

Foundations of Soviet Domination and Communist Political Power in Hungary: 1945–1950

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One fundamental question concerning the Hungarian uprising of 1956 revolves around the issue of causality. Twenty years have passed since those heroic days in Budapest but this question is far from resolved. Not only is there a basic disagreement between official Hungarian and Soviet historians on the one hand and Western or émigré scholars on the other, but there are also a number of contending schools of thought among Western liberal and Marxist academics. The aim of this paper is much more modest than to provide a comprehensive answer to this question. It merely proposes to explore a specific and interdependent group of hitherto neglected causes of the uprising focusing on the roots of Soviet domination and Communist power in Hungary under Mátyás Rákosi. The paper wishes to show that certain powerful pre-1945 demands for radical change, the effects of World War II and of postwar Soviet economic exploitation, coupled with the Hungarian Workers Party's (HWP) economic strategy between 1945 and 1950, created a very tight circle of constraints on Hungary's political decision-makers during 1950–1956, which greatly restricted the number of alternatives available for Hungary's modernization. Indeed, they provided a potent impulse for the political excesses of the Rákosi regime during the six or seven pre-Revolutionary years.¹ These factors stand at the gateway of the revolution.

The Need for Modernization and the Legacy of 1918–1945

The challenges facing Hungary's post-World War II leaders can only be understood in the context of the social, economic, and political situation inherited from the Horthy era. While this legacy has been fairly well documented, it often suffers from distortions, and is clouded by rhetoric. Official Communist historians tend to overemphasize the enormity of postwar Hungary's burden in order to diminish Soviet and Communist responsibility for the country's political and economic

crisis in the early and mid-1950's. At the same time, Hungarian émigré writers often minimize the fact that the social and political system of interwar Hungary had severely restricted the opportunities of most Hungarians and that, generally speaking, the country's interwar regimes retarded its advance into the twentieth century.

What were the pre-1945 grievances that could be rectified only by an immense national effort? They manifested themselves in many areas of Hungarian life: in politics, the economy, in society's structure and norms, as well as in the country's external relations. Politically, there was the need to establish the foundations of democratic practice. The 1930's witnessed a gradual shift towards fascism, so that by 1940, and certainly during the war years, participatory democracy in Hungary was but a façade. By the time World War II began, some of the fundamental civil and political rights taken for granted in many Western democracies were, in Hungary (as well as in the other East-Central European states), the privilege only of those who acquiesced in the dictates of the regime, or who could be trusted not to go beyond verbal protest. As a former director of the Hungarian National Bank pointed out:

The interwar governments retained their power not so much by genuine popular support, but by exerting pressure to achieve safe majorities in the elections. . . . Far reaching reforms could be advocated . . . but the opposition . . . was never allowed to show its prowess in taking over government, and the government could seldom be compelled to yield or offer redress.²

The economic state of affairs was equally depressing and in need of radical change. Agriculture, the mainstay of the Hungarian national economy up to 1945, suffered from structural distortions, the most visible of which stemmed from the uneven distribution of landownership. Over half of the arable land was owned by one per cent of the landowners. Beneath this thin veneer of wealth and privilege stood a large peasant class—numbering about three million—comprising the so-called “dwarf holders,” seasonally employed farmhands, and estate servants, many of whom spent much of the year unemployed and in abject misery.³ The Depression had a disastrous effect on the country's economy generally, but particularly on agriculture. Struggling with outdated farming methods, and unable to compete with American grain sellers in Europe, Hungarian agriculture served as an extremely shaky foundation for the economy.

The late 1930's witnessed a remarkable growth in industry. A thorough examination reveals, however, first, that industrialization was largely spawned by increased war preparation and primarily served Germany's

grand design; and second, that Hungarian manufacturing was over-concentrated, that it rested on a shallow raw material base (resulting from the dismemberment of Hungary by the Treaty of Trianon) and that it was structurally uneven—pockets of modernity in a sea of backwardness. By the end of the decade, Hungary was Nazi Germany's economic satellite and her economic development reflected Germany's needs.⁴

Economic dependence was followed by political subservience. Fear of Communism, a belief that Germany would assist in regaining lost Hungarian territories, a feeling that support for Germany would be far less costly than opposition and, finally, sheer economic necessity and geographical factors, all contributed to Hungary's involvement in World War II on Germany's side. It is true that one premier, Pál Teleki, committed suicide in 1941 rather than submit to German dictates. Another one, Miklós Kállay, during 1942 and 1943 strove in vain to unhitch the Hungarian state from the Nazi bandwagon. During the closing stages of the war the Regent, Admiral Miklós Horthy, himself made a last-ditch effort to extricate Hungary from the fate of unconditional surrender by ordering his troops to join the Allies;⁵ but his attempt failed. Within minutes of his announcement, he was thrown out of office by the Nazis and their local supporters. A new government was formed by Arrow Cross Party leader Ferenc Szálasi, which immediately rescinded Horthy's order and thereby committed the nation to go under with the rapidly sinking German ship of state.

1945 was to be the beginning of a new era for Hungary. The country's progressive elements, with a few exceptions, were united in the conviction that the old ruling class had had its day and that the new, sovereign Hungary would live at peace with her neighbours and work arm-in-arm with the other Central European states for rapid modernization, for the betterment of her people, and of the region as a whole. They also believed that a fundamental modernization of Hungary's polity, economy and society simply could not be postponed any longer. Perhaps no one was more willing to participate in this task of building a new Hungary than the Hungarian working class and peasantry, which, during the first steps of economic reconstruction after 1945, were to display a superhuman effort. Often working on empty stomachs, frequently without pay or roof over their heads, they were to work 12–14 hours a day, sometimes seven days a week, hoping that, this time, the sacrifices demanded of them would be in their own interests.

The greatest obstacles to this postwar modernization were the ravages and the accumulated debts of a lost war. Economic damage sustained

during the early war years was slight, confined primarily to a mounting German financial debt column to Hungary. Only after March 1944, when German forces occupied the country in preparation for the coming battle with the advancing Red Army, did allied bombing of Hungary begin in earnest. And then, from September 1944 until April 1945, the country became the scene of some vicious ground fighting as well. As the German and Hungarian armies retreated westward under a constant barrage of bombs and artillery, they blew up most of the country's river and railroad bridges.⁶ Tracks were ripped up, and most of the rolling stock taken to Germany. Some of the Danube merchant ships were sunk by the Nazis, while the rest, including all barges and tugs, were taken upriver to Germany, as were most automobiles and motor transport vehicles.

In order to prevent the Red Army from drawing on Hungarian economic resources the German High Command ordered a policy of systematic industrial dismantling and removals. As a consequence, about 500 important factories not severely damaged by Allied bombs were either wholly or partially dismantled, their equipment requisitioned or scattered around the countryside. Paralleling this action, a considerable quantity of immovable property was destroyed by Nazi demolition experts. The list of removals and destruction is very long indeed, consisting of vast amounts of industrial and agricultural goods. Even the country's entire gold and silver reserves were taken to Germany.

The removals did not involve merely equipment and articles. Approximately 500,000 people retreated with the Germans into Austria, including members of the government, the bureaucracy, large numbers of plant managers and owners, and thousands of ordinary citizens.

Statistical analyses published after the war claimed that financial losses from the war owing to material damage or removals equalled approximately 40% of Hungary's 1944 national income.⁷ The severest damages, and the most significant for future development, were registered in heavy industry, primarily in iron, metallurgy and machine building,⁸ and amounted to 33% of Hungary's total industrial losses. Within this sector, losses in machinery far outweighed those in buildings and stocks.

With the armistice agreement of 1945, Hungary was compelled to pay a very stiff economic penalty for her involvement in the war. The USSR was given rights to war booty, and all formerly German or Italian-owned assets were transferred to Soviet ownership. Moreover, the country was levied a very heavy reparations burden payable to the USSR, Czechoslovakia and Yugoslavia.⁹ While most other states in

East Central Europe (*e.g.*, Poland and Czechoslovakia) received very sizeable financial and material support from the UNRRA, Hungary received scarcely anything.

Constraints of Soviet Economic Exploitation

1. Soviet Military Management of Hungarian Industry: 1944–1945

After 1945 the difficulties stemming from the economic havoc wreaked by the war were accentuated unexpectedly by another obstacle: Soviet economic exploitation. It came to equal, if in a different way, the intensity of those pre-1945 constraints which had for so long denied decent socio-economic standards for Hungary's people.

As the Red Army advanced westward through Hungary, all enterprises falling within its territory—some vacated only a few hours earlier by Nazi demolition experts—were assigned Soviet military commanders. These saw to it that factories still in working order began producing immediately for the war effort against the retreating Germans.¹⁰ Soviet military personnel also supervised production in the coal mines, and deliveries to the army began forthwith.

An illuminating collection of documents, shedding a great deal of light, indirectly and perhaps unwittingly, on this period of Soviet military management, has been published recently by the Hungarian National Archives.¹¹ Intended to illustrate—and they do so admirably well—the self-sacrificing role of Hungary's working classes, factory committees and councils in the early reconstruction phase of the war-torn economy during 1944–45,¹² these documents also paint a vivid picture of Soviet military management, providing clear-cut evidence of the following (and hitherto officially denied) aspects of the Soviet military role in postwar Hungary between November 1944 and July–August 1945:

1. The complete depletion of economic stocks by the Red Army;
2. Wholesale removal of all liquid assets from Hungarian banks and enterprise safes by Soviet military personnel;
3. Widespread dismantling and removal of equipment from factories;
4. Breakneck production under difficult working conditions, heedless of the need for maintaining equipment;
5. Soviet requisitioning of industrial products without remuneration;
6. The difficulty of ensuring labour supply because of arbitrary street arrests by Soviet patrols and deportation of large numbers of skilled workers to the Soviet Union; and
7. The non-payment of workers' wages by Soviet military managers.

When Soviet military management ended in July–August 1945, the affected firms were in utter chaos. Thousands of valuable machines and tools were lost, stocks were used up, and machines left badly damaged. Most of the firms were also hopelessly in deficit.¹³ The magnitude of direct Soviet military intervention in Hungary's economic revival during the critical first postwar months, and the immense strategic advantage enjoyed by the USSR in shaping that revival, can be seen even in the official Hungarian figures. According to Iván T. Berend, during the nine months of Soviet military management 75% of Hungary's industrial output was channelled directly by and for the Red Army.¹⁴

The situation in agriculture was similar. The Red Army requisitioned vast quantities of agricultural goods without payment, and drove away tens of thousands of cattle, horses, and other livestock. From the middle of 1945, requisitioning, in the main, was carried out by the Hungarian authorities who compensated the peasants. Consequently, instead of the peasants bearing the brunt of the occupation cost, the load was shifted onto the Hungarian treasury.

There should be no misunderstanding here. A victorious power has the right to exact certain payments from a defeated enemy. One should also not belittle the sacrifices, the suffering and hardship of millions of Soviet citizens, or the tremendous damage inflicted during the war on the Soviet economy. Hungary's belligerency against the USSR could certainly not be suddenly forgiven or forgotten by the Red Army. Nor could it be expected to ignore Hungary's factories and rely on supplies shipped over great distances. Our concern here stems from the fact that, since 1945, Communist economic historians have consistently claimed that the period in question was very brief, that it benefitted Hungary, that it laid the foundation for rapid economic recovery during the Three Year Plan, and that it showed great Soviet concern for the well-being of the Hungarian populace. The evidence does not bear this out. On the contrary, Soviet military management accelerated the collapse of Hungary's private sector, hastened the economic catastrophe of 1945–46, impoverished millions of Hungarian workers and peasants, and confounded the country's new and inexperienced public administrators. The effects of Soviet military management were so devastating that the most thorough and encompassing central planning and control were mandatory. In 1945, the Communist Party captured a commanding position in economic reconstruction—the Supreme Economic Council (SEC). This important instrument enabled it to sever the jugular vein of private capital and hasten the Stalinist type of command system.

2. The Retribution Payments

The reparations agreement with the USSR, Czechoslovakia, and Yugoslavia was signed on June 15, 1945. It established the various reparations goods prices, designated the product mix of the reparations package, and stipulated deliveries in six equal yearly installments. At first glance the total sum of 300 million dollars does not seem excessive.¹⁵ We must consider closely, however, the price structure, the total product mix, and the timing of the deliveries, in order to gauge the true impact of this agreement on Hungary's postwar economic development.

When the Soviet-managed firms were finally returned to civilian Hungarian control in July–August 1945, reparations payments began. No sooner had Hungarian industry finished supplying the bulk of her production gratis to the Soviet command than she had to begin all over again, only under a different pretext. There was, moreover, no possibility of deducting any of the earlier unpaid-for deliveries from the retribution bill. Under the terms of the Paris Peace agreements, the Soviet Union forced Hungary to waive all claims arising from the earlier Soviet management of Hungary's economy.¹⁶

a. Product mix:

War damages caused by bombing and Nazi sabotage were the most severe in Hungary's heavy industrial sector, especially in the engineering and machine building branches. This fact seriously handicapped the pace of economic reconstruction. The reparations agreement exacerbated this handicap by stipulating that the greatest share of reparations goods to the USSR be composed of heavy industrial manufactures. After the switch-over to civilian production during 1945 and 1946, almost 90% of Hungary's heavy industrial production was tied down by reparations orders. Even at the end of 1946 and 1947, when (thanks to staggering deliveries over eight years instead of the initial six years) the quantity of yearly deliveries was reduced, retribution production still claimed about 60% of heavy industry's total output.¹⁷ The Hungarian General Creditbank also showed that at the end of August 1946, 76,000 out of 95,000 employees in heavy industry were engaged in retribution work, and in December of that year, 60,000.¹⁸ According to the Creditbank, production for civilian consumption rose only marginally, owing to dismissals and a reduction in working time to forty hours per week.¹⁹

Although agricultural goods comprised only 15% of total reparations, these were also extremely difficult to procure and their delivery caused many difficulties to the economy and the civilian population.

From late 1944 until the beginning of 1947, when the Paris Peace Treaty was signed, Hungary was required, under the terms of the Armistice agreement, to supply all of the food requirements of the occupation army. A severe drought in 1945, the low acreage sown at the end of 1944, initial dislocations caused by the land reform in 1945, and the under-mechanization of the new postwar land reform system, together with massive requisitioning by the occupying army, were responsible for a disastrous agricultural situation in the fall of 1945. Compulsory agricultural deliveries for retribution compounded the damage and hindered the development of the newly-formed farming system. The result was widespread starvation.

b. Pricing:

The June 15 agreement reiterated the terms of the Armistice agreement, namely, that the price of retribution goods be calculated at the level of 1938 U.S. dollars. For many reasons (*e.g.*, a 400% rise in transportation costs and a 700% increase in the import price index)²⁰ the costs of producing the goods stipulated in the June agreement were significantly higher in 1945 than they would have been in 1938. According to Hungary's premier, the Hungarian delegation protested in vain that the goods could not be produced at the rates indicated and that, because of undervaluation, the deliveries would in effect triple or quintuple the amount indicated in the retribution agreement.²¹

Underpricing was not the only factor substantially raising the nominal costs of the reparations package. At the time of signing, the Hungarian currency, the *pengő*, was overvalued with respect to the dollar. According to Berend, the real costs of the reparation package doubled as a result.²² Nicholas Spulber has claimed that the new exchange rate between the forint (the new currency introduced in August 1946) and the dollar, quadrupled the value of the reparation package: ". . . the average Hungarian 'reparations dollar' appears to have been equal in 1946 to 43 forints or nearly 4 current dollars. That is, to obtain credit for one dollar of reparations, Hungary had to deliver goods worth almost 4 dollars at the current exchange rate."²³ It can be safely said that the combined effects of these factors pushed up the reparations bill's real value to about 1.5 billion 1946 U.S. dollars.²⁴

c. Reparations as a share of exports:

The share of foreign trade (and the dependence on imports for raw materials) in Hungary's national income had been already very high in 1938. One of the greatest negative effects of the retribution payments on

Hungarian economic revival and modernization was that it kept exports to a minimum. For the first three postwar years, the value of retribution deliveries exceeded the entire export trade and even in subsequent years retributions consumed about 50–60% of exports. This posed serious problems for Hungary's balance of trade, monetary and import policy, and economic reconstruction in general.

d. Timing:

The June 1945 agreement, the terms of which were retroactive to January 1945, directed that deliveries be made in six *equal* yearly installments. This meant that reparations for 1945 had to be produced and delivered in six months instead of the normal twelve. Should deliveries lag, a penalty of 5% per month on the value of outstanding goods would be imposed.

The pressure on the treasury had already been severe prior to the signing of the agreement. There had been demands for government investment in reconstruction, for government subsidy of firms with large deficits under Soviet military management, for government financing of the maintenance costs of the Red Army, and for a host of other programmes. State revenues were virtually non-existent, the country's gold reserves had been lost, and no export revenues were available because of the collapse of foreign trade. In short, the six months target for the 1945 reparations payments meant that considerable financial outlays had to be made immediately, in the absence of appreciable increase in state revenues, and that an inordinately large proportion of current production would have to be exported gratis. Only a small fraction of production would remain for home consumption. Faced with the threat of stiff financial penalties and a stream of Soviet protest notes about the slowness of deliveries, the treasury responded by printing more and more money, in order to finance the companies producing for retribution. This action quickly snowballed into the most severe inflation ever experienced in world history.

It would be incorrect to assert that the Hungarian inflation started only with reparations payments, the Red Army's maintenance costs, or with its printing presses churning out Hungarian currency during 1944–45. The rate of inflation had increased steadily already during the war. It was with reparations, however, that the currency went out of control, so that, by the end of 1945, the cost of living (excluding rent) was mounting at a rate of 15% per hour. As will be seen in the discussion of the Communist-controlled Supreme Economic Council's practice, these Soviet claims and pressures were fully integrated with the SEC's

secret policy of bankrupting Hungary's private sector, thereby generating the need for ever greater state control over the economy, ostensibly to safeguard the national interest.

3. *Soviet Takeover of Formerly German and Italian-Owned Corporations and the Creation of Joint-Stock Companies*

According to the Potsdam Agreement, the Berlin Foreign Ministers' Conference, and the Paris Peace Treaty, all formerly German and Italian-owned assets and companies in Hungary were to become the property of the Soviet Union.²⁵ Moreover, the Order in Council of January 4, 1948 stated that "claims which arose before January 20, 1945, cannot be enforced against trading companies in which half or more of the share capital or of the shares were handed over to the Soviet Union as German property. The same applies to individual firms ceded to the Soviet Union."²⁶

On March 8, 1947, the Hungarian government published a list of the fully German or Italian-owned companies which were transferred to the Soviet Union,²⁷ totalling 201 enterprises with over 3,500 plants and premises. The large number of concerns in Hungary with partial German-Italian shareholding were disposed of similarly. Through switching and amalgamation, the Soviet Union created five new Soviet-Hungarian joint-stock companies in 1946, each country having a 50% share. The extent of these assets was enormous. Berend and Ránki cite Premier Teleki, according to whom, "The German Empire in 1939 had such an extensive and widespread network of economic interest in our country, that through this she could check and indeed influence the whole of Hungarian economic life,"²⁸

The share of German capital in Hungarian economic life increased during the war, first of all in the manufacturing industry. Studies by the Statistical Office have shown that between 1938 and 1942 the stock of industrial and commercial shares held by German interests in the Hungarian economy increased by 50%, and in credit concerns closely associated with industry, the ownership of German shares went up by 100%. During these years, when the country became increasingly subordinated to Germany, beyond those companies in which Germany had a total or majority shareholding, German capital also acquired shares in all important Hungarian concerns.²⁹

In short, all of these assets, through which Germany had exercised economic control over Hungary, were transferred to the USSR after the war. This enabled the Soviets to exercise stringent control over Hungarian economic life.

The operative control of joint stock companies, like that of the fully Soviet-owned firms, was vested in the hands of the general manager, who, by law, had to be a Soviet citizen.³⁰ The joint stock companies were given preferential treatment by being placed in a much more profitable position than any other companies in Hungary. Indeed, their advantages and concessions surpassed even those which they had enjoyed under German domination.³¹ For example, in monopolistic joint stock companies (*e.g.*, the Pécs and district coal mines, an affiliate of Mészhart), a radical upward price adjustment was ordered by the Soviet manager and approved unquestioningly by the Hungarian Price Office.³²

It is well known that many of the formerly German-owned companies had floated substantial debts with the Hungarian treasury during the war. These were cancelled by the Soviet Union upon gaining control of the shares. However, in formerly German-owned firms that were owed payment by Hungary—in many cases incurred during Soviet military management—the Russians demanded full payment with a substantial mark-up to offset the effects of inflation. Initially, the Soviet Union pegged the amount owed by the Hungarian treasury to these firms and to Germany in general at 200 million dollars. Finally she settled for \$45 million. Investments in the joint-stock companies were to be on a fifty-fifty basis, shared between the two countries. The source of the Soviet share was the above-mentioned \$45 million. In effect, the Hungarian treasury defrayed the full Soviet investment.³³

Two of the joint companies, Mészhart and Maszovlet, apart from controlling a number of diverse affiliates (such as Hungary's best and most productive coal-fields in Pécs), monopolized Danube shipping and civil aviation. The other three companies—Hungarian-Soviet Crude Oil Ltd. (Maszovol); Hungarian-Soviet Oil Works Ltd. (Molaj); and the Hungarian-Soviet Bauxite-Aluminum Co. Ltd. (which controlled two affiliates, the Hungarian Bauxite Mine Co. and the Danube Valley Alum Earth Industry Co.)—were also privileged companies. They virtually monopolized bauxite mining (Hungary's major mineral industry), aluminum processing, petroleum refining, and oil prospecting.

Respecting the concessions won by the joint-stock companies, Nicholas Spulber has written that the “. . . exemptions amounted to a virtual subsidy by the local governments to each of these companies. . . [Moreover they were given] complete latitude in the utilization of their foreign exchange. . . Enjoying complete extra-territoriality, they could cut across both the local frontiers and the local planning. Although in principle they were supposed to adjust themselves to local economic

plans, in practice the local economic planners had to adjust their plans to the objectives of the joint Soviet companies.”³⁴

It is a well-known fact that, as a consequence of the Treaty of Trianon, Hungary had lost all of her important mineral deposits, and that, after Denmark, she is the poorest European country in mineral resources.³⁵ In this bleak picture there are four bright spots: Hungary’s bauxite reserves are considered to be the second largest in the world; after 1946, significant uranium deposits were found in western Hungary; the Komló region of Pécs boasted good deposits of high-grade black coal (Hungary’s other coal fields all yield the low calorific, brown coal, or lignite variety); and she had limited oil deposits. After 1946, the USSR obtained control over all of these mineral resources for a decade. The uranium fields, by now largely depleted, are still under Soviet management.

After 1946, the Soviet Union became Hungary’s major trading partner, absorbing about one third of that country’s foreign trade. It is noteworthy that the servicing of this commerce was *not* carried out through the Hungarian-owned Foreign Trade Bank, which, under Hungarian law, must handle all foreign transactions. Until 1955, all business deals with the USSR were channelled through the Hungarian Commercial and Industrial Bank, which was under Soviet ownership and management from 1946 until 1955.³⁶ Having profited handsomely from these formerly German-owned companies for a period of 8–9 years, the Soviet Union began to *sell* her shares to Hungary not long after Stalin’s death, in order to finance her investments in some of her other holdings in the country. One official source tells us that in 1952 the Soviet Union estimated the value of her *fully owned* assets in Hungary to be 3.6 billion rubles, or \$900 million at the going rate of exchange.³⁸

It is impossible to calculate the Soviet Union’s net financial extraction during the first post-war decade. It might amount to approximately 2.5 billion dollars.³⁹ Currently, only two other “informed guesses” exist on the net financial cost of Soviet economic imperialism to the Hungarian economy between 1945 and 1955. Jan Wszelaki has suggested \$1 billion, which he admits is a very conservative estimate, and which excludes amounts incurred after 1947. His calculations, which are unfortunately impossible to check, “point to an amount in excess of \$1 billion. By 1954, when mixed companies were dissolved, they must have been much higher.”⁴⁰ The other figure, \$1.3 billion, suggested by Paul Marer is, undoubtedly, also a conservative estimate.⁴¹ However, owing to the secrecy surrounding Soviet-Hungarian economic transactions, none of the figures is verifiable, at least not yet. Nonetheless, the USSR

had an unmistakable and irrefutable tendency to exploit the Hungarian economy during the first and certainly most critical decade of socialist construction.

No country, poor in industrial raw materials and suffering from extensive war damages, can afford to lose such a vast amount of capital and to have such a large percentage of her industrial capacity tied down with reparations *precisely* when she needs to rebuild her economy and begin a long overdue process of rapid political, economic, and social modernization. This burden on the Hungarian national economy demanded great sacrifices from Hungary's long-oppressed working classes. The targets of modernization and the payment of external debts could only be exacted and maintained by ruthless police methods and strict political regimentation. Democratic practices and fair wages could simply not come into effect under such constraints. The roots of the Rákosiite police state, its political excesses, were deeply conditioned if not determined by Soviet demands and exploitation in the immediate postwar period. It was not accidental that the primary aim of the 1956 uprising was to terminate this Soviet exploitation of Hungary's economy. Yet even these two interrelated variables—the need for rapid modernization and reconstruction, and Soviet economic exploitation—do not sufficiently explain the impulse towards Hungarian communist totalitarianism. We must add a third set of variables, that of the HWP's own postwar economic strategy.

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The Hungarian Workers Party's Postwar Economic Strategy

From December 23, 1944, Hungary's "liberated" territories and its affairs not directly related to the still raging war were to be administered by a coalition government appointed by the first National Assembly in Debrecen. It was instructed to follow the economic programme enunciated by the National Independence Front (NIF)—a loose coalition of various anti-fascist groups, including the Communists. The NIF's economic programme was in fact drafted and then publicly endorsed by the HWP⁴² and by the other NIF parties as a reasonable and positive strategy for Hungary's postwar economic revival.

The NIF first of all instructed the government to introduce radical land reform.⁴³ Second, it stipulated that the country's future economic progress be based on respect for and guarantee of private property. The government was to promote private initiative in reconstructing the war-

torn economy. After reading these and other Communist-promoted programmes, Oszkár Jászi, a former prominent liberal politician and commentator on Hungarian affairs who had taken up residence in the United States after World War I, was moved to write:

The old demagoguery of the first Bolshevik revolution was completely absent: Communism has become respectable and gentlemanly . . . Generally speaking, there is not much talk about Communism in Hungary today. The leitmotif is democracy with intensely patriotic overtones.⁴⁴

In a sense, Jászi *was* right—there was not very much *talk* of Communism during those years. But he was greatly mistaken in assuming that the absence of talk meant the Communists had given up their quest for power.

Between 1945 and 1947, during the premiership of Ferenc Nagy (head of the Smallholders' Party), strategically important economic posts in the administration were diverted to Communist control. The economic policies applied by the HWP from these commanding heights contradicted the NIF's economic programme. Rather than promote free enterprise, the HWP, through the Supreme Economic Council and with the tactical support of the USSR, secretly and deliberately worked to ruin the private sector of the Hungarian economy. The HWP's real aim was to engineer a national economic collapse in order to discredit the ruling Smallholders' Party, to eliminate the economic power base of the bourgeoisie, and to make the state's expropriation of private enterprises relatively easy. This is what was later referred to as "the dry road to Socialism."

Though immediate constraints did play an important role in the evolution of these economic *tactics*, the general *strategy* for the liquidation of all non-communist forces in Hungary, including the forces of democratic socialism, and the subsequent erection of the Stalinist type command system, had been carefully prepared in the USSR years before the war's end, during the halcyon days of Soviet-American relations. That such a plan existed was denied by the HWP until 1949. Only when the HWP had finally monopolized power did it admit that its strategy was not designed to respond to certain bellicose actions by the Allies—specifically the United States—after 1945, but was in fact part of an earlier and longstanding Soviet-inspired blueprint. As Rákosi was to state in 1951 — and those Western historians who argue that the Communists were forced into instituting proletarian dictatorships in Eastern Europe against their own earlier intentions because of certain aggressive postwar actions by President Truman and other Western leaders should pay particular attention:

Stalin showed us . . . a new road to the building of socialism, and with his help we worked out its theoretical problems. Those comrades who did not know about our strategic plans, *which we worked out during the war*, were frequently surprised later, and on more than one occasion were hostile to our participation in the coalition government . . . We did not mention this to the Party members at the time, since to mention even theoretically that our goal was the dictatorship of the proletariat would have created great difficulties for our winning the support of the petty bourgeoisie, and even that of the majority of the workers. As we have said, the Hungarian Communist Party, already during the war, had worked out the strategy that it was to pursue during its fights with the fascist, imperialist and feudal elements . . . We formed the Supreme Economic Council with which we gradually won control over all of the key economic areas.⁴⁵

Apart from the need for economic modernization, the rebuilding of the country's war ravaged economy, and meeting the exacting reparations schedules, there were four specific economic conditions necessitating vigorous state intervention in the economy after 1945:

1. Most of industry, and especially heavy industry, depended entirely on state credits to finance deficits and reparations production.⁴⁶ This dependence on the treasury required close central supervision of enterprise behaviour in order to ensure a judicious utilization of the state's scarce resources;

2. The transmission of state credits to enterprises through the country's banking houses also required that banking activity be closely regulated and supervised by the central authorities;

3. Economic collapse brought on by the inflation and the demands of maintaining financial stability necessitated strict state control over prices and wages, foreign trade, monetary and credit policy;

4. The widespread scarcity of industrial raw materials and energy resources required tight central supervision of the allocation of these resources to ensure the fulfilment of state priorities.

The Supreme Economic Council (SEC), a supra-ministerial committee, was established in 1945, ostensibly for the purpose of coordinating the above tasks. The powers granted to the SEC were formidable. It was empowered to supervise, control, and direct any economic activity in the country if it so wished, according to its own judgement, to ensure the successful completion of reparations schedules, uphold the interests of the national treasury, and maintain financial stability.⁴⁷ The chief executive and initiative powers of the SEC were vested in its Secretariat, headed by Zoltán Vas, one of the leading Muscovite members of the Hungarian Communist Party.

The SEC Secretariat, through its control of export-import licences,

tax, credit, price and wage policy, and the distribution of vital energy resources and raw materials, was in a position to prepare the way for a radical restructuring of industrial production well before January 1950, the date generally identified as the beginning of Stalinist type economic policies in Hungary. Although the SEC Secretariat frequently stated publicly that the stringent deflationary policies it pursued after the 1944–45 inflation were governed by the need to maintain financial stability and confidence, one of its confidential internal memoranda clearly points to the opposite objective: driving the private capitalist sector into bankruptcy:

We must make the widest possible use of the situation which exists, whereby most private enterprises have taken state credits or will have to rely on state credits. We must force these enterprises, with the threat of bankruptcy, that in return for postponing payment, they should hand over to the state, or to the nationalized banks, a significant portion of their shares. *Until the time that we can rely on wholesale nationalization* we must increase state control so that private capital should be forced to convert into the state capitalist sector.⁴⁸

Both the “situation,” *i.e.*, the forcing of enterprises into a one-sided dependence on state credits, and the way out of this situation—free enterprise or state ownership—were under the firm control of Soviet and Hungarian Communists. And they were able to regulate these parameters easily to ensure that political-economic developments in Hungary progressed in conjunction with the strategy devised in Moscow during the war.

The overwhelming powers of the SEC and its true intentions can be illustrated by another example. During the stabilization period following massive inflation, the government created an Office of Prices and Materials (OPM) for the purpose of gaining more control over the allocation of scarce materials and to better regulate price formation. Because it was headed by a non-Communist, the OPM soon found itself on a collision course with the SEC. The executive powers vested in this body by an order-in-council in May 1946⁴⁹ were severely curtailed in practice by the SEC and later by the Ministry of Industry (headed after 1947 by a high-ranking officer of the Red Army, István Kossa). Throughout its existence, and under the chairmanship of the Smallholders’ Party’s economic adviser, István Varga, the Office of Prices and Materials was frequently condemned by the HWP and the SEC for “supporting capitalist speculators and profiteers,” when it merely attempted to regulate prices in order to stave off widespread bankruptcies. On a number of occasions when the OPM had wanted to institute price changes to reflect shifting scarcity conditions, its decisions were vetoed

by the SEC. For example, in December 1946 the OPM decided to increase industrial wholesale prices in order to align them with the sharp price rises of raw materials from the USSR, and to counterbalance the huge wage increases engineered by the Communist-dominated trade unions.⁵⁰ This was vetoed by the SEC, and rather than increase the wholesale industrial price index it forced through a reduction. This action bankrupted a large number of firms, while the HWP and the union leadership blamed the collapse on speculation and financial embezzling. Iván T. Berend, after consulting Party archives, has pointed out correctly that this “. . . battle against increased prices was not at all simply a question of economics,” but a consciously applied mechanism in the battle for political power.⁵¹

After the signing of the first postwar trade agreement with the Soviet Union, Hungary's foreign trade policy came under close Soviet and HWP supervision. The enormity of reparations had made state control imperative during the first three postwar years. Whereas granting of export and import licences to individual firms was the prerogative of the SEC Secretariat, that of foreign currency for all trade transactions came under the aegis of the National Bank, and its department for the allotment of foreign currency was headed by a high-ranking Muscovite member of the HWP, László Házy.⁵² By 1948, all movements in the volume, destination, and structure of foreign trade were undertaken strictly in response to central Communist Party commands. But the greatest acceleration towards the Stalinist type command economy came with the introduction of the first Three Year Plan in August 1947.

The Plan was drafted jointly by the Social Democratic Party and the HWP. Both had evolved separate plans of reconstruction in late 1946 and early 1947.⁵³ The finally adopted Three Year Plan was an amalgam of the two variants. The visible differences between the two were not as marked as might have been expected. The Communists postulated a greater percentage of total investments accruing to the capital goods production sector, and less to consumption, and they also desired a higher share of investments for *agriculture*. The Social Democrats envisioned that some of the investments could be financed through loans in the West. The Communists opposed this idea, which resulted in a great deal of haggling in the coordinating committee. A compromise produced two versions. Variant “A” would feature foreign loans, Variant “B” would omit them. In the end, no Western loans were contracted owing to Communist pressure, and Variant “B” prevailed.⁵⁴

The nature of the Three Year Plan is generally misunderstood in Western literature, as most analysts consider 1950 and the first Five

Year Plan to be the beginning of the policies and mechanisms of the Hungarian command economy. There are a number of reasons for this misunderstanding. First, the original Plan lacked the well-known Soviet type “steep ascent” industrialization policy, which had been first unveiled in the USSR in 1928. The Plan objectives accented equilibrium, agriculture, reconstruction, and increasing real wages—the antithesis of Stalinist developmental policy.⁵⁵

Second, the HWP vigorously denied that the Plan augured the building of socialism. On the contrary, its purpose was to engender a planned and proportionate *reconstruction* of the war-torn economy, to guide economic development through the hurdles bequeathed by the war and reparations. Even in a speech to comrades at the HWP’s Academy Ernő Gerő maintained:

There are those who will say that what we really want to achieve with this Plan is nothing less than socialism. What we say to these people is: No! There is no question here of socialism, but only of laying the basis for the peaceful progress of our economy. Not only do we not want to interfere with the private property of the little people, but the Plan will even protect such property from the encroachment of the big capitalists. Even more, the implementation of the Three Year Plan cannot even be imagined without the enthusiastic cooperation of our 200,000 artisans and handicraftsmen. . . Their skill and ant-like diligence is greatly needed by the country. . . And there is no question whatsoever of the elimination of the big capitalists. . .⁵⁶

Four years later Gerő admitted that his statement was a lie, necessitated by tactical political considerations. In fact the Party was already laying the economic basis for socialism during the Three Year Plan:

Naturally, in 1946, when that speech was made, the Party couldn’t show all of its cards . . . because it would have helped our class enemies. . . This is why it was necessary during the introduction of the Plan to mention merely that we were trying only to reconstruct our war-torn economy, and not to build socialism. . . But in actual fact we were, already during the course of the Three Year Plan, building socialism in Hungary.⁵⁷

There are additional reasons for the existence of the mistaken view that the Three Year Plan “. . . did not contemplate any major structural change in the economy . . . [and that it] resembled more the plans of Western Laborite Governments immediately following World War II, than the Soviet Plans or the subsequent Hungarian Five Year Plan.”⁵⁸ In 1948, Hungary introduced a moratorium on statistical information, and consequently there were no accurate data available on the nature of economic restructuring achieved by the end of the Plan period.⁵⁹ While the Planning Office had issued a 180-page statistical analysis of

achievements at the end of the first Plan year, at the end of the Three Year Plan only a very general and brief document was published. According to Timár, the Hungarian Central Statistical Office was not completely certain, even in 1968, about the situation at the end of 1949.⁶⁰

The SEC carried the lion's share of the responsibility for these developments for, as George Kemény has pointed out, it had usurped for itself the strategic role in the application of the Plan:

Clause III [of the Parliamentary Act on the Three Year Plan] authorized the government to establish a *Planning Board* and a *National Planning Department* for the elaboration of the Plan and for controlling the work of carrying it into effect. [But] the Planning Board never acquired a leading role. It was but an interdepartmental advisory body. The power of decision was vested in the *Supreme Economic Council*.⁶¹

The SEC also had a very good statistical "cover" in Zoltán Vas who was not only general secretary but also editor of the prestigious statistical journal, *Gazdaságstatisztikai Tájékoztató* (published by the Central Statistical Office), and hence could conceal statistical evidence about the SEC's deviations.⁶² We also know that a later official eulogy of the Plan's accomplishments, again written by Vas, contains statistical falsifications exceeding 100% in some crucial areas.⁶³ For over twenty-five years Western commentators have been using this document as their primary source on the Plan's achievements, investment ratios, and industrial restructuring.

What was the actual extent of deviation from the Plan? As Timár has pointed out, we cannot be really precise since the statistics were scrambled by the Party. We do know, however, that the general strategy laid down in the Plan was *not* implemented. Agricultural investments, which were to constitute the largest overall share, actually came to less than 15%, and instead, military expenditures received the largest share—over 30%.⁶⁴ After August 1948, industrial investments were drastically increased—by 60%—of which over 90% was used for the development of heavy industry.⁶⁵

In the handicraft and artisan industries, similar deviations had begun to emerge by 1948. Rather than relying on what Gerő had called the "ant-like diligence" of the little people, by the summer of 1948 we find the state busy cancelling about 1,500 permits per month⁶⁶ and instituting a series of discriminatory credit, tax, and price policies. As a consequence, the percentage of workers employed in this sector rapidly declined during the Three Year Plan.⁶⁷

Radical transformations had also occurred in wholesale trade by the end of the Plan period in 1949. In a confidential memorandum, the SEC

stated that the prospective nationalization of the wholesale sector must be implemented with great circumspection lest the suspicions of the other political parties be aroused. "These decisions must be implemented in such a way that to outsiders and superficial observers they should appear as merely fragmentary decisions."⁶⁸ Through a combination of "dry road" policies (*i.e.*, driving wholesale dealers into bankruptcy through the denial of state credits, or by setting a very high interest rate on commercial credits, and discriminatory pricing) and outright nationalization, almost the entire wholesale trade sector was absorbed into the state sector by the end of 1948.

Paralleling the Three Year Plan, the HWP demanded that all of the banks be nationalized. Only thus could Plan targets be realized and financial control maintained. But since the SEC could already exercise extensive control over banking activities, it would seem that this motive for nationalization was not the true one. According to Ránki, the Party was in fact motivated by the political goal of delivering "another blow to the power of the bourgeoisie."⁶⁹

After nationalization, a radical reorganization of the banking system was introduced in 1947, patterned on the USSR. All enterprises were instructed to convert to the single account system, through which the state could practice (via the National Bank) extensive financial control over the behaviour of *both* nationalized *and* private firms.⁷⁰

Once the National Planning Office and the Planning Board had established themselves and had collected and compiled comprehensive statistical information on all enterprises, a widespread nationalization programme was introduced. With the slogan, "The Factory is Yours, You're Working for Yourselves," suddenly and without giving prior notice—even to Parliament—all firms employing more than 100 people were nationalized at the beginning of 1948, only six months after the introduction of the Three Year Plan. All these firms were assigned new managers on the eve of nationalization. Appointed by the Communist Party, they had no advance notice of their promotion, had not applied for the jobs in advance, and were not selected on the basis of their administrative skills. Indeed, they possessed no such skills. They were physical labourers at the enterprises concerned, and had been selected on the basis of their political reliability and their record of active cooperation with the Party during the preceding three years.

Within a matter of days, the new managers were made largely subservient to the central planning bureaucracy. Ostensibly because of their entrepreneurial inexperience, the authorities considerably expanded their own already extensive regulatory rights, arguing that the

new managers were to receive all of the “expert guidance” they needed to carry out the great national tasks ahead. In May 1948, without any prior debate or popular participation in the formulation of the new administrative structure, the government established 20 industrial directorates of the branch ministries to exert strict economic control over the units of production.⁷¹

And so, having been given “control” over their factories, and having had the private ownership of the means of production eliminated, the working classes still found themselves back where they had started in terms of their decision-making powers. Instead of dominating the process of production, the workers were overwhelmed by the forces and relations of production. The new working-class manager’s sole privilege was to supply the central bureaucrats with requested information and fulfil to the letter all the detailed instructions from the industrial directorate’s “experts.” The Plan, which had not been formulated by the workers but was, rather, the product of the political preferences of their self-appointed vanguard, became sanctified. The new managers had thus been given a “new kind” of freedom: they had to place “all moral and material means at their command” in the service of the Plan. Those who failed to cooperate were either dismissed or, depending on the nature of their opposition, persecuted “with the full rigour of the law, as enemies of the Hungarian people, enemies that might seek to thwart the aims of the Three Year Plan.”⁷²

The HWP, which hitherto maintained that the proletariat had been working like slaves under capitalism, suddenly began to proclaim that the workers should work even harder now than before:

We looked at the statistics . . . and it turns out that our workers are producing much less for our democracy than they did for Horthy. But we cannot progress this way comrades. . . Increasing productivity; this is the decisive question for our democracy. We must create order in this area.⁷³

And “order” they did create. Upon his return to Hungary with Soviet troops in 1944, István Kossa was immediately appointed (under Soviet pressure from the Allied Control Commission and without a polling of the rank and file union membership) general secretary of the Hungarian Trade Unions. In 1948 he was appointed Minister of Industry. From being the “representative” of labour, he suddenly became the agent of management. By 1948, the trade unions were placed into that well-known “transmission belt” function which only the Stalinist type command economy has been able to reserve for them. Their primary function became to fulfil the central planning authorities’ preferences speedily.

Wage levels were centrally determined and not negotiable. Act no. 34 of 1947 revoked the right to strike, and labour union opposition to centrally defined wage or norm levels and to any other plan directives was outlawed. This measure provoked hostile reaction from some members of the working class, especially when they had overfulfilled the centrally-designed piece rate norms, and instead of receiving the payment stipulated in their contracts, they were informed that the norms had been erroneously set too low by the “experts” and that no payments would be made as a consequence. The most celebrated case of this kind involved the series of wild-cat strikes in the Csepel industrial center during October 1947. Csepel had a long tradition of being the center of radical trade unionism in Hungary (a position that was reaffirmed in 1956 and holds true even today). The ring-leaders were arrested and shot, and once the situation was safe, Rákosi informed the Csepel workers in person why there should never be a repetition of strikes and other acts of opposition to the Party:

The question had cropped up that if striking is a good thing in France, then why isn't it a good thing in Hungary. These comrades, *due to their poor theoretical knowledge*, didn't recognize the difference between the anti-people government of France and the people's democratic government of Hungary. And they didn't recognize that what is a necessary and correct defensive battle in France, is nothing but a reactionary manifestation in Hungary. . . . One has to be blind not to see that those people who started this strike were members of that same general anti-people reactionary offensive . . . who wanted to weaken the basis of the Hungarian democracy. . . .⁷⁴

By the last year of the Three Year Plan period, the traditional Stalinist methods of boosting production by labour competitions, “voluntary” labour donations, holiday, overtime, lunch hour or extra shiftwork—all without remuneration—had become commonplace. These commitments were not spontaneous, they were exacted by centrally-directed commands. The planners had calculated this measure to be essential for achieving their plan indices.⁷⁵ Labour competitions and donations would be ordered by the party on virtually any pretext—Stalin's or Rákosi's birthday, the execution of the “Rajk Gang,” to celebrate a victory by the national soccer team, or just to celebrate the celebration of another factory. Hundreds of thousands of workers were bullied by roving bands of Stakhanovites—elite “shockworkers”—whose feats were widely publicized and whose achievements—conducted under the most favourable possible conditions—all workers had to emulate. But even this was considered insufficient by Rákosi, who decided that even the Hungarian Stakhanovites were not productive enough. And so,

Soviet “heroes” who surpassed the Hungarian Stakhanovites by leaps and bounds were imported, and this then became the level for which everyone had to strive. As Rákosi pointed out:

I know that some of our comrades are getting worried about this excessive drive, and had said “all right, all right, but there must be a limit to the increase in production.” To this I simply reply: “The sky is the limit.”⁷⁶

There was no talking back to this totalitarian mobilization. “When we say Rákosi, we mean the Hungarian people. And when we say the Hungarian people, we mean Rákosi! On Rákosi, on the Communists, and on the words of the Hungarian Workers’ Party, one can build as securely as on solid rock.”⁷⁷

The HWP’s final act in this series of betrayed promises involved the collectivization of agriculture. During the first year of the Plan the collectivization of agriculture was never contemplated publicly. Anyone even daring to mention that the Party was thinking along these lines was condemned as a reactionary scaremonger. As Rákosi himself so clearly put it: “The reactionaries are trying to frighten the peasants with the ‘kolkhoz story’, but the peasantry can be certain that we communists will protect their land and private property with all our strength”;⁷⁸ and, “. . . we do not want kolkhozes, but strong and prospering small farms.”⁷⁹ Another member of the HWP’s leading triumvirate, József Révai, also went on record as late as August 1947: “We declare: the system of private farming must be made even stronger.”⁸⁰ And finally, Ernő Gerő, the Party’s chief economic administrator and policy maker, also proclaimed that “the history and traditions of the Hungarian peasantry differ from the Russian peasants. We would be extremely foolish, indeed insane, if we did not realize that our peasants want to progress by way of private farming.”⁸¹ And to those who doubted the sincerity of such declarations, Gerő frequently asserted that such sceptics “. . . should realize, that in this country the time has ended once and for all, when decisions would be taken behind the scenes, and behind the people’s backs, on questions of vital importance.”⁸²

These and similar statements, on which everyone should have been able to build “as securely as on solid rock,” were merely designed to buy the votes of the peasantry—unsuccessfully, as it turned out—in the elections of 1945 and 1947. By the end of 1948, the collectivization of agriculture was in full progress. As Rákosi pointed out:

Once our Party had secured for itself all strata of our working people, we brought up, during the fall of 1948, the question of large scale collective farming and the socialist transformation of the countryside.⁸³

The Kolkhozes show the true way to the socialist transformation of our economy . . . *this is the road which the Soviet peasants are following with great success, and this is the road that the masses of private farmers in the people's democracies must follow too.*⁸⁴

External Accelerators

In this rapid progression towards the Stalinist type command system, three external political developments must be pointed out as having played an important role between 1947 and 1949: (1) The deteriorating relations between the USA and the USSR during 1947–49; (2) Stalin's veto of a proposed coordinated industrialization programme for Eastern Europe; and (3) The Soviet-Yugoslav dispute.

One of the important functions of the "dry road" strategy had been to give outsiders the impression that Communism could function within a parliamentary system. Until 1947, it seemed that some of the Western European Communist parties might prevail at the polls, and great efforts were made by the Eastern European Communists to give no pretext for alarmist stories. With a change of fortune for the Western Communist parties during mid-1947 and the growing Soviet-American tension, the "dry road" became increasingly unnecessary. It was above all this change in international politics that accelerated the transition to the command system in Hungary in early 1948—as is admitted in one of the Party's own confidential memoranda:

As you know, our original plans were that socialization was to be carried out by way of the "dry" road. At that time we did not count on such a rapid transformation in the international situation . . . and did not calculate that in our plans. In my opinion we would be making a mistake if we stuck to our original schedule and [did] not utilize the favourable situation.⁸⁵

Stalin's veto of a Bulgarian initiative to coordinate the economic plans and industrialization of the East European economies was the second external accelerator.⁸⁶ The effects of the imposition of industrial autarchy were extremely costly for Hungary, which lacked the raw materials needed for the Stalinist type industrial structure. Under these circumstances the process of system maintenance required increasing use of authoritarian measures in Hungary.

Third, Stalin's 1948 quarrel with Tito greatly escalated the negative effects of the other two external accelerators. By the beginning of 1948, good working relations with Yugoslavia had become of considerable economic importance for Hungary, since that country was rapidly becoming the most important supplier of the raw materials needed in

Hungary's expanding iron and steel production. During 1946–48 a series of bilateral economic agreements had been signed concerning trade and the joint development of resources and industries. After the circulation of the Cominform letter criticizing the behaviour of the Yugoslav Communists,⁸⁷ Hungary broke off all relations with Yugoslavia. At once, the Soviet Union consented to deliver the necessary raw materials and to purchase goods destined for the Yugoslav market. Thus Hungary not only became even more hopelessly entwined in the Soviet economic net, it was also cast in a considerably worse financial position. Soviet raw materials fetched a much higher price than the Yugoslav commodities, reflecting the cost of shipping over huge distances. Henceforth, Hungary's heavy industrial production became even more of a financial burden, even more uneconomical, and once more increased the sacrifices exacted from Hungarian workers.

The Soviet-Yugoslav break had another escalating effect on Hungary's postwar transformation into a Soviet-type command system. With Tito's expulsion from the socialist "peace camp" came an intensification of the drive to pattern all aspects of life in Hungary on the Soviet model. The single most serious crime that anyone could be accused of became "domesticism" or "deviation" from the so-called authentic and only true form of Marxism-Leninism, *i.e.*, Stalinist principles. Of all the East European leaders, perhaps Rákosi was most fanatic in demonstrating subservience to the Soviet Union. Quite apart from the tens of thousands of non-Communists who were imprisoned, tortured, and executed in Hungary on all sorts of trumped-up charges, 200,000 HWP members were purged, *i.e.*, 18% of the total.⁸⁸ The most celebrated case was that of the former Minister of the Interior, László Rajk, whose trial and "confessions" in 1949 served as the basis for hounding and persecuting "deviationists" and "imperialist saboteurs" throughout the socialist world.⁸⁹ After Rajk's execution, Rákosi publicly bragged about his own role in the affair:

We read of the 1936–38 experiences of our model, the great Bolshevik Party . . . and yet here in Hungary we merely talked about vigilance in general terms. . . We had no practice in wrapping up these kinds of cases, but we knew that we could not proceed light-headedly. It was not easy to work out the way, and I must confess to you that it cost me many sleepless nights, until the plan of executing it finally crystallized. (Applause)

By unmasking and rendering harmless the Rajk gang, our Party has earned great respect from our people. . . It is no exaggeration to say that the trial, which was broadcast on the radio, and whose transcripts were printed word for word in the newspapers, was followed with

extreme interest by all of the people. 100,000 copies of the special book that we published on the trial were bought up in a couple of days. 250,000 copies of the lecture given at a meeting of the Great Budapest Party Activists were also sold out within a few days, and we were forced to print an additional 150,000 copies. All of this shows with what great attention the masses followed this case.⁹⁰

And indeed the people did follow the development of the Rajk case with great interest. Scarcely two weeks after Rajk was officially declared innocent and his remains ceremoniously reburied in October 1956, the workers replied not with another series of labour donations, but by smashing the Rákosiite political system, and by demanding an end to Soviet imperialism, which had derailed the long overdue political-economic modernization of Hungary between 1945 and 1956.

Conclusions

In 1945 Hungary seemed to be on the threshold of a new era of modernization. With varying degrees of intensity most members of the country's intelligentsia and professional elites, as well as the leaders of all progressive parties, recognized the need to part with many of the outdated pre-1945 social, political, economic wisdoms and practices. We can certainly include in this group most of the country's landless peasants and industrial proletariat. The need for deep-going reforms and modernization did not express itself simply as a demand for a new political regime. A new regime was to be but one of the postwar era's many important elements. Additional and comprehensive reforms were also needed: an industrial revolution, an agricultural revolution, a social revolution as well as a revolution in Hungary's relations with Germany and the other Central and East European States.

It is important to realize that the success of this modernization depended on an immense national effort which in turn demanded the most optimal and judicious utilization of scarce human and material resources by the modernizing elites. The dynamics of modernization all over the world have demonstrated that the scarcer the resources, the greater the obstacles on the path to modernity, or the more that resources are squandered by national leaders, the more likely it is that this process will degenerate into totalitarianism and a new kind of backwardness. And this is precisely what happened in Hungary. The social, political, and economic costs of constructing this new era were sky-rocketed out of all humanly attainable proportions by the combination of the following factors: massive material and human losses

suffered during the war, vast Soviet extraction of resources and capital from Hungary, and the destructive economic policies of the HWP between 1945 and 1950. The neglect of Hungary's own developmental necessities, the imposition of Soviet fiat, the derailment of reconstruction and modernization, and the betrayal of the hopes of millions of working people during 1945–1950 opened the door to the large-scale utilization of terror and political ruthlessness during the 1950's. The Soviet-designed "model" of a new Hungary could not be sold to the populace by any other means than the force of machine-guns and tanks. Herein lie the roots of the political oppression which prompted Hungarians to revolt in 1956.

NOTES

1. This should not be construed to mean that the causes of the uprising were political rather than economic. In fact, the economic and political forms of administration prior to 1956 mutually reinforced each other. The causes of the uprising cannot be found only in political, or in economic variables, but rather in the interaction of the two.
2. L. D. Schweng, *Political, Social and Economic Developments in Postwar Hungary* (manuscript), National Planning Association, Washington, D.C., 1950, pp. 7–8.
3. See Imre Kovács, *A néma forradalom* [The Silent Revolution], Budapest, 1938; Mátyás Matolcsy, *Mezőgazdasági munkanélküliség Magyarországon* [Agricultural Unemployment in Hungary], Budapest, 1933; and Gyula Illyés, *A puszták népe* [The People of the Pusztas], Budapest, 1936.
4. While in 1921 Germany's share of Hungary's imports and exports was 12.9% and 9.3% respectively, by 1939 her share had grown to 52.5% and 52.2% respectively.
5. On these attempts, as seen by the participants themselves, see Nicholas Kállay, *Hungarian Premier*, London, 1954; and Nicholas Horthy, *Memoirs*, London, 1956.
6. I have relied on a number of separate studies on the extent of war damages in Hungary, including *A magyar ipartelepek 1944 őszén elrendelt felrobantása, illetőleg megbénítása ellen végrehajtott akció* [Acts against the Implementation of the Order to Blow Up and Paralyse Industrial Factories during the Fall of 1944], Vol. 1 (typescript), published by the Ministry of Industry, October 1945; *A magyar ipar és a békekötés* [Hungarian Industry and the Peace Treaty], Department of Industrial Policy, Ministry of Industry, Budapest, 1946; *Magyar ipar*, June 15, 1947; *Közgazdasági szemle*, No. 3, 1954; and *Magyar statisztikai zsebkönyv*, Budapest, 1947.
7. *Magyar ipar*, June 15, 1947; and *Magyar gazdaságkutató intézet helyzetjelentése*, No. 54, Part II, 1947.
8. See *A magyar ipar és a békekötés*, pp. 64–65.
9. For the text of the Armistice Agreement signed between Hungary and the Allies on January 20, 1945, see William Juhasz, ed., *Hungarian Social Science Reader: 1945–1963*, Aurora Editions, Munich, 1965, pp. 1–6.

10. For earlier statistical studies on Hungarian firms working under Red Army management, see *Közgazdasági évkönyv* [Statistical Yearbook], 1947, pp. 229, 239; and *Magyar ipar*, July 25, 1947 and July 10, 1947.
11. F. Gáspár, K. Jenei, and G. Szilágyi, eds., *A munkásság az üzemekért és termelésért: 1944–45. Dokumentgyűjtemény* [The Proletariat in the Struggle for Factories and Production: 1944–1945: Documents], A publication of the Hungarian National Archives, Táncsics, Budapest, 1970.
12. For additional studies, see Béla Balázs, *Népmozgalmak és nemzeti bizottságok: 1945–46* [Popular Movements and National Committees: 1945–1946], Kossuth Könyvkiadó, Budapest, 1961; and Károly Jenei, *Az üzemi bizottságok a munkáshatalomért* [The Factory Councils in the Struggle for Workers' Power: 1944–1948], Táncsics, Budapest, 1966.
13. The conventional argument on Soviet dismantling and looting of Hungarian industrial plants, according to which the removal of machines and equipment to the Soviet Union was designed purely to strengthen Soviet industrial capacity and to replace Soviet losses, is not fully accurate. There were many confirmed reports about Hungarian industrial machines and products lying scattered and rusting in fields and in sealed boxcars under Soviet military guard. These reports suggest that Soviet economic tactics in Hungary during 1944–45 were geared not only towards utilizing Hungary's existing industrial capacity against Germany, but also to ensure that the Hungarian private industrial sector would be placed in a virtually hopeless position after the war and would require massive state intervention and takeovers to get back on its feet. This state controlled medication was to be strictly under the command of the Communist Party to ensure that the revival would strengthen not private enterprise but state capitalism.
14. This figure is cited by Iván T. Berend, *Ujjáépítés és a nagytőke elleni harc Magyarországon, 1945–1948* [Reconstruction and the Battle Against Capitalism in Hungary, 1945–1948], *Közgazdasági és Jogi Könyvkiadó*, Budapest, 1962, p. 29.
15. USSR, \$200 million; Yugoslavia, \$70 million; Czechoslovakia, \$30 million. In addition, Hungary had to pay the cost of transportation to the point of final destination. After 1948 Hungary was responsible for transportation costs only as far as her own borders.
16. *Monthly Bulletin of the National Bank of Hungary*, New Series, Third Year, Nos. 1–2, January–February 1947, p. 8.
17. Berend, *Ujjáépítés és a nagytőke*. . . , p. 246. See also Schweng, p. 169.
18. *Economic Report*, Hungarian General Creditbank, Aug.–Dec. 1946, p. 13.
19. *Ibid.*, p. 13.
20. *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 11–12, Nov.–Dec. 1948, p. 278.
21. F. Nagy, *The Struggle Behind the Iron Curtain*, Macmillan, New York, 1948, p. 125.
22. Berend, *Ujjáépítés és a nagytőke*. . . , p. 46.
23. N. Spulber, *The Economics of Communist Eastern Europe*, M.I.T. Press and John Wiley and Sons, New York, 1957, p. 170.
24. After 1948 the Soviet Union reduced the amount outstanding by 50%, and at the end of 1949 Hungary freed herself of the obligation to Yugoslavia as a consequence of the Stalin-Tito quarrel. Taking into account these reductions, the lowering of transportation costs, and certain favourable price adjustments agreed to by the Soviet Union, I would put the final bill of goods at approximately 800–900 million U.S. dollars.

25. The Hungarian Government's Order in Council No. 11,700/December 23, 1945.
26. No. 18,720/Korm. *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 1–2, Jan.–Feb. 1948, p. 23.
27. *Monthly Bulletin of the National Bank of Hungary*, New Series, Third Year, Nos. 3–4, March–April 1947, pp. 71–72.
28. Iván T. Berend and György Ránki, *A magyar gazdaság száz éve* [A Hundred Years of Hungary's Economy], Kossuth Könyvkiadó, Budapest, 1972, pp. 211–212.
29. *Ibid.*, pp. 312–314.
30. For information on the terms of the association, share capital figures, and management structures of these companies, see *Monthly Bulletin of the National Bank of Hungary*, Nos. 1–6, Jan.–June, 1946, p. 12 and Nos. 7–9, July–Sept. 1946, p. 58.
31. By virtue of Orders in Council Nos. 7,160/M.E., 9,070/M.E., 9,470/M.E., 24,690/M.E., 4,200/M.E., 4,120/M.E., 4,210/M.E., 4,220/M.E., 4,230/M.E., 4,240/M.E., 4,250/M.E., 12,620/Korm., 12,920/Korm., Decree No. 26 and Decree No. 27. See *Monthly Bulletin of the National Bank of Hungary*, Nos. 7–9, July–Sept. 1946, pp. 58–59; Nos. 10–12, Oct.–Dec. 1946, p. 111; Nos. 3–4, March–April 1947, pp. 72–73; and Nos. 11–12, Nov.–Dec. 1948, pp. 266–67. See also *Economic Treaties and Agreements of the Soviet Bloc in Eastern Europe, 1945–1951*, 2nd edition, Mid-European Studies Center, New York, 1952, pp. 13–15.
32. Compare the price index of Pécs coal with that of the Hungarian-owned coal fields:

Coal	Price Index in February 1948 (August 1946 = 100)
screened Pécs	148.1
cubed Tata	122.6
screened Dorog	138.5

Source: *Monthly Bulletin of the National Bank of Hungary*, Nos. 1–2, January–February, 1948, p. 23.

33. *Magyar ipar*, December 25, 1947, and *Economic Report of the Hungarian General Creditbank*, July–December 1947, Budapest, 1947, p. 17.
34. Spulber, *The Economics of Communist Eastern Europe*, pp. 199–201.
35. See V. H. Winston's chapter, "Mineral Resources," in *Resources and Planning in Eastern Europe*, ed. N. J. Pounds and N. Spulber, Indiana University Publications, Slavic and East European Studies, Vol. 4, 1957, pp. 36–86.
36. György Ránki, *Magyarország gazdasága az első Három-Éves Terv időszakában, 1947–1949* [Hungary's Economy during the Three Year Plan Period, 1947–1949], Közgazdasági és Jogi Könyvkiadó, Budapest, 1963, p. 146.
37. *Izvestia*, November 10, 1954.
38. L. Kövári and Gy. Lázár, in *Közgazdasági szemle*, Vol. IV, No. 6, 1957, p. 600, say that in 1957, and earlier, the Soviet Union waived 2 billion rubles—55%—of the moneys owed to her by Hungary as a result of Hungary's repurchase of the Soviet-owned concerns. This would mean that when the concerns were initially re-sold to Hungary in 1953–54, the Soviet Union presented a bill for 3.6 billion rubles, or 900 million U.S. dollars. Taking the 55% reduction into consideration, the actual amount paid by Hungary to the USSR for these shares totalled 450 million U.S. dollars. This is the only place where an actual

- figure was quoted by a Hungarian source. Berend, in a recently published volume, simply says, "the shares were bought up by the government in the mid-fifties." *A szocialista gazdaság fejlődése Magyarországon, 1945–1968* [The Development of the Socialist Economy in Hungary, 1945–1968], Kossuth Könyvkiadó, Budapest, 1974, p. 15.
39. Mátyás Timár, recently demoted as deputy premier, offers the figure of \$135 million as the final total of Hungarian payments to the Soviet Union. I think this is only about 4% of the actual amount. See *Gazdasági fejlődés és irányítási módszerek Magyarországon* [Economic Development and Methods of Economic Control in Hungary], Közgazdasági és Jogi Könyvkiadó, Budapest, 1968, p. 25.
 40. Jan Wszelaki, *Communist Economic Strategy*, National Planning Association, Washington, D.C., 1959, p. 69.
 41. Paul Marer, "The Political Economy of Soviet Relations with Eastern Europe," *Testing Theories of Imperialism*, ed. S. J. Rosen and J. R. Kurth, Lexington Books, D. C. Heath, Lexington, Mass., 1974, p. 238. According to Marer, "Until after Stalin's death in 1953, the Soviet Union's political domination of Eastern Europe was accompanied by conventional kinds of economic extraction from the region, with the size of unrequited flow of resources from East Europe to the Soviet Union being approximately of the same order of magnitude as the flow of resources from the United States to Western Europe under the Marshall Plan." (231–232).
 42. See *Felszabadulás 1944 szeptember 26 – 1945 április 4. Dokumentumok* [Liberation . . . Documents], published by the Institute of History, Hungarian Academy of Sciences, Szikra, Budapest, 1955, especially pp. 172, 204 and 208.
 43. On the 1945 Land Reform, see *A földreformra vonatkozó jogszabályok az Országos Földbirtokrendező Tanács elvi jelentőségű határozataival* [The Legal Provisions and Principles of the National Land Reform Committee], published by the Hungarian Ministry of Agriculture, Budapest, 1945; *Földreform 1945: Tanulmány és dokumentgyűjtemény* [Land Reform 1945: A Collection of Studies and Documents] published by the National Archives Centre and the Institute of History of the Hungarian Academy of Sciences, Budapest, 1965; and Bálint Szabó, *Forradalmunk sajátosságai 1944–1948* [The Characteristics of Our Revolution, 1944–1948], Kossuth Könyvkiadó, Budapest, 1962.
 44. Oszkár Jászi, "The Choices in Hungary," *Foreign Affairs*, Vol. XXIV, No. 2, 1946, p. 462.
 45. Mátyás Rákosi, *A békéért és a szocializmus építéséért* [For Peace and Socialism], Szikra, Budapest, 1951, p. 222; and his lecture at the Higher Party School on Feb. 29, 1952, in *A szocialista Magyarorszáért* [For a Socialist Hungary], Szikra, Budapest, 1953, pp. 135–137, 142 and 157–58.
 46. Berend, *Ujjépités . . .*, p. 101.
 47. Orders in Council Nos. 12,900/M.E., 230/M.E., 3,650/M.E. and Decree No. 6/G.F. and Decree No. 10/G.F. In *Monthly Bulletin of the National Bank of Hungary*, No. 1–6, Jan.–June, 1946, pp. 26–27.
 48. Cited by Berend, *Ujjépités . . .*, p. 41.
 49. *Monthly Bulletin of the National Bank of Hungary*, Nos. 1–6, Jan.–June 1946, p. 27.
 50. Industrial wholesale prices were already artificially set too low at the time of the introduction of the new currency in June 1946, and did not reflect relative scarcities, but the political priorities of the Communist Party's financial team that was in charge of prescribing the new price levels. The team was headed by István Friss, and was actively assisted by Jenő Varga from the Soviet Union.

51. Berend, *Ujjépítés . . .*, pp. 220–224. Berend mentions that Varga was also severely condemned by the SEC on another occasion, when he advocated a more permissive credit policy than the one utilized by the SEC, as a means of increasing production and cutting down unemployment (p. 208).
52. *Ibid.*, p. 293.
53. For the original versions worked out independently by each party, see *A Magyar Kommunista Párt és Szociáldemokrata Párt határozatai, 1944–1948* [Resolutions of the Hungarian Communist Party and the Social Democratic Party, 1944–48], published by the Party History Institute of the Central Committee of the Hungarian Socialist Workers' Party, Kossuth Könyvkiadó, Budapest, 1967: "A Magyar Kommunista Párt Hároméves Tervjavaslata, Január 11–12, 1947" [The Three Year Plan Proposal of the Hungarian Communist Party, Jan. 11–12, 1947], pp. 312–397; and "A Szociáldemokrata Párt XXXV Kongresszusán elfogadott gazdasági Terv. Február 1–5, 1947" [The Economic Plan Passed at the XXXV Congress of the Social Democratic Party, Feb. 1–5, 1947], pp. 405–445.
54. One source of foreign capital could have been the Marshall Plan, but this was vetoed outright by the Communist Party, and the Smallholders, who had just suffered a radical thinning of their ranks during the spring of 1947, could not press the point. The official line of the Communist Party on the rejection of the Marshall Plan even today is that the terms of the loan required a specific production pattern from Hungary, concessions to the U.S.A. in trade matters, and in Hungarian domestic policies. In general it is argued that the Marshall Plan was to be nothing but a form of "buying off" Hungary (see Rákosi's speech to the Greater Budapest Party Activists on July 30, 1947, in *A fordulat éve* [The Year of Change], Szikra, Budapest, 1950, p. 151). This reason for the Party's veto is fictitious, since what the Party vetoed was not the acceptance of the *terms* offered, but the sending of a delegation to the preliminary conference in Paris to *find out* about the terms of a loan. In other words, Hungary could not have rejected the Marshall Plan because of its terms, since terms were never in fact put to her.
- Another source of foreign financial aid could have been the International Monetary Fund. Since this was an international body, it was difficult to argue that moneys given by it were a form of political payoff to win Hungary's support for the U.S. Still, the Communist Party vetoed the idea of going to the IMF on the grounds that it would endanger Hungary's sovereignty and stifle her economic independence. Ultimately, both decisions were Soviet-inspired, and undertaken to ensure that Hungary would remain firmly entrenched under Soviet hegemony.
55. *The Hungarian Three Year Plan*, published by Hungarian Bulletin, 1947, Budapest, pp. 1, 2, 3, 22, and 41.
56. Ernő Gerő, "Lecture at the Political Academy of the Hungarian Communist Party on December 20, 1946," in *Harcban a szocialista népgazdaságért* [Fighting for a Socialist People's Economy], Szikra, Budapest, 1950, pp. 204–205.
57. Gerő, in the introduction to his book, *ibid.*, pp. 1–5.
58. Béla Balassa, *The Hungarian Experience with Economic Planning*, Yale University Press, New Haven, 1959, pp. 27–28.
59. Alexander Eckstein, "Postwar Planning in Hungary," *Economic Development and Cultural Change*, No. 2, 1954, p. 382.
60. Timár, *Gazdasági fejlődés . . .*, p. 30.
61. G. Kemény, *Economic Planning in Hungary, 1947–49*, Royal Institute of International Affairs, London, 1952.
62. There were protracted battles between the political parties about which Party

members would be in charge of the various departments of the National Planning Board. The department of information was, right from the beginning, run by a member of the Communist Party, as were the departments of industry and economics.

63. Zoltán Vas, *The Success of the Three Year Plan—A Victory of the Hungarian People*, published by the Information Department of the Hungarian Ministry of Foreign Affairs, Budapest, April 1950. By this time, Vas was Director of the Planning Office.
64. Ránki, *Magyarország gazdasága . . .*, p. 33.
65. *Ibid.*, pp. 162–177.
66. Timár, *Gazdasági fejlődés . . .*, p. 33.
67. *A magyar ipar, statisztikai adatgyűjtemény* [Hungarian Industry, Statistical Data], MSH, Budapest, 1961, p. 34.
68. Ránki, *Magyarország gazdasága . . .*, p. 99.
69. *Ibid.*, p. 48.
70. On the new system, see *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 5–6, May–June, 1948, p. 144.
71. On the forms of this control, see *Monthly Bulletin of the National Bank of Hungary*, New Series, Fourth Year, Nos. 5–6, May–June, 1948, p. 144.
72. For example, the new worker-managers of the Péti Chemical Works were tried and sentenced to a long jail-term for sabotage in 1948 because they invested money into the creation of a new lubricant plant without asking the permission of the central authorities. Reference to this is made in Ránki, *Magyarország gazdasága . . .*, p. 114.
73. Rákosi, Csepel speech, February 4, 1948, *A fordulat éve*, p. 411.
74. *Ibid.*, pp. 390, 427–429.
75. For example, Iván T. Berend cites from a confidential internal memorandum of the Planning Office, dated 1950, with regard to the increased production in the mining industry. “We must point out that this achievement was made possible only because our coal miners have been putting in Sunday and holiday shifts.” *Gazdaságpolitika az első öt éves terv megindításakor, 1948–1950* [Economic Policy at the Beginning of the First Five Year Plan, 1948–1950], Közgazdasági és Jogi Könyvkiadó, Budapest, 1964, p. 112.
76. Rákosi, speech to the First National Conference of Stakhanovites, February 17, 1950, in *A békéért és a szocializmus építéséért*, pp. 301–321.
77. Gerő, speech in Jászberény at the electoral meeting of the People’s Front, April 24, 1949, in *Harcban a szocialista népgazdaságért*, p. 82.
78. Rákosi, speech to the Central Committee, September 11, 1947, and speech to the Greater Budapest Congress of the Hungarian Communist Party, September 6, 1947, *A fordulat éve*, pp. 240 and 281–82; also in *Népszava*, April 27, 1948.
79. *Szabad Nép*, October 17, 1945.
80. *Szabad Nép*, August 18, 1947.
81. *Szabad Nép*, January 19, 1947.
82. Gerő, speech in Kispest, April 17, 1945, *Harcban a szocialista népgazdaságért*, p. 31.
83. Rákosi, *A szocialista Magyarországért*, p. 195.
84. Rákosi, *A békéért és a szocializmus építéséért*, pp. 507–10.
85. Gerő, in a speech to the Hungarian Communist Party’s Politburo on the eve of nationalization in 1948. Gy. Ránki quotes Gerő from confidential Party archives in *Magyarország gazdasága . . .*, p. 105.
86. Editorial in *Pravda*, January 28, 1948. See also V. Dedijer’s *Tito*, Simon and

- Schuster, New York, 1961; and M. Kaiser and J. G. Zielinski, *Planning in East Europe*, The Bodley Head, London, 1970, pp. 24-25.
87. For the exchange of notes between the Soviet and Yugoslav leadership, see *The Soviet-Yugoslav Dispute*, Royal Institute of International Affairs, London, 1948. There is also a good analysis to be found in E. Halperin, *The Triumphant Heretic: Tito's Struggle Against Stalin*, British Book Service, New York, 1958; and Adam Ulam, *Titoism and the Cominform*, Harvard University Press, Cambridge, Mass., 1952.
 88. This is the figure given by Rákosi himself, in his speech in Prague, when he led a Hungarian government delegation, June 23, 1949: *A békéért és a szocializmus építéséért*, p. 100.
 89. See *The Indictment in the Criminal Affair of László Rajk and His Accomplices*, published by the Hungarian News and Information Service, London, September 1949.
 90. Rákosi, *A békéért és a szocializmus építéséért*, pp. 157, 166-68, 170, 172, and 212-213.