

INTRODUCTION

During the two decades between the end of World War I and the beginning of World War II the Hungarian economy was repeatedly in serious difficulties and even, occasionally, in crisis. Such a critical situation arose after the end of World War I and the signing of the Trianon Peace Treaty when the costs of the war and, primarily, the loss of huge areas brought the economy of the country to the verge of collapse. Another critical period was between 1929 and 1933 when the Great Depression sweeping over Europe caused a severe recession in Hungary. At the time of the outbreak of World War II Hungary had to struggle with such serious shortages in raw materials that the security and continuity of productivity of the national economy was in serious jeopardy. At the time of the economic upheavals one of the ways in which productivity could be kept in balance and even started on a pathway toward growth was to improve the country's balance of payments and strengthening the country's international economic position thereby attracting foreign capital into the country. This in turn would improve and increase industrial and agricultural investments. Another approach was the support of export oriented production via the discovery of new markets and other economic measures.

It was at the time of the above mentioned crises that economists and the responsible government officials increasingly came to the conclusion that it was a desirable option for Hungary if, in addition to its traditional commercial partners such as the successor states of the Austro-Hungarian Monarchy, particularly Austria and Czechoslovakia, it could open a market with the Soviet Union which controlled practically a whole continent and had apparently inexhaustible sources of raw materials. In addition to the significant geographic and economic

parameters of the Soviet state it was also an important factor that in contrast to Hungary, which by its geographic position and size was forced to adapt itself to the world's economic system, the Soviet economy, while not entirely independent from global trends, showed a number of unique features in its structural base and management principles and was thus less exposed to international effects. This type of "uniqueness" was one of the reasons why at the time of the Great Depression the Soviet economy remained intact and even underwent advances in heavy industry and infrastructure, which were made possible by the coerced "Great Breakthrough" at a cost of significant sacrifices.

To date an unprejudiced primary source-centered historical analysis of Hungarian-Soviet economic relations between the two World Wars, has not been undertaken. The need for a modern monograph focusing on this topic in detail is indicated not only by a lacuna in the professional literature but also because the study of the Hungarian system of economic relations in a broader context makes it possible to draw valid conclusions about Hungary's economic scope of action and foreign trade orientation.

We believe that in the "freedom of choice versus predetermined course of action" debate Hungarian historians did not pay sufficient attention to economic perspectives and arguments. Their inclusion in the historical discourse, however, would make it possible to interpret the foreign policy alternatives of the Horthy era, particularly during the second half of the 1930s, in a much clearer framework.

The goal of my work, therefore, is to describe and analyze the evolution of Hungarian-Soviet economic relations between 1920 and 1941, based on Hungarian and Russian primary sources. I also wish to identify the factors which shaped and determined Hungary's external economic activity and how these were adapted to the Soviet markets as parts of the possible basis for the export of Hungarian industrial and agricultural products and for the import of industrial raw materials.

I also consider it to be important to understand to what extent the ideological barriers built by the Hungarians and the Soviets were determinant factors in the economic cooperation between the two countries. This question could be studied within a more general theoretical framework because it is a natural consideration to what extent the economic policies and economic orientation of two totally different hostile politi-

cal systems, with widely different internal structures, could be reconciled. This clearly is an unavoidable question because in my view in the Hungarian historical literature of the 1950s and 1960s the aversion toward Bolshevism and its principal site, the Soviet Union, by the inter-war Hungarian political elite and Hungarian society was overemphasized. Because of the rigid ideological framework, it was impossible to delineate accurately to what extent the memories of the 133 days of the Hungarian Soviet Republic determined the reflexes and the alternatives of Hungarian diplomacy vis-à-vis the Soviet Union and to what extent these memories influenced the evolution of the country's pre-World War II range of activities.

Beyond economic and political relations there is another theoretical economic problem which makes a significant contribution to the assessment of the Hungarian-Soviet relations, particularly those which during 1940 and 1941, were crowned with partial success. The potential place of the state in marketing activities became one of the widely debated themes of economic theory and policy between the two World Wars. This question had been analyzed by representatives of classical school of economics as early as the nineteenth century mainly within the framework of theories based on economic freedom and competition. The most important debates, however, were triggered between the two World Wars, by World War I itself and by the major economic upheavals produced by the Great Depression of 1929–1933 and their effects on the national economy of a number of countries.¹ In the history of the development of Hungarian-Soviet economic relations the 1939–1941 period could be used as a case study of the way the Hungarian state, claiming the pressing interests of the national economy, interfered with free market activities by legislation and by various other methods. A glaring example of government pressure becomes evident to us when we follow the history of the trade treaty made with the Soviet Union and its fate after June 27, 1941.

Chapter One

SOURCES AND LITERATURE

Problems of Researching the Archival Sources

The authors of historical monographs, published prior to regime change, had only limited research opportunities and suffered from restricted access to Soviet archival sources. The opening of the primary Russian sources and their use in the reconstruction of Hungarian-Soviet economic relations between the two World Wars was an important task for two reasons: these sources were either not available for scholarly work at all or only to a very limited extent and also because when placed alongside the much more readily available Hungarian documents it was possible to avoid the danger of offering a one-sided interpretation of the course of the events.

During the first half of the 1990s collections of documents became available in the Russian archives which, prior to that period, were considered to be secret and were hidden from scholarly investigation. The same cannot be said for the specialized archives which are beyond the control of the Russian Federal Archives Service (ROSSARKHIV) such as those in the various ministries. One of these is the Foreign Policy Archive of the Russian Federation (AVP RF) in the Ministry of Foreign Affairs, which contains material essential for the study of economic history.¹ One of the critical sources for the study of Hungarian-Soviet economic and political relations was this archive because the most important segment of the decision-making mechanism of foreign relations of the Soviet Union between 1917 and 1945 was the People's Commissariat for Foreign Affairs, known after 1945 as the Ministry of Foreign Affairs. In this collection of documents we could find the reports from the envoys which provide the most reliable information about the con-

ditions of the Hungarian-Soviet relations. The collection also include the submissions of the board, called “kollegiia” (Kollegiia NKID), the most important section of the Commissariat for Foreign Affairs, which prepared the materials for the decision makers of the Party and state organs. These documents also include the letters and telegrams of the high-ranking foreign affairs officials (commissars, deputy commissars, section heads, etc.), as well as the expert notes and analyses prepared for internal use. Within the administrative hierarchy of the Commissariat for Foreign Affairs, between 1917 and 1945, there was an independent administrative unit which had the responsibility of coordinating the foreign policy with foreign trade policies of the Soviet Union with the other economic administrative authorities, primarily the Commissariat for Foreign Trade. During the 1920s this task was the responsibility of the Economic and Legal Divisions but after the reorganizations, at the beginning of the 1930s, also involving the Commissariat for Foreign Affairs, it became the responsibility of the Economic Division.²

Unfortunately the regulations of the Foreign Policy Archives, which determine the rules of access to the documents, are not in conformance with the wide-range international scholarly interest and with the needs of the researchers. The major barrier is that the researchers are not given access to the archival inventories, the so called “opisi,” which are essential for their work in unearthing important documents. The documents are selected by the staff of the archives on the basis of the themes submitted to them. The documents are selected arbitrarily. Thus, some documents crucial for the accurate reconstruction of the events, or for the nuances of the complete picture, never come to the researcher’s attention. Even though in the archives of the Economics Department of the Commissariat for Foreign Affairs an independent archival collection was established its material is not available for review. In other document collections, such as the reports of the commissars of the Commissariat for Foreign Affairs, and in the one collection, entitled “Hungarian Special Department,” consisting of the reports of the Soviet envoys in Hungary, we have found numerous notes, reports and transcripts which allow a closer look at Hungarian-Russian economic relations and of their Soviet interpretation. The administratively imposed research barriers in the Foreign Policy Archive are partially counterbal-

anced by the documents available from other sources, such as Russian State Economic Archive (RGAE), which are very helpful in reconstructing the history of Hungarian-Soviet economic relations. It is in this archive that the documents of the highest governmental agency, the Commissariat for Foreign Trade, are preserved. It is in this collection that we can find the correspondence and telegrams between the foreign trade apparatus in Moscow and its tightly controlled trade delegations in other countries.

Copies of the minutes taken at the meetings of the Politburo of the Central Committee of the Russian Communist (Bolshevik) Party, the highest decision making body of the Soviet party-state, can now be found at the Russian State Archive of Social and Political History (RGASPI), which is the successor to the Central Party Archive (Tsentral'nyi Partiinyi Arkhiv) of the Marx-Engels-Lenin Institute (IMEL). The most important decisions affecting international trade relations, the appointment of leaders of the Soviet trade missions in other countries, foreign trade measures and directives to the People's Commissariat for Foreign Trade were made by the Politburo on the basis of submissions from the People's Commissariat for Foreign Affairs and from the People's Commissariat for Foreign Trade.³ The laconic text of the minutes does not have much informative value because it contains only the essence of the submission and the decisions made on that basis. Occasionally the reason for the decision is included but the background material for the decision making, including the various views expressed in the debate, was usually omitted from the minutes. Yet this material is essential to determine the weight assigned to Hungarian-Soviet economic relations by the Soviet leadership and the level of the administrative apparatus to which it rose.

During the 1920s and 1930s in Hungary the principal administrative structure for foreign economic relations was the Ministry of Commerce. Unfortunately the most important collection of documents in its archives as well as those of its successor, the Ministry of Commerce and Communication was destroyed during the siege of Budapest in 1944–1945.⁴ Thus the relatively intact document collection of the Division of Economic Policy of the Ministry of Foreign Affairs became the principal source of material for Hungarian-Soviet economic relations, particularly because in matters of international trade the

Ministry of Commerce worked in cooperation with the Ministry of Foreign Affairs. I did find documents in this collection which originated in the Ministry of Commerce but which did not survive there when that building was destroyed.

In the National Archives of Hungary a separate fond was established for the documents of the Hungarian Legation in Moscow albeit this collection consists primarily of documents dealing with administrative problems of the legation, personnel matters and the architectural problems of the building. Not every report from the ministers, from 1934 to 1941, was present in the archives of the Ministry of Foreign Affairs and some of these missing reports were found scattered through other material in the archives of the Policy Division and of the Economic Policy Division, labeled “general” or “reserved.” Fortunately the large majority of the political and economic reports did not vanish. Copies, originally sent from Moscow to the Hungarian legation in Berne survived the war and eventually were taken by emigrants to the US where they were deposited at the Institute on East Central Europe of Columbia University. Later microfilm copies were returned to the National Archives of Hungary.⁵

Our knowledge of Hungarian-Soviet economic relations would not be complete without the sources derived from the Business Document Collection, Section Z, of the National Archives of Hungary. Of principal interest were the documents originating from the organizations interested in the Soviet market, such as The Anglo-Hungarian Bank, The Pest Hungarian Bank of Commerce, the Manfréd Weiss Works, Hungarian State Railway and Machine Industries (MÁVAG), the Ganz Works, etc. These documents throw a light on the business and financial background of Hungarian-Soviet economic relations and contain much data which complement the perspective that can be drawn from the sources in the Ministry of Foreign Affairs.

In studying this area one must not omit paying particular attention to the personal papers of Mihály Jungerth-Arnóthy, the first person to be appointed Hungarian minister in Moscow who played a key role in Hungarian-Soviet relations between the two World Wars. These papers include his autograph diary entries (1920–1944) and the typed recollections of varying length—based on the diary entries which he prepared during World War II. There is probably no other member of the

Hungarian diplomatic service during the interwar period who had been studied as extensively in Hungarian historiography.⁶ Mihály Jungerth, born in 1883, joined the Ministry of Foreign Affairs in 1919 where he became the head of the Prisoner of War Division until 1923. During 1921 and 1922 he represented Hungary at the negotiations in Denmark and the Baltic States about the return of the Hungarian prisoners of war who were still in Russia. During these negotiations Jungerth acquired considerable information about the political and economic issues of the Soviet republics and was henceforth considered a "Russian expert" at the Ministry of Foreign Affairs. This became a significant factor in his future diplomatic career. After 1923 he was the head of the Tallinn (Reval) mission and was accredited during the same year in Latvia, Lithuania and Finland. In 1928 the legation was transferred to Helsinki and until 1933 it was from there that he represented Hungarian interests in the Baltic States. In 1933 he was appointed minister in Ankara in order to prepare the normalization of Hungarian-Soviet relations from there.⁷ This seems very likely because from Ankara he was transferred to Rome to represent Hungary in the Hungarian-Soviet negotiations. On March 31, 1934, he was appointed Hungarian minister in Moscow, initially with a dual appointment, preserving his Ankara position.⁸ In 1935 he was appointed solely to head the Moscow legation and he remained in this position until 1939.

His personal papers were deposited at the end of the 1940s or the beginning of the 1950s in the Archives of the Labor Movement. Presently this material is in the successor of the above organization: the Archives of Political History and of Trade Unions (PSZL). According to the entries his diary survived only in a fragmentary fashion but it does accurately reflect the most important turning points in Hungarian-Soviet relations, namely the preparations for the 1924 Berlin negotiations, the discussions at the 1934 Rome negotiations and the suspension of the diplomatic relations between the two countries in 1939. Reading the diaries and the memoirs we find that, in comparison to the other material presented above, such as the documents in the Ministry of Foreign Affairs and those related to the Moscow legation, in many instances he recorded events which took place behind the scenes and of which no official report, notes or minutes survive. These include notes of audiences with the regent, Miklós Horthy, the conferences at the

Ministry of Foreign Affairs prior to the 1924 and 1934 Hungarian-Soviet negotiations, and consultations with leading Hungarian diplomats, such as the head of the Political Division, the permanent deputy minister of foreign affairs, etc.

Contradictions in the Literature

In Soviet and Hungarian historiography there were systematic collections of interwar documents published on foreign affairs, some of which were economically relevant. On the Soviet side the most important such source was the series on diplomatic history, the *Documents of the Foreign Policy of the Soviet Union*, and published by an editorial committee made illustrious by the name of Andrei Gromyko, the minister of foreign affairs. The twenty-one volumes covering Soviet foreign policy, between the 1917 October Revolution and 1938, were published between 1957 and 1977. Neither the content of, nor the methodology, measured up to the standards of modern document collections. So far as content was concerned these volumes were assembled in order to show the concept that the efforts of the Soviet Union to create “world peace” were consistent and ongoing. In fact, the volumes endeavored to create a historical precedent for the foreign policy clichés of the Soviet Union characteristic of the post-World War II period. The information available to us today makes it evident that the material was selected accordingly and thus it does not provide us with information about the major directions of Soviet foreign policy. The changes in these directions and the major change from the revolutionary diplomacy of the years after the 1917 October Revolution to the Soviet great power foreign policy of the late 1930s and 1940s focused on the strict protection of national interests. So far as the methodological deficiencies are concerned, it is sufficient to mention that the archival identification of the published documents was not given, making it impossible to use them as guides for additional research. In several of the volumes of this monumental series documents relating to Hungary were published but only those which were politically relevant. These documents were taken from their original context and ignored the most basic rules of source material publication by omitting all those

reports, telegrams and instructions which might have complemented the contents of the documents or which might also have placed them in a different light. The editorial board of the volume, consisting of prominent people, even forty years after the fact, failed to publish the minutes and the confidential exchange of letters which preceded the February 6, 1934, exchange of notes between Hungary and the Soviet Union and that was officially backdated to have been issued on February 4.⁹ Obviously the editors engaged in a cover up as the unpublished documents indicated that the Soviet Union had suffered a minor loss of prestige.

On the Hungarian side an example of “cover up” and insufficiently careful editing is provided by the five-volume collection of documents, *Iratok az ellenforradalom történetéhez* (Documents for the History of the Counterrevolution), edited by Dezső Nemes and Elek Karsai, and published between 1953 and 1967. When the editors selected the material for these volumes they left out critically important and logically interdependent documents. From the memorandum of the Gyáriparosok Országos Szövetsége (GYOSZ) [National Alliance of Manufacturers], addressed to the government in 1924, they omitted the introductory part which provides a list of the Hungarian-owned industrial and commercial properties nationalized in Russia and of the Hungarian balances still outstanding. The editors gave no reason for this omission which was a dubious practice since this information was not available from any other source. They also omitted the secret correspondence about the limits placed on the staffs of the foreign missions which was an important addendum to the diplomatic agreement of September 5, 1924, and to the September 12 agreement regulating the nature of the diplomatic and economic relations.¹⁰

The history of the commercial relations between Hungary and the Soviet Union between the two World Wars until 1938 was first studied by József Buzás and published in an essay in 1955.¹¹ Because of the limited research facilities of the time, the author was unable to discuss essential and decisive problems related to the economic relations of the two countries during the 1920s and 1930s. These problems included such things as the concessions Hungary was given in Soviet agriculture and industry, the establishment of mixed Soviet-Hungarian commercial companies, the extension of the Danubian water transport system, etc. From the perspective of the first half of the 1950s the historical period

he chose to investigate was still too recent and he not only had no access to the relevant Soviet archival sources but he was even denied access to the admittedly unorganized material from the recently nationalized private Hungarian companies and commercial banks which was assembled in the Central Economic Archives. This forced him to rely exclusively on the material in the Economic Policy Section of the Ministry of Foreign Affairs. It must be the lack of adequate sources that made him consider the establishment of the Russian-Hungarian Trade Corporation in 1923 as a proven fact.¹² Sources that became available for study at a later date, such as the archives of the Anglo-Hungarian Bank or the documents of the Court of Registration, clearly show that the Hungarian Royal Court, acting as a Court of Registration, refused to grant permission for the formal registration of the new company and thus the company was not included in the registry of companies and was not allowed, under the effective legislation, to engage in any form of commercial activity.¹³

Buzás followed the history of the economic relations between the two countries until 1941 in a monograph co-authored by András Nagy. In the carefully composed volume the authors placed this issue in the artificial context of the antagonism between the Horthy system and the Bolshevik regime.¹⁴ It was easy to demonstrate that the leaders of the counterrevolution, imbued with national-Christian sentiments, had strongly negative sentiments vis-à-vis Communism, particularly after the fall of the Hungarian Soviet Republic in 1919 and the genesis of the successful counterrevolutionary government. The ideological antagonism of the two fundamentally different systems could be clearly followed until the very end of the era. At the same time it was difficult to interpret the other obvious historical fact that the government of the Hungarian counterrevolutionary system, identifying itself as a strong opponent of the collective system, later established political and economic relations with the Soviet Union, which was referred to as the “principal nest of Bolshevism.” Finding a solution for this glaring contradiction would have required a much more differentiated and rational approach. In spite of this it must be said that, from the second half of the 1940s until the 1970s, the majority of the Hungarian authors approached these topics on an ideological basis. They attempted to throw light on the political-economic relations between the two coun-

tries from the perspective of Soviet foreign affairs by applying post-1945 clichés to the pre-1941 conditions. From the scholarly works of those years the only thing that becomes apparent is the dichotomy between a major power, “endeavoring to maintain peace in Europe” and tolerant toward the small countries on one side and a deceptive political leadership focusing on the exploitation of the economic resources of the Soviet state while engaging in aggressive anti-Soviet activities on the other.¹⁵

Changes appear only in the scholarly works of the authors in the 1980s who used the available source material more circumspectly and discussed the relations between the countries more objectively. By that time there was a change in the context of the historical studies of the era because after the 1970s the effects of the scholarly debate about the nature of the counterrevolutionary system became apparent. These debates resulted in a more nuanced analysis of not only the organizational structure and functions of the system but also of its foreign policy and economic policy.¹⁶ The short monograph of György Ránki, published in 1981, must be given recognition. In this study he discussed the earlier processes of international relations in a new way, namely in the context of economic freedom of movement and of foreign economic activities. He also studied the interdependence of foreign and economic policies and the effects of the regional economic endeavors of the great powers on their foreign policy.¹⁷ In 1986 György Kövér published an objective review on the Hungarian-Soviet economic relations between the two World Wars which emphasized the central problems of the issue.¹⁸

Studies in Hungarian economic history could now rely on a number of syntheses published after 1989. These, however, are summaries which study Hungary’s global and regional foreign economic activities and the related foreign trade orientation only in general terms.¹⁹ We do not have a contemporary monograph that had the goal of showing every aspect of Hungary’s 1918–1941 foreign trade policy and within this a detailed discussion of the existing commercial relations with the neighboring countries and the major European powers, like the Soviet Union. In discussing international trade activity the authors of the surveys focus almost exclusively on the existing bilateral economic agreements between Hungary and its historically and politically traditional econom-

ic partners, namely the successor states: Austria, Czechoslovakia, Romania, and Yugoslavia and, even more so, Germany and Italy. This leaves open the question of why the economic rapprochement between Hungary and the Soviet Union really got under way in 1939. Were the motives based on the general economic situation which made the Hungarian government increasingly anxious to reach an economic agreement with the Soviet Union? In the Hungarian academic literature on economics we find only suggestive comments about the cost of the upturn in Hungarian economy, based on the 1938 Győr program, and the authors generally fail to mention that this economic boom had to be maintained while there was a drastic reduction in the availability of raw materials needed for the increased production. It is true that János Honvári and Béla Csikós-Nagy suggested that after the start of the war and the establishment of the maritime blockade between Germany and Great Britain and after Italy's entry into the war the Hungarian options for obtaining raw materials from abroad were significantly curtailed. This had a strong negative effect on some branches of industry.²⁰

In preparing my statistical tables I took the *Magyar Statisztikai Közlemények* (Hungarian Statistical Reports) series, issued by the Royal Hungarian Central Statistical Office, as my source. On the basis of the data in the series it was possible to learn not only about the intensity of the commercial activities, their volume and their balance, but also about the composition of the merchandise and about the production profiles. The only "blemish" of the series is that it does not contain data about the 1920–1924 Hungarian-Soviet trade activities because at that time no data were assembled in Hungary about the Soviet Union. Publication of the new series of foreign trade data in *Magyar Statisztikai Közlemények* began in 1929 and it was at this time that data for the 1922–1926 foreign trade activities were produced retroactively. Soviet statistics are also available. A Soviet collection of foreign trade data was published in 1939 and a later collection, published in 1960, both contain only an anemic analysis of the 1922–1924 foreign trade activities. One of the difficulties in analyzing the Soviet data is that in conformity with the Soviet economic reporting system, the fiscal year began on July 1 and ended on June 30 of the following year. It was only in January 1929 that the Soviet statistics began to follow the system of reporting economic statistical data traditional in the rest of Europe. Prior to 1929 therefore

the Soviet data and the Hungarian ones do not overlap and make comparisons difficult. In the Soviet volumes I frequently found incomplete series of data and internally contradictory information. As an example: the 1939 Soviet collection does not include the composition of the goods exported to or imported from various countries.²¹ It is of interest that the editors of the *Magyar Statisztikai Szemle* (Hungarian Statistical Review) published an issue which had as its principal goal a description of the demographic and economic geography of the Soviet Union. This was the first attempt to summarize the results of the research of the Hungarian statistical sciences relative to the Soviet Union and for this reason the issue of the review, produced in a sound and scholarly fashion, can be viewed as the catalog of all of the information available about the Soviet Union. In this issue László Pap published a study about the foreign trade of the Soviet Union which makes it possible to some extent to research and check the Hungarian data in a retrospective fashion.²²

Chapter Two

ATTEMPTS AT CAPTURING THE SOVIET MARKET AFTER THE TRIANON PEACE TREATY

Conditions for Hungarian-Soviet Economic Relations

Other than the significant loss in territory and population one of the most serious consequences of the peace treaties after World War I was the drastic reduction in the country's potential for economic productivity. This was due to the collapse of the unified economic structure of the Austro-Hungarian Monarchy. According to the 1920 census there were nearly eight million people living on the 93,000 square kilometer territory that was left for Hungary after the final settlement of its borders. The Trianon Peace Treaty made Hungary lose more than 70 percent of its territory and nearly 60 percent of its former population. The situation was further aggravated by the serious losses in manpower including the death of almost one million soldiers which caused considerable harm to the productive forces. Of the various branches of the economy the most serious loss was suffered by agriculture the income from which was reduced by almost 60 percent. Industries that suffered the least damage still lost more than 50 percent of their former income.¹

The economy of the post-Trianon country was relatively more heavily industrialized than that of historic Hungary because the branches of the economy requiring raw materials or semi-finished goods remained in higher concentration within the new borders. Economic conditions thus favored industrialization. The economy, harboring a potentially dynamic development, required essential imports and these

could be financed only from exports. Consequently the improvement of the international balance of payments, namely the income from abroad, or derived from economic ties with foreign countries, such as foreign trade, influx of foreign investments and tourism, became determinant factors for the shaping of economic policy. Within the above, there was a need for the strengthening of Hungary's bargaining position and for a positive balance of foreign trade.² This was the reason for the Bethlen government, in power throughout most of the 1920s, to concentrate on the promotion of foreign trade and on the establishment of bilateral international agreements. Following the economic recovery and financial stabilization, in 1924, the gradually improving heavy industry (machinery), light industry (textiles and food) and chemical industry had ameliorated export opportunities and in the 1920s a significant percentage of the national income was derived from foreign trade.³ During the second half of the decade this component of the national income rose to 40 percent.⁴ It should be noted that the peculiar economic structure of the country demanded this direction for development. Economic output was still dominated by agriculture and the massive employment in agriculture consistently demanded new markets.

After the war it seemed that the successor states of the Austro-Hungarian Monarchy would constitute obvious partners in the economic cooperation. The many decades-old economic structure of the Dualist state and the commercial networks established among the several regions strongly suggested that the economic unity of the Danube Basin would sooner or later be reestablished. The traditional economic interdependence of Hungary and the various other components of the Monarchy was based, at the end of the nineteenth century, on having a significant part of Hungary's agricultural output shipped to Austria, Bohemia, and Galicia in return for industrial products.⁵ Following the dissolution, the Hungarian government reached a commercial agreement with every one of the successor states. On February 11, 1922, a compensatory, reciprocal trade agreement was signed with Czechoslovakia. An agreement was signed with Austria on February 8, 1922, with Yugoslavia on March 22, 1924, and, a most favored nation trade agreement, with Romania on April 16, 1924.⁶ During the 1920s Austria and Czechoslovakia were Hungary's most important trading partners and the system established between these countries at the time

of the Monarchy remained unchanged after 1920. Hungary was still exporting agricultural products to Austria and to Czechoslovakia and was importing industrial goods and raw materials from both countries. The foreign trade orientation toward the successor states was not without serious hazards. After the Trianon Peace Treaty came into effect the governments of these countries were led by political considerations and endeavored to integrate economically the huge new acquisitions into their territorial assemblage by new investments and new customs policies. These attempts to establish an autarchic, complex national economy presented the grave danger of depriving Hungarian economic production, partially or completely, of its previous sources of raw materials and of its traditional markets. The functioning of Hungarian economic infrastructure was thus at the mercy of the political whims of the Little Entente—Czechoslovakia, Romania, and Yugoslavia.⁷

This servile position induced the Hungarian government to establish economic partnerships with countries which could supply significant quantities of raw material and thus were able to meet the demands of the Hungarian industry. These countries were also larger in size and populations which enabled them to accommodate the products of Hungarian industry and agriculture on their markets. In this way Hungary could make its industry independent of mineral resources that were mined in the former Hungarian territories now under the sovereignty of Czechoslovakia and Romania. Because of geographic proximity, territorial characteristics, the import-export needs, and the traditions of earlier economic ties made two countries especially appealing. These were Germany, whose economy kept improving under the 1924 Dawes Plan, and Soviet Russia which established the New Economic Policy (NEP) and which now offered considerable preferential opportunities to Western countries.

With Germany Hungary had established a temporary economic agreement on June 1, 1920.⁸ Although Germany became Hungary's third most important economic partner during this decade, the attempts to base the advances in Hungary's economic productivity on German market acceptance and to orient Hungarian foreign trade toward Germany became difficult due to the peculiarities of the Hungarian economy. As we have seen, Hungarian agricultural products were readily accepted by the more industrialized but agriculturally less favored

western and central European countries. Meanwhile Hungarian industry, strongly supported by the Bethlen government, could find markets for its products only in the less developed eastern European and Balkan countries.⁹ The USSR had a continent-sized market and apparently inexhaustible supplies of raw materials in addition to outstanding economic parameters. According to the 1926 census the Soviet Union had a population of 147 million living in an area of 17 million square kilometers.¹⁰ It is true, however, that just as Hungary Russia, which was governed by a Soviet Communist regime, emerged from World War I with extremely unfavorable economic and social conditions. Almost all of the areas of the former tsarist Russia were devastated by the Civil War and by international intervention. It is characteristic of the decline in production capacity that the data for 1920, the year when the Civil War and international intervention came to an end, show that the industrial production was only 18 percent when compared to 1913, i.e. the last year of peace. The volume of agricultural production dropped to 40 percent. The depredations of the Civil War completely destroyed the economic infrastructure and caused enormous losses in the forces of production. From the beginning of 1918 to the end of 1920 the population of the country decreased by 8.3 million. In 1920 the productivity was only 27.1 percent of that of 1913. The railway system and roads were largely destroyed and in 1920 the transportation capacity was a mere one third of that in 1917.¹¹

The economic policies, based on War Communism of the Civil War period was replaced in 1921 by the NEP which legalized the freedom of internal trade, permitted the establishment of small private enterprises, and made it possible to privatize enterprises employing less than twenty workers. The composite economic structure, combining state properties, cooperative properties and small agricultural and manufacturing properties, contributed not only the basis for internal evolution but also created a political-economic environment far superior to the previous one, for the reestablishment of economic relations between the Soviet Union and the West.¹² According to some data the ordinances promulgated in 1921–1922 resulted in approximately ten thousand enterprises returning to private hands.¹³

At the same time the return of Soviet Russia to the mainstream of European commerce was made difficult by the model of economic con-

trol that differed widely from free market capitalism. The Council of Commissars, functioning as the governing body, issued a decree on April 22, 1918, which nationalized foreign trade and introduced a total state monopoly.¹⁴ This meant that in practice all foreign trade transactions were managed by commercial organizations owned by the state. Even though NEP broke the dominance of the state in industry and commerce and made it possible to attract private capital, it did not affect the foreign trade monopoly.

Consequently, signing a bilateral intergovernmental economic agreement became essential for the establishment of systematic and effective commercial traffic between the Western nations and the Soviet Union. This agreement defined the basic principles of the commercial transactions with the Soviet state-owned export and import companies and also regulated the method of payment after the goods had been delivered. The Western capitalist countries also came to the end of the war with a substantial economic deficit and hoped to meet their needs for raw materials, at least partially, by purchases from the Soviet market. These countries therefore had a real interest in reaching an agreement with the Soviet state and thus in 1921–1922 several of them signed an interim commercial agreement with the Soviet Russia. Great Britain signed a treaty on March 16, 1921, Germany on May 6, Austria on December 7, and Italy on December 26. For the Hungarian economic leadership a sharp signal was given by the fact that on July 5, 1922, a Czechoslovak-Soviet trade agreement was signed which opened the path for the Czech agricultural machinery manufacturers, Škoda and Bächer, to the Soviet markets.¹⁵ The principal and profound changes in the system of European commercial liaisons came with the Rapallo trade agreement between Germany and the Soviet Union signed on April 16, 1922. This agreement represented great strength and produced a massive economic upturn that could be taken advantage of by Hungarian economic policies.¹⁶ The agreement with the Western countries made it possible for the Soviet government to open a trade mission in the capital of each country. The Russian representatives enjoyed diplomatic immunity and after a while the offices of the commercial representations were granted extraterritorial rights. The leaders of Soviet foreign affairs regarded these missions as the *de facto* official legations of the Soviet Union.¹⁷