by themselves. The principle of “*nullum crimen sine lege*” could not prevail as the principle of ‘socialist legality’ a priori excluded the possibility of the implementation of the rule of law.

3. In general, financial crimes threatened state revenues, and consequently hindered the proper operation of the state. Therefore, these could easily be categorised as political crimes and thus treated with much graver penalties. The one-party-state dictatorship demonstrated the same determination when sanctioning political and economic offences, and in the cases of financial crimes political bias and the intention that the sentences should reflect the ideology of the state party were evident in court judgments. In addition, even the

courts could not fully comprehend the extremely diverse and often changing administrative norms which served as references to certain offences, and this gave way to political pressure at the expense of professionalism, which was apparent in the sentences.

Changing the political, economic and social structure of the country was a basic principle of the emerging communist dictatorship. However, law-making generally lagged behind the pace they dictated and expected: in 1948, legislation from the pre-war period were still in effect. Consequently, they instructed the appliers of law, i.e. the courts, to fill the old legislation with new content. In the cases of the special courts, and especially the workers' courts, the composition of the court itself guaranteed the implementation of these expectations. The determined nature of the sentences was also strengthened by the fact that – although judging financial crimes required special expertise and the consideration of all the circumstances of each case would have required longer time – these cases were tried in an expeditious procedure and assigned to party cadres, who had no legal knowledge but were politically committed.

4. Financial crimes frequently, almost on a daily basis, provided topics for the press, and not just for papers belonging to the communist party. The cases of tax evaders, price-hikers received special publicity, and not only the reports on successful detection celebrated the successes of the law enforcement authorities, especially the economic police, but also the processes of the legal procedures or the circumstances of the creation of the criminal legislation itself, and of course the

explanations for its necessity could keep the attention of the readers for weeks, at the same time asserting the power of the communist state, which defeated the “wrong-doers”. Topics of financial crimes were tendentiously kept alive in the press and were used to exacerbate social conflicts. Given the definable and tangible nature of financial crimes, they were suitable for propaganda purposes. The “anti-state activity” could be an intangible category which was difficult for the general public to comprehend, but if crimes like foreign currency trafficking or “gold-hiding” (possession without permit of valuable objects which were to be reported), it was much easier to create an image of the enemy.

Court judgments supported these propaganda purposes as the offenders were often obliged to publish their deeds in the press at their own expense as a side penalty.

5. The detection of financial offences was a complex task requiring expert knowledge, which demanded coordinated work of the organisations performing the various investigation activities. The participants which safeguarded the new economic order were the police and other organisation with minor scope, e.g. the Investigation Department of the Government Commission of Lost Property, the Goods Control Department of the Public Food Division as well as the financial guard. The collaboration of these law enforcement bodies was stipulated by law, and although there were conflicts about scope – like, for instance, between the economic police and the financial guard – they carried out a number of joint actions together.

Investigation authorities could involve the financial guard in certain investigations and could even charge them with carrying out the complete investigation, and if the police discovered any signs of financial crime in any case, they were obliged to report it to the financial guard so that it could lodge a complaint based on the data available. The joint work provided further source material for the party press, which could be used for propaganda purposes.

While I was writing my dissertation, I tried to show it through my research in various disciplines how a dictatorship could impose its political concept on the society by changing the economy and using criminal law as a tool. I also showed it how it exploited the law-making activities, the work of law enforcement organisations and the judicial application of law to serve its own interests. The importance of the topic I researched and its impact on the era and the society is well illustrated by the fact that in the period between 1945 and 1962 when the new Penal Code came into force, 10,000s of economic (including financial) crimes appeared in criminal statistics.

IV. Publications in the topic of the dissertation

A pénzügyőrség szerepe a gazdasági bűncselekmények felderítésében
1945–56 között.

(The role of the financial guard in detecting economic crime in 1945–
1956.)

In: *Magyar Rendészet*, 2020/1 szám, pp. 13-21.

Adópolitika a Rákosi-kor első éveiben.

(Tax policy in the first years of the Rákosi era)

In Zsámbokiné Ficskovszky Ágnes (szerk.): *Biztonság, szolgáltatás,
fejlesztés, avagy új irányok a bevételi hatóságok működésében.*
Budapest, Magyar Rendészettudományi Társaság Vám- és
Pénzügyőri Tagozat, 2019. pp. 52-69.

Pénzügyi bűncselekmények megítélése és felderítése a Rákosi-
korszakban.

(Judging and detecting financial crimes in the Rákosi era)

In Baráth, Noémi Emőke, Mezei, József (szerk.): *Rendészet-
Tudomány-Aktualitások – A rendészettudomány a fiatal kutatók
szemével.* Budapest, Doktoranduszok Országos Szövetsége,
Rendészettudományi Osztálya, 2019. pp. 48-55.

1945–56 között elkövetett szabotázsügyek.

(Sabotage cases committed between 1945-56)

In Keresztes Gábor, Szabó Csaba (szerk.): *Tavaszi Szél 2018 – Spring Wind 2018*. Tanulmánykötet. Budapest, Doktoranduszok Országos Szövetsége, 2018. pp. 599-604.

„A dolgozó nép hazájának védőkarja”: Rendőrképzés 1945 és 1948 között.

(Police training between 1945 and 1948)

In Szekér Nóra, Kávássy János, Nagymihály Zoltán (szerk.): *Utak a Teleki térről. Esszék és tanulmányok a 75 éves M. Kiss Sándor tiszteletére*. Lakitelek, Antológia Kiadó, 2018. pp. 61-68.

„Az intellektuális munkaerő arányszámát emeljük” – Tudásmenedzsment a második világháború utáni rendvédelmi szerveknél.

(Knowledge management in law enforcement agencies after the Second World War)

In Czene-Polgár Viktória, Zsámbokiné Ficskovszky Ágnes (szerk.): *Innováció, elektronizáció, tudásmenedzsment*. Budapest, Magyar Rendészettudományi Társaság Vám- és Pénzügyőri Tagozat, 2018. pp. 59-69.