



**MULTIDISZCIPLINÁRIS KIHÍVÁSOK  
SOKSZÍNŰ VÁLASZOK**

GAZDÁLKODÁS- ÉS SZERVEZÉSTUDOMÁNYI FOLYÓIRAT

**MULTIDISCIPLINARY CHALLENGES  
DIVERSE RESPONSES**

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**A SZTÁLINISTA GAZDASÁGPOLITIKA ÉS  
KÖVETKEZMÉNYEI MAGYARORSZÁGON (1949-1953)**

**THE CONSEQUENCES OF STALINIST ECONOMIC  
POLICY IN HUNGARY (1949-1953)**

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## ÖSSZEFOGLALÓ

1948-ra a magántulajdon és a többpártrendszer felszámolásával a Magyar Dolgozók Pártja (MDP) megteremtette a szovjet típusú egypárti diktatúra intézményrendszerét. Gazdasági téren az erőltetett ütemű iparosítás kapott hangsúlyt, miközben a kommunista pártvezetés a mezőgazdaság mellett elhanyagolta az infrastruktúra fejlesztését. Az agrárágazat erőszakos tééeszesítése és a szükséges beruházások elmulasztása miatt állandósult az árubiány. A mezőgazdaság helyzetét tovább súlyosbította a kötelező beszolgáltatások mellett a mennyiségi szemlélet érvényesítése. A magántulajdonú parasztgazdaságok elleni agresszív kampány és az agrárágazat kollektívizálása következtében 300 000 fő végleg felhagyott a földműveléssel és az iparban vállalt munkát.

A központi tervutasításos rendszerben figyelmen kívül hagyták a jövedelmezőséget, a termelési költséget, az értékesítési és minőségi követelményeket. Kizárólag egyetlen szabályozó elv érvényesült: a globális termelési tervmutató teljesítése vagy túlteljesítése. A döntéshozók minden egyes termelést és értékesítést meghatározó szempontot figyelmen kívül hagytak.

A külkereskedelmi kapcsolatokat a parancsgazdaság szervezeti rendszerébe illesztették. Állami tulajdonú külkereskedelmi vállalatokat hoztak létre, a bel- és világpiacon pedig hermetikusan elválasztották egymástól. A KGST keretein belül a Szovjetunió célja a szocialista blokk országainak világpiacon folyamatoktól való függetlenítése és a belső önellátás elérése volt. A rögzített árak bevezetése 1950-ben súlyosan piactorzító intézkedésnek bizonyult, miközben Magyarország – a nehézipar fejlesztése miatt – rendszeres nyersanyag-behozatalra szorult. Az 1949 és 1953 közötti időszakban a külkereskedelem célkitűzéseit nem sikerült teljesíteni. Az első ötéves terv irracionális gazdaságfejlesztési elképzelései tartós károkat okoztak hazánk nemzetgazdaságában.

## SUMMARY

By 1948, with the eradication of private property ownership and multi-party-system, the institutional background of the Soviet-type dictatorship was created by the Hungarian Workers' Party (HWP). In economic terms, forced industrialisation became a buzzword, whereas both agricultural and infrastructural development were neglected by the communist

*leadership. The forced collectivisation in the agriculture, accompanied by the postponement of necessary investments led to a permanent shortage of goods. Compulsory deliveries coupled with the application of the principle of quantity further aggravated the situation of the agrarian sector. As a result of aggressive campaign against the wealthy peasants and forced collectivisation, 300 000 people ceased to work in the agriculture and were employed by industry.*

*Within the centrally planned economy, profitability, cost of production, marketability and quality of products were neglected. Only one principle was taken into account, which was the fulfilment or overfulfilment of the global production plan index and all other criteria were ignored by decision-makers.*

*Foreign trade relations were embedded within the framework of the command economy. Foreign trade corporations were set up and world market prices became hermetically sealed from domestic prices. Within Comecon, the endeavour of the USSR was to reduce any dependency of the socialist bloc on world markets and to achieve self-sufficiency. The introduction of fixed prices in 1950 led to serious price distortions, whilst Hungary depended on increasing import of raw material, which was essential for the development of heavy industry. Therefore, the targets of foreign trade were not fulfilled during the period 1949-53. The irrational economic objectives of the first Five-Year Plan produced lasting damages in the national economy of Hungary.*

## **INTRODUCTION**

The first Five-Year Plan, which was officially launched on 1<sup>st</sup> January 1950 had profound impacts on Hungary's economy. It was based on the concept of forced industrialisation in order to create "the land of iron and steel". Although agriculture remained the backbone of the country's economy after World War II, at the end of the 1940s there was a massive diversion of resources from the agrarian sector to the industry without taking attention the needs of the population. Both the development of heavy industrial branches and the

collectivisation of agriculture led to serious imbalances. Another major feature of the command economy was the chronic shortage of basic consumer goods. The objective of the paper is to give an overview about the effects of the first Five-Year Plan (1950-54) on Hungary's economy. In order to understand the main characteristics of the centrally planned economy, emphasis will be placed on the analysis of each sector, including industry, agriculture and foreign trade. It is essential to evaluate which were the deficiencies of the first Five-Year Plan both in the industry and agriculture. Finally, Hungary's foreign trade relations will be analysed thoroughly within the framework of the CMEA. Because of length constraints, I will not highlight the domestic politics of Hungary in the 1950s and its foreign policy objectives will be excluded as well.

## **RESEARCH METHODOLOGY**

By evaluating the consequences of the first Five-Year Plan, primary sources and statistical data will be used in each related sector of the economy (agriculture, industry, and foreign trade). The paper has two important aims:

1. it strives to introduce the background of the first Five-Year Plan and its main impacts on Hungary's economy;
2. it reveals the deficiencies of the centrally planned economy by stressing the main reasons of imbalances at macroeconomic level.

## **LITERATURE REVIEW**

### **The first Five-Year Plan (1950-54): the impacts of forced industrialisation**

By 1948, the necessary conditions of socialist industrialisation were created in Hungary. During the implementation of the Three-Year Plan (1947-49), multi-party system was abolished by the Hungarian Communist Party and Social Democrats ceased to exist with the creation of the Hungarian Workers' Party (HWP). Institutional system of the command economy, which was headed by the National Planning Office and established in 1947 served to achieve the

declared goals of forced industrialisation in the country. The military presence of the Soviet Union in the region was meant a guarantee for the communist pattern of industrialisation. Economic and social transformation would not have taken place without the seizure of power by the communists, and the intervention of the Red Army stationed in Hungary (Gunst, 1996:132).

It must be stressed that the dictatorship of the HWP radically changed the economic policy of the country. The post-war reconstruction programme between 1947 and 1949 placed emphasis on the development of industry and transport. With the establishment of the Council for Mutual Economic Assistance (Comecon) in January of 1949, the USSR endeavoured to draw Central and Eastern European countries into its sphere of influence both economically and politically. When the first version of the first Five-Year Plan was published in April of 1949 its declared targets were the followings: to speed up industrialisation, with particular emphasis on engineering and heavy industry, to improve the mechanisation of the agriculture, the modernisation of transport and finally, to increase the standard of living. The development of military capabilities (9 percent of the national income was allocated to armaments) was coupled with the establishment of the North Atlantic Treaty Organisation (NATO) in the spring of 1949, which the Soviet Union perceived as a direct threat to its security. The Cominform resolution of June 1948 branded neighbouring Yugoslavia not merely an enemy on ideological grounds, but also “as an organiser of attacks on the Popular Democratic states”. This stance was unilaterally adopted by the Hungarian Communist leadership, which made Hungary into a front-line country in the Cold War that emerged between the USA and the USSR. Therefore, efforts were made to expand weapon and armaments industries, whilst other sectors of the economy played only a secondary role (Pető – Szakács, 1985:151-152). The outbreak of the Korean war in 1950 made the international situation even worse. When, in January 1951, the Communist leaders of the satellite countries participated in a Comecon’s

meeting in Moscow, Stalin demanded an expansion of the munitions industry rapid enough for each state concerned to take active part in a world war. Mátyás Rákosi satisfied this requirement, when he announced the “great leap” programme for Hungary at the HWP congress in February. Despite the shortage of energy and raw materials for heavy industry it was proposed to create the “land of iron and steel” (Tóth, 2005:567-577).

The Five-Year Plan was based on that of the Soviet model in the 1930s, which encompassed the massive diversion of resources from the agriculture to the industry. Investment plans became more and more ambitious. When the first draft of the Hungarian Five-Year Plan was worked out in 1948, it sought to guarantee investments of 27.6 billion forints, but in April 1949 investments were increased to 35 billion forints, in December to 50.9 billion and then in February 1951 to 85 billion forints, which was more than three times higher than the first version (Berend, 1996:79-80). The planned index of growth in national income for five years in Hungary was raised from 63 percent to 163 percent at the end of the planning period. The Communist leadership sought that overstrained investments would promote the expansion of industrial capacities and the mechanisation of the agricultural production. According to the first draft of the plan, the share of agriculture in total investment expenditure was 15 percent, whilst transport, social policy and housing construction had to make with just 14 percent. The main problem was that more than half of investments went to industry, and about 90 percent of this invested amount was concentrated on heavy industrial branches. The planners also calculated with the envisaged targets. It had been estimated that at the end of 1954 industrial output would have reached 186 percent of the 1949 level. The planned index of growth for agricultural production was to be increased by 142 percent between 1950 and 1954. It had been expected that the standard of living would have grown by 30 percent at the end of the planning period. The other major input for the expansion plans was an increase of 480,000 in the industrial workforce,

accompanied by the growth of housing stock with 180,000 apartments over five years (Kaposi, 2002:350).

**Table 1. Modifications of the first Five-Year Plan according to the estimated targets of investments (percentage point)**

Versions	Industry	Heavy industry	Agriculture	Intangible assets
Central Planning Office in May 1948	40.0	-	20.0	20.0
Officially published guidelines in April 1949	48.6	-	17.1	17.1
Adopted plan by the Parliament in December 1949	51.0	34.2	15.7	14.5
Adopted plan by the second congress of the HWP in February 1951	51.7	44.1	12.9	11.8

*Source: Kaposi, Z., 2004. A 20. század gazdaságtörténete (Economic history of the 20th century). Budapest-Pécs: Dialóg-Campus Kiadó. p. 284.*

Annual targets of the Plan were modified. By the adoption of Decree 2/1951, 85 billion forints were earmarked to investments, about 47 percent of which were given to manufacturing industry (Szávai, 2009:152). Between 1950 and 1954 a total of 67 billion forints was invested in the economy. The share of agriculture in total investment expenditure went down from 15.7 to 12.9 percent, that of light industry from 5.9 to 4.1 percent, and that of housing from 10 to 7.6 percent (Brus, 1986:20). Because the majority of financial resources concentrated on the development of heavy industry, agriculture and light industrial branches were neglected completely (Kaposi, 2004:284).

As a result of forced industrialisation, the traditionally low rates of capital accumulation, which were about 5-6 percent in the interwar period thus, achieved 22-30 percent in the first half of the 1950s. As Berend stated that by annihilating the market, the countries of Central and Eastern Europe, including Hungary entered a period of “primitive accumulation”. “The planning mechanism enabled them to concentrate resources and development on centrally chosen projects, to an extent unknown before”. Rapid industrialisation started to gain ground in the country from the early of 1950s (Berend, 1999:111). Industry achieved an extraordinary level of growth, reaching an annual 20 percent by 1953, in contrast with an estimated 2 percent per year between 1920 and 1939. Industrial output for 1953 was almost three times what it had been in 1938. Its share in the national income rose from 39 percent in 1939 and 42 percent in 1949 to 54 percent in 1954 (Romsics, 1999:275).

Despite the spectacular growth in the heavy industry, the deficiencies of the first Five-Year Plan were the followings:

1. The planners did not take into account the fact that the period of development finished in 1952, when economic growth reached the envisaged upward trend, whilst in 1949 it only stood at the pre-war level. The implementation of the programme was not successful because the rate of economic growth was extremely fast up to the trend line but later it started to slow down. Economic policy makers were interested in fostering forced industrialisation and capital accumulation and did not pay attention to the effects of possible economic slowdown (Jánossy, 1966:500-503).
2. The domestic resources of raw materials were lacking to build up heavy industrial branches, such as smelting and steel-making. The territory that had been left after Trianon had no major deposits of either coking coal or iron ore. Therefore, the huge iron smelting and steel-making capacities depended largely on imports from the USSR. Between 1950 and 1954 pig iron production was more than doubled and rolled steel production almost

doubled, whilst the output from aluminium smelteries was tripled. The overwhelming majority of raw materials (coal and oil) which were necessary to the operation of heavy industrial capacities had to be imported from the Soviet Union. In the more developed regions of the world, by contrast, the manufacture of automobiles, instruments, communications equipment, and plastics gained ground and a start had been made on automation and electronics. These technologically more advanced industries, which had a high value-added content, were completely neglected in Hungary. (Romsics, 1999:275-276).

3. The distribution of industrial investments was flagrant. Whereas 92 percent of investments in the manufacturing industry concentrated on iron production and metallurgy, the share of food processing was only 8 percent in total investments. Due to defence considerations, military's armaments received 6.3 billion forints. The latter amount surpassed that of the financial resources, which were earmarked separately to the development of mining, energy production, chemicals and construction and building materials (Honvári, 2005:194). In Hungary, one of the most extreme development strategies was implemented by the communist regime compared even to other Central and Eastern European state planning countries because 80 percent of heavy industrial investments went to the production of "strategic materials". The national economy lost its internal equilibrium. The forced growth strategy based on the preponderance of heavy industry produced long-lasting distortions in the economy (Gunst, 1996:134).

**Table 2. The share of investments in heavy and construction industries compared to all industrial investments (percentage point)**

The first Five-Year Plan of Bulgaria	83.5
The first Five-Year Plan of Czechoslovakia	78.1
The first Five-Year Plan of East Germany	75.5
The first Five-Year Plan of Hungary	92.1
The first Five-Year Plan of Poland	76.0
The first Five-Year Plan of Romania	82.6
The first Five-Year Plan of the Soviet Union	85.7
The second Five-Year Plan of the Soviet Union	83.1

*Source: Honvári, J., 2005. Magyarország gazdaságtörténete Trianontól a rendszerváltásig (Economic History of Hungary from Trianon to the change of regime). Budapest: Aula Kiadó. p. 194.*

4. The weakness of the Stalinist centrally planned economy can be explained by the efficiency of investments. There was a general scarcity of raw materials, coupled with the lack of capacities and the necessary qualified workforce. Several investment projects were not adequately prepared and dispensed with the necessary technical documentation, which resulted that a great and ever-increasing number of the investment projects were left unfinished. The return on invested capital ratio slowed down. Most of factories piled up huge volumes of unsaleable products. Light industrial branches hardly developed, the production of consumer goods stagnated or even declined (Szávai, 2009:153).
5. In the field of new reconstruction programmes, another serious omission, which had repercussions was the insufficient attention given to renovation and repair. During World War II industrial capacities were expanded at the expense of regular maintenance. The latter was neglected over the planning period from 1947 to 1949, but when the implementation of the first Five-Year Plan started, industrial production was hindered by outdated equipment. A further negative was the general ageing of the machines that were used in the engineering industry rose from an average of 18 years old

in 1953 to 27 years in 1955. In the light industry, workers had to struggle with more than 50-60 years old equipment, which had been put into service in the Dualist era (1867-1918). Due to the lack of check-ups, breakdowns occurred in several industrial branches. The run-down machines and obsolete technology were the main reasons for the breakdowns of 1953, which occurred in the power supply of the country. Under the Soviet-type central planning, overfulfilment of the global production plan index was the most important criterion, whilst cost of production, quality of the products and even technological standards were ignored. As a result of neglecting up-to-date technology product quality has deteriorated significantly. According to the calculations of Pető and Szakács, in the first half of 1953 default products in the engineering industry caused more than 20 million forints losses per month. Because of poor quality, foreign customers had to send back 30-50 percent of goods delivered to them (Pető – Szakács, 1985:192-195).

6. Other branches of the economy were badly hit by the development strategy of the first Five-Year Plan. The country's infrastructure received only one-third of total investments as compared to close to 50 percent in the Austro-Hungarian Monarchy and levels around 60 percent, which were the rule in most industrialised countries during the same years. The result of this wrong economic policy was that Hungarian railways became run-down and outdated. The public transport system was overcrowded in most towns: whereas passenger numbers rose two and half times over, the fleet of trams and buses grew by only 7.5 percent. The obsolescence of the rail and tram network was partially offset by increased road usage as coaches started to become a means of mass transport between settlements in the 1950s, with numbers of passengers carried reaching 100 million in 1955. Over the period 1950-1955 freight haulage by road also grew from 6.600 tons to 36.700 tons (Romsics, 1999:276-277).

7. Overstrained industrial projects resulted general shortage in the field of consumption. As Aldcroft and Morewood stated that the third weakness of the command economy was related to the lack of choice. Because of monocular focus on industrial development, the needs of agriculture and light industries were ignored. Before 1939 the Hungarian shoe industry offered the consumer a range of 80 different types to choose from. By the early 1950s that figure had plummeted to just 16 (Aldcroft – Morewood, 1995:110). Hungary relied heavily on the necessary imports of machines and equipment, which were essential for the forced industrialisation. In the first half of the 1950s there was a general shortage in consumer goods. The balance between commodity supply and demand could not be restored, therefore, food rationing, which was abolished during the Three-Year Plan, was reintroduced from 1<sup>st</sup> January 1951 (Honvári, 2005:227-228).
8. The scarcity of agricultural and consumer goods was a general feature of the Stalinist central planning. Due to wrong decisions many construction projects remained unfinished. At the same time several investments were launched previously, which neglected the criteria of profitability and market incentives. The lack of entrepreneurial interests led to problems both in productivity and efficiency. The low level of productivity could be explained on the one hand by wasting of materials, energy, and labour and by high production costs, on the other (Szakács, 1999: 253-254). Berend stressed that a great part of the national income disappeared. According to his calculations, about one-fifth of the potential growth of the national income was lost in this manner in Hungary between 1949 and 1953 (Berend, 1996:79).
9. The first Five-Year Plan substantially modified the structure of national income of the country. The share of industry in the national income rose from 39 percent in 1939 to 54 percent in 1954, whilst the proportion of agriculture fell from 40 percent in 1938 to 23.9 percent in 1952 (Romsics,

2017:435). In the centrally planned economy, agriculture and services played only a secondary role. Communist leaders Mátyás Rákosi and Ernő Gerő followed the Soviet model based on the concept of forced industrialisation and the collectivization of the agriculture. In the 1950s, Hungarian leadership pursued voluntaristic policies to an unprecedented extent (Gunst, 1996:142). The official standpoint was that investments were always determined by political viewpoints and economic indicators were subordinated to them. The overwhelming majority of the decisions taken by economic policy makers were improvisations. What counted was quantity in particular attaining the norms prescribed by the central planners for the country as a whole. The rigidity of the Soviet-style central planning was manifested in the complete isolation from world markets (Domonkos, 2019:144).

### **AGRICULTURE: HARSH CAMPAIGN AGAINST THE KULAKS AND COLLECTIVISATION**

In 1945 collectivisation of agriculture was not amongst the original Communist Party objectives. The lessons of 1919 had made it perfectly clear that the only way to win the support of peasants was the radical implementation of land reform. The long-term endeavour of the communists was to create cooperative forms of farm management. After the decision of Cominform (consulting body of the communist parties in the Soviet camp) in June 1948, which branded neighbouring Yugoslavia as an enemy of the socialist bloc, the leadership of the Hungarian Workers Party emphasized in its official programme that the construction of a socialist system should embrace the rural areas. Prime ministerial Decree 600/1945, issued already on 18<sup>th</sup> March 1948, ordered the creation of farmer cooperatives in the villages, where at least 300 cadastral hold estates were redistributed. Individual farmers were compelled to join such groups in the entire country (Lendvai, 2009:164-165). In August 1948, Mátyás

Rákosi overtly supported the abolition of private property ownership and the collectivisation of agriculture. The change of position of the HWP on agricultural cooperatives led to the major debate within the ranks of the party itself. Imre Nagy took a moderate position. As the former minister, who had supervised the land reform, did not reject cooperatives in principle, but he was convinced of the importance for small farmers to cultivate their own land for a long time. Orthodox communists within the Hungarian Workers Party (Ernő, Gerő, József Révai, Mátyás, Rákosi and Mihály Farkas) were interested in speeding up of collectivisation and forced Nagy to exercise self-criticism. Then in September 1949 was thrown out of the party's Politburo (Honvári, 2005:315-316).

The propaganda that declared the collective cooperatives to be at more advanced level, however, proved inadequate to persuade farmers to join them. The vast majority of peasants were not in a hurry to hand over their own property. The political leadership originally set a time limit of three or four years for completing collectivisation. They did everything to achieve these goals. One of the most important tools was the use of economic and administrative compulsion. This included a surcharge, which was a scale of agricultural development charges proportionate to the size of the property. The trick applied by the authorities meant that it was not the burden of delivery that was predetermined but rather that of taxation. It was set not according to the yield but in compliance with a calculation by the state. Those who could not meet these demands were subject to "punishment compensation" for not paying tax on time (Tóth, 2005:577). Another effective means of breaking down resistance was the device of "consolidation". Peasants were obliged to swap their land so that the patchworks of plots belonging to those who had already entered into a cooperative or state farm could be better integrated as a coherent unit more suitable for effective mass production. According to Romsics, between 1949 and 1953 such "consolidations" took place in 2,280 communities, which

comprised one-quarter of the entire area under cultivation in Hungary. The scale of this intervention seriously damaged the inviolability of private property ownership in the agrarian sector and scared many away from working on the land altogether (Romsics, 1999:277).

At the same time, a harsh propaganda was promulgated against the wealthy peasant families with landholdings over 25 hold (1 hold is cca 0.57 hectar). Power-enforcement organs, which operated under the control of the HWP applied wide range of methods to intimidate the so-called “kulaks” (wealthy peasants), such as the use of unrelenting increase in the taxes assessed on private farms, consolidation, compulsory deliveries, levying harsh penalties, and in some cases arrest and imprisonment (Nagy, 2006:238).

The cruel methods applied by the Hungarian Workers’ Party had the expected effects. The number of cooperative farms grew from 468 at the end of 1948 to 5000 by 1953, with membership rising from 13,000 to 370,000. In 1953, 21 percent of the country’s arable land was in cooperative ownership and 13 percent in state hands. There was a significant drop of 400,000 in the number of private farms. As the resistance of middle-sized landowners were broken down by the authorities, peasant families abandoned farming and offered their estates to the state. Consolidation also promoted this process and finally, approximately 300,000 people ceased to work in the agriculture. At the beginning of 1950s enforced collectivisation did substantially modify both the structure of agricultural production and the Hungarian society. In the case of cooperative farms, the level of productivity did not improve because agricultural labourers and small landowners did not have the necessary tools and equipment to cultivate their own estates. Animals were slaughtered and cooperative members behaved passively against the measures introduced by the communist government (Gunst, 1996:136).

The unnecessary upheaval in land ownership and the neglect of investment in the agriculture had serious consequences. As lands were left swallow, the area

under cultivation declined year by year, from 9.6 million hold in 1938 to 9.5 million hold in 1950 and 9.4 million hold in 1953. Another major problem was that the area under wheat dropped by 21 percent in 1953 compared to the pre-war period. From 1949 to 1953 the area under fodder crops reached 90 percent of the 1938 level only in 1952, whilst it remained below the 1939-40 figure, which was 3,2 million cadastral hold. The land set aside for wine production fell from 413,000 hold in 1948 to 375,000 hold in 1953. The decline of wine growing can be explained on the one hand by the introduction of discriminatory tax, which more than quintupled per unit of land throughout the whole period and prices paid for these products were fixed at an artificially low level around the cost of production, on the other. Meanwhile sowing patterns were changed by the first Five-Year Plan. The area given over to industrial crops, such as sugar beet, sunflowers, flax, hemp and tobacco increased by five times raising from 148,000 hold in 1931-40 to 774,000 hold in 1950 (Pető – Szakács, 1985:204-205).

The shortcomings of the agrarian sector might have been compensated by measures to improve yields through more intensive soil remediation and modernisation of farming technology, but little or none of that occurred. The use of fertilisers per hectare hardly increased: it rose from 1.3 kg to 5-6 kg between 1938 and 1953, whilst during the same period highly developed countries were already applying 100-300 kg per hectare. Average levels for fertiliser application reached 188.4 kg that for the Netherlands, 165 kg that for Belgium, 102.3 kg that for the Federal Republic Germany, 102.5 kg that for East Germany and 15.3 kg that for Poland. Portugal also surpassed Hungary with the figure of 17.6 kg per hectare. Another major problem occurred with the lack of quality standards because the ratio of nitrogen and sulphur was 35 and 63 percent, which was significantly higher than in the industrialised countries (Honvári, 2005:275-276). The communist regime, however, always stressed the importance of mechanisation in the agriculture, which was essential to boost

yields, but the practical results were disappointing. Though the number of registered tractors increased markedly, from 10,000 in the summer of 1945 to 13,000 in 1950 and 25,000 in 1956, Hungary was still lagging behind in terms of the level of mechanisation compared to other countries in Western Europe. The backwardness was illustrated by the fact that each tractor in the country in 1956 had to cover on average 274 hectares of land, the comparable figure in the United Kingdom was just 20, in the Netherlands 35, in Austria 72, in France 85, in Czechoslovakia 108, and even in Bulgaria 251 hectares. The network of machine centres (“stations”) was set up throughout the country in 1948-50, which acquired most of the new equipment, including tractors, mechanical reapers as well as threshers and then new-combine harvesters. Tractors used in the agriculture were old-fashioned and were not capable to fulfil multifunctional tasks. Technological development was hindered by the scarcity of spare parts and the lack of regular maintenance. The latter was further exacerbated that people entrusted with the operation of machines did not have any appropriate qualifications (Romsics, 1999:278).

Agricultural output was characterised by the application of the principle of quantity. Planning in agriculture had two important pillars: the compulsory delivery system and the compulsory sowing plans. The latter prescribed the main crops and the amount of land allocated to them. The nationwide figures, calculated by the National Planning Office, were broken down to counties, villages, and farms by territorial, local and administrative authorities.

Another effective means was the delivery system, which clearly specified the responsibility of the peasants to deliver to the state (based on the value and quality of land per unit) in exact precalculated quantities, irrespective of the given quantity of crop. As it was defined by law and force, compulsory delivery was not a market activity. Prices were fixed at an unrealistically low level and did not reflect real relative costs (Berend, 1999:110-111). Both of these measures applied in the agriculture had harmful effects on the national economy. Thus,

when compared to the period 1931-40 average yields for 1951-55 were just 6 percent higher for wheat and 7 percent for bread crops (Romsics, 1999:278). Although potatoes were exception with 20 percent higher yields, other important crops were not even reaching the yields of 1938. The figures for sugar beet and tobacco were at 92 and 73 percent, whilst that for flax and hemp at 65 and 78 percent of the pre-war level. By making use of the manpower of the families, individual farmers were able to meet the requirements of the agriculture. In the 1950s however, cooperatives and state farms produced 15-20 percent less on wheat. The production of maize, sunflower, potatoes, sugar beet and lucerne lagged behind the averages of the 1930s (Pető – Szakács, 1985:206-211).

**Table 3. Average yields of the main crops in Hungary (quintal/cadastral hold)**

	Average 1931-40	1948	1949	1950	1951	1952	Average 1948-52
<b>Wheat</b>	8.0	6.7	7.5	8.7	9.7	7.1	7.9
<b>Rye</b>	6.6	7.3	6.8	7.4	7.9	6.1	7.1
<b>Barley</b>	7.9	9.2	8.4	7.3	9.3	7.5	8.3
<b>Oat</b>	7.3	8.9	7.1	5.2	7.2	5.9	6.9
<b>Maize</b>	10.9	12.4	8.5	9.0	14.1	6.4	10.1
<b>Sunflower</b>	5.4	5.7	5.0	4.9	6.7	4.4	5.3
<b>Sugar beet</b>	118.6	91.0	66.7	84.0	132.0	67.4	88.1
<b>Tobacco</b>	7.9	7.6	6.6	5.6	6.8	4.0	6.1
<b>Potatoes</b>	39.9	44.1	38.1	27.8	58.8	30.0	39.6
<b>Lucerne</b>	25.5	21.7	21.3	18.0	38.0	15.0	22.8

*Source: Homvári, J., 2005. Magyarország gazdaságtörténete Trianontól a rendszerváltásig (Economic History of Hungary from Trianon to the change of regime). Budapest: Aula Kiadó. p. 274.*

Agriculture was amongst the sectors, which played only a subordinated role in the national economy. The shortage of commodity supply became a general

phenomenon. During the 1950s, the country was forced to import a significant part of the grain and fodder needed to meet the needs of the population. As wine production dropped from 1948 onwards, Hungary relied on imports to satisfy its domestic demand. The only area, where significantly greater quantities were available than before the war were industrial crops (Gunst, 1996:139).

In 1950, overall livestock numbers were 7 percent higher than in 1938, but then fluctuated at 100-105 percent of the 1938 levels up until 1954. Despite greater mechanisation, national horse herd never again regained the pre-war level of over 800,000 head. Sheep stocks rose modestly by 15 percent in the 1950s, but wool-growing was lagging 35 percent behind the 1938 figure. Cattle herd increased rather more substantially over the period 1950-1954 (Romsics, 1999:279).

One of the principal reasons for the poor performance of the agriculture was the lack of expertise. The chiefs of the socialist large-scale collective farms did not have appropriate qualifications and experiences. On 31<sup>st</sup> December 1953, just 144 of the country's 3,307 cooperative farm chairmen had a university or college degree, 960 could boast primary education and 2,203 had never received any sort of special training. The situation was better in the state farms, where more than half of the chief agronomists had been to college training, but the same modest result could be said only about 12.2 percent of the general managers and 16.1 percent of chief accountants (Honvári, 2005:344).

Despite the endeavours of the Hungarian communists, individual farmers obtained better results than that of the cooperatives and state farms. As in the case of industry and other sectors of the economy, agricultural output was subordinated to political and ideological considerations. Marketability, cost of production, product quality and proficiency were ignored in the central planning (Domonkos, 2019:210).

As a result of forced collectivisation and harsh propaganda against the wealthy peasants, agriculture, which was the backbone of Hungary's economy both in

the Dualist era and during the inter-war period was deprived from the necessary resources that were essential for its modernisation. The consequence was that in the 1950s, the country depended on increasing net import of agricultural products, which was unprecedented before 1945.

## **TRADE**

At the beginning of the 1950s, foreign trade relations of Hungary changed completely. In 1953, the USSR had a share of 34 percent in the external trade of Hungary, which was roughly the same in the case of other members of Comecon. Thus, the country conducted 60-70 percent of its trade with the socialist bloc. This was equivalent to the theory of “two camps” and to Stalin’s thesis of two parallel world markets (Szávai, 2009:153).

Matejka emphasized four important elements in foreign trade policy within the satellite countries of the Soviet Union:

1. foreign trade was separated both domestic production and trade, and foreign trade corporations were established, which engaged solely in international transactions and each of which had a monopoly of trade in its own sector. In Hungary, although the Ministry of Foreign Trade was set up in 1949, domestic and foreign trade were put together in 1953, but in 1954 they were finally separated (Matejka, 1986: 251).
2. Foreign trade was embedded in the central plan. This meant that once the Council of ministers had approved the foreign-trade plan as a part of the overall plan, it was passed down to the Ministry of Trade, which issued appropriate instructions to the subordinated enterprises. These instructions constituted the corporation plans. Central directives specified the maximum limits on imports and minimum limits on exports. They were detailed, especially on the import side, and encompassed even the most significant items. According to this system, foreign-trade companies were only the

executors of central instructions, which lost their independence (Matejka, 1986: 252-253).

3. The centrally planned economic regime introduced the “price equalisation mechanism”, by which foreign trade prices became hermetically sealed from domestic prices. Enterprises producing for export delivered their products to the foreign trade company, which paid the domestic price for it, and then sold the products abroad at a competitive price level. If the products were sold at a lower than domestic price, the “deficit” incurred by the foreign company was compensated by the state price-leveling fund. If the products were sold with a margin of profit, the profit had to be transferred to the same state fund. The same happened in the case of imports. Imported goods were sold to domestic firms at the internal producer’s price, and the difference, again was reimbursed by the state fund. In the case of cheaper purchases, the foreign trade company transferred that difference to the state fund. The main aim of the price-leveling system was to isolate foreign trade from free-market mechanisms (Berend, 2006:164).
4. The final element in the creation of the foreign-trade monopoly was the integration of the Soviet owned companies and joint enterprises into the national system. They operated as extraterritorial units independently of the national trade system until the end of 1954. The agreement, which was concluded on 6<sup>th</sup> November 1954 between the USSR and Hungary abolished these enterprises, which were sold back by the Hungarian State (Matejka, 1986:253-254).

The endeavour of the Soviet Union and its allies was to reduce any dependency on world markets in order to prepare for the possible economic blockade in the case of the outbreak of war. Foreign trade with capitalist countries, however, was undesirable from both economic and political standpoint. Brus noted that Comecon (CMEA), as an organisation of multilateral economic ties, played a minor role in the years 1950-53 because trade between its member states was

conducted on a bilateral basis, within comprehensive trade agreements, specifying detailed commodity lists. He pointed out that mutual obligations were intended to balance themselves out annually without monetary transfers. Thus, it was a kind of barter trade, in which the Soviet Union acquired full control. Despite the autarchic tendencies on the side of the East coupled with the embargo imposed by the West, Hungary, Czechoslovakia, and Poland maintained much wider economic relations with the capitalist countries than did the USSR (Brus, 1986:16).

The members of the Council of Mutual Economic Assistance (CMEA) introduced fixed prices amongst themselves during the Korean War, and price fluctuations, strongly disadvantageous for planning, were eliminated. From 1950 to 1957, the rigid price system of the CMEA became totally independent of world market price fluctuations, thus abolishing the spontaneous effects of the market (Berend, 1996:78). In the late 1950s, unchanged fixed prices were replaced by a new mechanism. According to the new Bucharest Agreement in 1957, Comecon prices were adjusted every fifth year to the average of the world's market prices of the previous five years. Both export and import items of the socialist countries were converted to domestic currencies for which no specific coefficient was calculated (Botos, 2007:9).

It was expected that trade would diminish and Hungary together with other socialist countries would achieve self-sufficiency. In fact, the reverse occurred because heavy industrial branches necessitated an increasing import of raw materials from the Soviet Union. Trade became even more important for Hungary.

**Table 4. Fulfillment of the foreign trade plan 1950-55 (Plan = 100)**

Year	Import	Export
1950	95.8	90.6
1951	85.0	77.8
1952	90.7	90.9
1953	92.4	100.4
1954	95.0	92.3
1955	99.7	92.3

*Source: Petó, I., – Szakács, S., 1985. A hazai gazdaság négy évtizedének története. 1945-1985. I. Az újjáépítés a tervutasításos irányítás időszakában (Four Decades of the Hungarian Economy. The period of reconstruction and the centrally planned economy). Vol I. Budapest: Közgazdasági és Jogi Könyvkiadó. p. 167.*

**Table 5. Balance of exports and imports of goods of industrial origin 1949-55**

	Dollar trade		Ruble trade		Total trade	
	Balance (thousand million forint)	Exports as percent imports	Balance (thousand million forint)	Exports as percent imports	Balance (thousand million forint)	Exports as percent imports
1949	- 1123	34.9	- 326	78.2	- 1449	55.0
1950	- 1025	33.5	- 281	85.7	- 1306	62.8
1951	- 857	42.0	- 474	82.1	- 1331	67.8
1952	- 788	40.8	- 898	74.2	- 1686	64.9
1953	- 576	51.8	- 56	98.4	- 632	86.6
1954	- 621	52.4	- 411	88.8	- 1032	79.2
1955	- 653	63.0	+193	106.2	- 460	90.5

*Source: Petó, I., – Szakács, S., 1985. A hazai gazdaság négy évtizedének története. 1945-1985. I. Az újjáépítés a tervutasításos irányítás időszakában (Four Decades of the Hungarian Economy. The period of reconstruction and the centrally planned economy). Vol I. Budapest: Közgazdasági és Jogi Könyvkiadó. p. 164.*

The excessive demand for imports, which were crucial for the operation of smelting and steel-making prevented Hungary from establishing a positive trade balance on either the dollar or the ruble account in the first half of the 1950s.

Thus, foreign trade plan was not fulfilled in any year and external trade of the country underperformed.

### **LIVING CONDITIONS IN THE 1950S**

Based on the Soviet-model of the 1930s, both the agriculture and the public administration were deprived of financial resources, which were necessary for industrialisation. The wages of those employed in the public sector and other branches of the economy were kept artificially low. Wage leveling became the general practice, which was applied by the communist regime. Whereas members of the top-ranking political elite – company chairmen and factory directors – had monthly salaries that exceeded Ft. 2,700, a doctor earned an average of Ft. 1,873, which was equal to the best-paid face-worker in the mines, and a secondary school-teacher's monthly wage (Ft. 1,396) was less than that of an engine fitter. The worst paid were those, who worked in the food-processing industry and the agriculture. The issuing of Peace Loan was a typical way to diminish the national income and wages. It was widely applied between 1949 and 1955 and worked as an extra tax in Hungary. It was a special bond issued by the Hungarian state. People were under political pressure to purchase them in a value of at least one-month salary annually. As a result of continuous propaganda, Hungarian society was compelled to pay Ft.5.6 billion to the state budget, which represented a serious burden on the taxpayers (Kaposi, 2004:286-287).

National income however, increased by 30 percent between 1950 and 1953, but consumption stagnated in the same period. During the early 1950s real wages dropped by 20 and stood at 66 percent in 1952 of the pre-war level. A survey carried out by the Trade Union Council in 1954 found that a third of those living on wages or salaries had an income under the subsistence minimum, which was monthly Ft. 500-700 per head (Romsics, 1999:280). After launching

the “New course” in July 1953, consumption rose by 20 percent within a year (Szávai, 2009:153).

Despite the extension of social security net (the number of people covered by health insurance and free medical treatment grew from 2.8 million in 1938 to 5.7 million by 1953), housing conditions generally deteriorated. Romsics stressed that besides the old ruling and middle classes, the biggest losers of the transformation process were peasants and former private businessmen, who were stripped of their private property ownerships without any compensation (Romsics, 1999:280-281). Rákosi and his associates call on Hungarian society to make sacrifices, ignoring the needs of the national economy and the population. Because the bulk of planned targets were not proportionally fulfilled in the first Five-Year Plan, all of them were revised and moderated in the second half of 1953. As Berend noted there was no war to justify a policy, which turned out to be highly irrational and, from many points of view counterproductive. Mátyás Rákosi explained the reason for the failure of economic plans to a rehabilitated survivor of the Rajk trial, in his office in the mid-1950s: “We prepared for the war and all of the sudden the peace collapsed around our ears” (Berend, 1996:81).

The measures introduced by the communist regime, which were based on forced industrialisation coupled with the collectivisation of agriculture produced lasting damages in the economy. The problem of imbalances and the loss of control over economic policy were clearly visible from the beginning of the 1950s. The modification of the targets in the first Five-Year Plan became an urgent issue in 1953, which served to save the economy from collapse.

## **CONCLUSION**

At the end of the 1940s the institutional background of the totalitarian dictatorship was created by the Hungarian Workers’ Party (HWP). In political terms, multi-party system was eliminated, which coupled with the intimidation

of civic parties and the population in general. Economically, the communist leadership decided to speed up industrialisation of the country within the framework of the first Five-Year Plan (1950-54) in order to respond to the increasing tensions between the United States and the USSR. Based on the Soviet model of forced industrialisation, the weight of the allocation of financial resources were transferred from agriculture to heavy industry. The main problem was that due to the territorial detachments of the Treaty of Trianon Hungary had no major extracting sites of raw materials, therefore iron smelting and steel-making capacities depended largely on imports from the Soviet Union. The communist leadership initiated the launch of investment projects with low efficiency without taking into account the economic rationality. In the command economy the only important task at different levels and stages was to overfulfil the prescribed quantitative targets of the global production plan. All other factors that determined production and marketability were ignored.

Agriculture, which played a crucial role in Hungary's economy was neglected in the years 1948-1953. Because of collectivisation accompanied by a harsh campaign against the so-called wealthy peasant ("kulaks") families, agricultural output remained below the 1930s level. Soil melioration and modernisation of farming technology hardly improved in the 1950s. Therefore, Hungary was lagging behind both in terms of use of fertilisers per hectare and mechanisation compared to the countries of Western Europe. The lack of regular maintenance and the lack of expertise further aggravated the difficulties in the agrarian sector. As far as foreign trade was concerned, it was embedded into the system of centrally planned economy. According to the "price equalisation mechanism" foreign trade prices were hermetically sealed from domestic prices. Enterprises were banned to sell their products directly on world markets, and state-owned foreign trade corporations were established, which acquired monopoly of trade in each sector. Although self-sufficiency was declared as a final goal within Comecon, this objective had never been achieved. Because of excessive demand

for imports essential for the excessive development of heavy industry, Hungary did not achieve a positive balance of trade on either the dollar or the ruble account in the 1950s.

Although national income rose by 30 percent over the period 1950-1953, consumption stagnated, and real wages reached in 1952 two-thirds of the 1938 level. During the Rákosi era housing and living conditions deteriorated significantly. The communist regime called on Hungarian society to make sacrifices, which were unnecessary in economic terms. All of these efforts served the building of socialism in one country in compliance with the Stalinist ideology, elaborated in the first half of the 1930s in the USSR.

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