

Controlled economy and planned economy  
/Economic, political and ideological changes  
in Hungary in the 1940s/

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by

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1. The aim of the present study is to give a realistic answer to the following question: Is there continuity between the controlled economic system developed in Hungary before World War II and the centrally planned one of the post-war era? Although the analytical framework is restricted here to Hungary, it may well be assumed that, in essence, the tendencies outlined below are to be regarded as the typical elements of the parallel developments in East Europe.

The bulk of the questions arising in connection with the genesis of planned economy in Hungary /and in East Europe/ is related to the system of the actual economic-political conditions of the 1940s. The forced structural changes determined by war-time conditions, the radical changes, depending on the policy of the Reich, of the ruling regime and the ideology legitimizing it, together with attempts to reshape the various formal variants of the institutional system are all essentially related to this decade.

Of course, the processes discussed in the following - not to mention separately the far-reaching consequences of the foredoomed peace treaty after World War I - partly evolved during the 1930s, while

other phenomena stabilized only in the 1950s. A new type of controlled economy /the so-called dirigist system/ started to develop at the end of the 1930s, while planned economy based on directive plan instructions took shape gradually a decade later.

An ideologically based critical analysis would stress the basic differences between the two economic systems. A descriptive economic analysis, on the other hand, would point out several points of linkage and interrelationships. In the following, I shall apply both aspects together while surveying certain empirical processes.

2. The economic depression of 1929-33 generated social tensions which, in their tendency, did away with the consensual unity of the different interest groups of the ruling elite and led, at the same time, to the strengthening of German-Italian-oriented foreign policy. Thus the first steps of the evolution of controlled economy were the political-ideological changes brought about by the Great Depression. The bureaucratic-military elite gained ground to the detriment of the capitalists and the big landowners, a process related direct-

ly to the "repoliticization" of the economy and, more closely, the emerging of ~~the~~ <sup>ive</sup> restricted economic interventionism. As the first symptoms of the gradual subordination to the interests of the expansive policy of the Reich, neo-conservatism, national-socialist and fascist ideologies came to the fore, together with the elements of the Labansraum and corporative economy. The categories of "strong and stable central power", "economic control according to a plan" and "economic work schedule divided by professions" emerged as the key concepts of the new economic and social ideal. This last expression denoted the model of economic organization which took the place of the mechanism for independent interest realization and assembled the interest safeguarding bodies of employers and employees into a unified hierarchy. Certain germs of corporative initiatives emerged, such as the National Labour Centre /Nemzeti Munkaközpont/, and the activity of right-wing interest safeguarding bodies intensified. Beside the corporative concept, the economic-ideological motifs of rationalization, planning and purposefulness appeared as well.<sup>1</sup>

3. The alterations of the power relations ~~and~~

and of the ideology, and especially those of the perspectives of military policy had resulted in the proclamation of a large-scale investment program by 1938. In the so-called Győr Program /referred to by contemporary literature as the "first five-year investment plan"/, state investments approximated the amount of the sum total of investments over the previous years.<sup>2</sup> Later on, a decision prescribed forced pace for the one-billion pengő plan, the amount of which was subsequently raised significantly several times. As a consequence of these decisions, in the early 1940s about two-thirds of the national income was redistributed centrally, of which more than 60 % served directly the objectives of power policy.<sup>3</sup>

Two laws of key importance and with a decisive influence on economic life are associated with the Győr Program. The 2nd statute of 1939 /on defense/ served the introduction of governing by decrees and total dirigism, and provided for military control over economic life.<sup>4</sup> Some 600 industrial plants were declared war-factories and military commanders were appointed to control them. Although this meant only about 15 % of the total number of factories, the newly-declared military plants consti-

tuted the backbone of Hungarian industry in regard of both financial power and actual weight. Their control, surpassing by far the competence of the military organs, was a source of permanent conflicts within the extremely swollen administrative-control-ling mechanism. The 4th statute of 1939, the so-called Equilibrium Law or Second Jew Law was destined to clear the personal background for the economic changes, that is, to serve the aspirations of the "Christian-national middle classes" legitimized by right-wing ideology. Its enactment - which reduced the proportion of people of Jewish origin at the leading posts of economic life from the former 50-60 % to 10 % - was followed by several thousands of replacements or "reliefs".<sup>5</sup>

4. The activity of the administrative-control-ling apparatus was not confined to the control of the basic economic processes, but was gradually extended over the whole system of horizontal economic relations. Hundreds of organizations, ten thousands of decrees emerged and died away; the inconsistent and more often than not disfunctional system of economic management - founded upon a shortage-economy situation - produced in effect-

ive economic responses. After the declaration of the Győr Program, a special government commissioner was appointed for the control of price movements. His activity, however, was limited, since war expenses were mostly covered by the increasing inflation. During the war years, the amount of bank notes increased by a factor of 14 and a significant disproportionateness evolved between the prices of the agricultural and the industrial, and those of the military and other products. Black-market trade increased by leaps and bounds; stocks had to be reported and sequestered and committees for materials' management were established. The Industrial Materials Office /Ipari Anyaghivatal/ and its advisory body the Council for Industrial Materials Management /Ipari Anyaggazdálkodási Tanács/ were both founded in 1942. Half of the members of the latter came from independent employers' interest safeguarding bodies. As a consequence of the shortages, consumers' purchasing books were introduced as early as 1941 and government commissioners were appointed to control public supply. In 1942 a rationing system took the place of the consumers' purchasing books and the activity of the special commissioners /operating by regions/ was co-ordinated by the

Minister of Public Supply. The system of the compulsory delivery of agricultural products was introduced the same year.

The Centre for Textiles /Textilközpont/, the Centre for Footware /Lábbeliközpont/ and the Registry for Household Soap /Mosószappan Nyilvántartó Iroda/ were all established, and a special commissioner for leather materials' management was appointed to secure the smooth flow of public supplies.

By the time Hungary had entered the war, the war-time business upswing absorbed significant proportions of the unemployed /formerly in the order of hundreds of thousands/ and a relative labour shortage evolved. Wage differences emerged, and workshop discipline became lax despite the stricter conditions; thefts and the allurements of workers became more frequent. According to contemporary records, the workers of light-industrial plants frequently slowed down production to extort their dismissal tied to military permission so that they might transfer to more favourable jobs. Under the joint co-ordination of the Ministry of Industry and the Ministry of Agriculture, the National Inspectorate for Labour Affairs /Országos Munkaügyi



Felügyelőség/ and the Central Labour Exchange Commission /Munkaközvetítő Központi Bizottság/ were founded in 1942. The close co-operation of the two ministries was necessitated by the fact that an agricultural labour shortage emerged as a consequence of the military drafts, and contemporary economic policy was very much against the redeployment of agricultural labour to industry because of World War I experiences which produced great tensions in the early 1920s. The National Committee for Work Force Management /Országos Munkaerőgazdálkodási Bizottság/ was established in September 1944 /that is, not long before Horthy's unsuccessful peace bid and the usurpation of power by the arrow-cross men/. The President of the Committee was appointed by the Minister of National Defense. Later on, a special commissioner for personnel management was appointed whose main task was to mobilize the civilian population.

5. Similar emergency measures were introduced in practically all the belligerent countries and even in most of the neutral ones. The only difference was that while in countries with liberal traditions the new authorities and organs were fitted

into the framework of the traditional institutional structure and usually operated as associations of a temporary character, in the dirigist systems, a new long-term institutional structure was on the making and the economic control of military and police organs increased compared to that of the associations and public offices. As regards the system of economic institutions, only a series of war-time emergency measures was introduced in Hungary before the German occupation. These, however, were not destined for short life by the exponents of the right wing. "The same as the practical results of national economic policies were born during World War I, the economic results which are to become the common property of all Europe at the end of the war will be born during World War II", they professed, and strong objections were made to the government for not winding up completely the interest safeguarding bodies of the traditional structure. These bodies actually operated, despite the very severe conditions, until 1944, although the right wing's economic-ideological model was the corporative ideal. This is reflected by Prime Minister Pál Teleki's draft-proposal for the constitutional reform.<sup>6</sup> In fact, the traditional in-

terest safeguarding organs survived, but operated under totally different political circumstances. Moreover, dismissals of a mass character occurred within them and finally a lasting gap developed between the formal and actual functions of some: the chambers - maintaining the appearance<sup>a</sup> of their former advisory and safeguarding functions - were actually transformed into corporative bodies. In the summer of 1944 - that is, after the German occupation of Hungary - the Minister of Industry banned some seventy independent labour exchange bureaus and trade unions, and the establishment of a uniform interest safeguarding organization was ordered. This was the National Association of Industrial Workers /Ipari Munkások Országos Szövetsége/, subordinated directly to the Ministry of Industry. Following the takeover by the Hungarian Nazis, the employers' interest safeguarding bodies were wound up, e.g. the National Association of Industrialists /Gyáripárosok Országos Szövetsége - GYOSZ/ was replaced by the National Centre for Industrialists /Gyáripárosok Országos Központja/. At the same time, the First Secretary of the chambers /commissioned by the party/ declared in a circular that the profession-based organization should be integrated in-

to the framework of the chambers. This effort, however, clearly cooperative in nature, could not succeed in such a chaotic political situation.

6. The period of war-time economy proved to be of a decisive importance as regards structural changes. The relation between agricultural and industrial contribution to national income was reversed, the rate of industrial growth increased significantly, heavy industry made rapid progress and the relative weight of engineering industry grew. The Hungarian industry became one of the most concentrated ones in Europe. In short, the practice of industrialization at a forced pace took shape and - to use the words of Ferenc Jánossy - the symptoms of a quasi-developed economic structure, i.e. deformed branch structure and excessive concentration, came to light.<sup>7</sup>

In 1937 the per caput national income was \$120 in Hungary. /At the same time Czechoslovakia's per caput national income reached \$170, while that of the other East European countries ranged between \$75 and \$100./<sup>8</sup> In 1938 the agriculture and the industry contributed 37 % and 36 % of the national income, respectively. In 1943, on the other hand,

46 % of the national income came from industry, while the contribution of agriculture decreased to below 27 % /at constant prices/. Because of the internal distorting effects of the gap between the prices of agricultural and industrial products, the above data only illustrate a tendency. The structure of employment - in accordance with the above-mentioned intentions of economic policy concerning the labour market - did not follow the transformation of the production structure: in 1941 almost half of the active population still worked in agriculture,<sup>9</sup> while only one quarter of the population was employed in industry. Until 1949 this proportion was further modified in favour of agriculture. The radical redeployment of labour became a program leading up to the social tensions of the 1950s.

During the war years, the production of energy sources and raw materials advanced rapidly; in fact, in this period oil production increased by a factor of 20. The production of bauxite doubled. Heavy industry came to dominate the branch structure. Already in 1943 it represented almost half of the industrial production, employed more than 60 % of all industrial workers and almost two thirds of

the technical capacity of industry was concentrated in this branch. Engineering industry proved to be the most dynamic branch: the number of its workers tripled during the war; by 1943 it employed almost half of the workers of heavy industry and contributed 40 % of its output.

As is well known, as a consequence of the peace treaties following World War I, Hungary had lost two thirds of her territory, almost 60 % of her population and half of her industrial capacity. The disannexations were justified partly by the principles of ethnic self-government and by geopolitical considerations, but they were primarily dictated by peremptory orders. /This unsuccessful peace achievement, reproducing the territorial and ethnic conflicts, became one of the main obstacles in the way of democratic development in East Europe./ Although the reannexations during World War II partly followed the ethnic borders, they, too, were partly based on crude peremptory decisions. As a consequence of the reannexations, the Hungarian industry was expanded by about 1700 industrial plants employing an average of 80-100 workers each. /The same territories were again disconnected from Hungary after the war. According to contemporary polls

this the Hungarian public considered unjust, although they were not quite convinced that a just arrangement was possible under the given conditions.<sup>10</sup>

In this short period of time, the small- and middle-scale plants taking part successfully in the war-time upswing often increased significantly, sometimes even doubled their machine part cumulated in half a century. Nevertheless, the structure of Hungarian industry was still more concentrated than that of the Swedish or Dutch industries.

According to calculations based on the Cobb-Douglas function, Hungarian industrial productivity increased by an average 4 % annually during the war. This was completely due to the significant growth of capital productivity /almost 15 % annually/, since labour productivity stagnated or - as the wages suggest - even decreased a bit.

7. During the war 40 % of the Hungarian national <sup>a</sup>wealth - that is, more than half of the industrial and transport assets, one fifth of the agricultural wealth and 18 % of the houses - was annihilated.<sup>11</sup> Almost half of the above war damages was a direct result of the German occupation and the reign of the Hungarian Nazis. By 1945 the Hungarian econom-

ic life had practically been paralyzed by the damages, the raw-material shortage, the difficulties of transportation and the complete deterioration of public security. According to a representative statistical survey, the volume of industrial production in May 1945 was only one fifth of that of the corresponding period of the previous year and almost 60 % of this fragmentary production consisted of military deliveries for the Soviet authorities.<sup>12</sup> Later on, too, state orders covered some three fourths<sup>u</sup> of the industrial production.

Before the war, about one fourth of all Hungarian industrial stocks was in foreign ownership and one fourth of these was German property. After the German occupation, as a result of various forced transactions, the share of German capital in the total of foreign-owned capital grew to an estimated 50 %. Under the resolutions of the Potsdam Agreement all the German-owned enterprises in Hungary became Soviet property. The Soviet Union showed interest in the important energy sources and raw materials - mainly oil and bauxite - formerly belonging to the German sphere of interest.<sup>13</sup> In these fields, as in many other fields as well, joint companies under Soviet leadership were formed which



functioned throughout the 1940s. They became Hungarian property again after the repurchase of the 50 % Soviet share.

In 1945-46 the national income was only 40 % of that of the pre-war years, that is, it amounted to 2.14 billion pengő /at 1938 prices/. At the same time, Hungary was obliged to pay as war-damage compensation \$300 million, that is 3 billion pengő /in real terms/. The compensational shipments were to be realited over six - according to subsequent negotiations partly over eight - years; \$200 million were directed to the Soviet Union, \$70 million to Yugoslavia and \$30 million to Czechoslovakia. Various estimations and the actual rate of delivery suggest that in the post-war years compensation absorbed 15-20 % of the national income.<sup>14</sup> This proportion decreased, as a matter of course, with the increase of the national income and as a consequence of various modifications. Reconstruction, however, required an increased rate of investment and the proportion of accumulation also grew from 5 % to 21 % between 1946 and 1949 /it was 3-4 % between the two wars/. The first socialist five-year plan already prescribed a 35 % rate of accumulation. As "Stalin's best Hungarian disciple",

Rákosi, put it once: "You must not kill the goose that lays the golden eggs!" As the above proportions show, this was not to be feared right then. In fact, the majority of society could hardly have been accused of an unreasonably high consumption of geese laying normal eggs, either. While before the upswing of the war years the rate of accumulation was unreasonably low, the forced investment policy of the 1940s, on the contrary, overestimated by far the capacities and tolerance of the Hungarian economy.

8. The structural and institutional changes following the world war strengthened in many aspects the tendencies launched by the war-time boom. Within the national income the share of agriculture declined further, while that of heavy industry and machine building continued to rise. The concentration of industry /according to plants/ increased by leaps and bounds, while labour productivity decreased significantly. Labour discipline was invariably low and, according to contemporary records, thefts were common. Until stabilization came, the practically paralyzed economic life was replaced by an extensive black market. The urban population frequently went to the country to exchange clothes<sup>e/</sup>

and valuables for food /this was called "huckstering"/. Between 1938 and 1946 the monetary purchasing power deteriorated by a factor of 150; an unprecedented inflation came about.<sup>15</sup> The press spoke of a world-record inflation. The purchasing power of the wages - at the forint currency introduced in May 1946 - was about half of that in 1938. The gap between the prices of agricultural and industrial products was still significant when the stabilizing price proportions were established: in 1946 prices shifted by 32 % and 43 % compared to 1939 and 1929, respectively, in favour of the industrial prices.

The establishment of the controlling-administrative apparatus was aimed primarily at the reconstruction of the pre-occupation situation, but several new features were also added. The functions of the special commissioner for prices and of the Industrial Materials Office were taken over by the Office for Materials and Prices /Anyag- és Árhitatal/, material stocks were ordered to be frozen and government commissioners were appointed to the different fields of economic life. Bureaus /such as the bureaus for textiles, wood, iron and metals/ were established as the functional successors of the former eco-

conomic commissions and centres. The rationing system and the system of compulsory delivery were maintained to various extents in the following years, although they were often altered.

9. New elements emerged in four territories of economic life: the land reform changed completely the real-estate structure; nationalization changed radically the ownership relations; new top-level organs of control came to life and, last but not least, central planning became a determinant feature of economic life as a whole. ~~The~~ land reform and nationalization were both also important economic features of the modification of the power structure. <sup>16</sup>

Decree No. 600 in 1945 practically provided for the partial appropriation of lands above 100 cadastral yokes and the total appropriation of those above 1000 cadastral yokes /one cadastral yoke equals 0.57 hectares/. This decree, which partially legitimized spontaneous initiatives as well, related to the most concentrated real-estate structure of East Europe. The number of estates above 100 cadastral yokes was less than 1 percent of the total number of estates, but covered almost half of the total territory before the war. Estates of more than 1000

cadastral yokes constituted about 0.2 % of the total number and 30 % of the total territory. At the same time, the estates smaller than 20 cadastral yokes made up 90 % of the total number of estates, but covered slightly less than one-third of all the lands. After the land reform, the proportion of estates of more than 100 cadastral yokes /0.5 %/ covered a bit more than one-fifth of the total land area and the estates of less than 20 cadastral yokes /i.e. 95 %/ of the total number of estates/ covered c. 56 % of the total area. Thus although the proportions were modified significantly, the Hungarian real-estate structure still remained the most concentrated one in East Europe, as shown by investigations based on the Lorenz curves.<sup>17</sup>

The December 1944 Program of the Independence Front /Függetlenségi Front/ /adopted later on by the government/ contained the economic objectives of the recognition of private ownership and support for private enterprises, but it also demanded that government control be extended, land reform realized and mines nationalized. This last objective was voted for by the National Assembly in December 1945. The new top-level organ of economic life, the Supreme Council for Economic Affairs /Gazdasá-

gi Főtanács/, organized on a coalition basis, was established somewhat earlier, but its secretariat doing the bulk of the work had a communist leadership. In April 1946 the government released its plan for the reconstruction of economic life which set the objectives, among other things, of the socialization of the enterprises of aluminium and oil industry and of the power stations (beside the coal mines) and of state control over the largest plants of heavy industry and the banks. The National Bank of Hungary was brought under state control a month later. In November 1946 the three biggest enterprises of heavy industry, the Rimamurány Ironworks, the Ganz Works and the Weiss Manfréd Works at Csepel were all taken over by the state, together with the factories belonging to their spheres of interest. A Centre for Heavy Industry /Nehézipari Központ/ was established to control these enterprises, while a mammoth company, the Hungarian State Coal Mines /Magyar Állami Szénbányák/ was founded to control the mines.<sup>18</sup>

In the first half of 1947 the necessity of state control over the activity of the banks emerged again during the preliminary discussions of the three-year plan. This was finally adopted after

heated debates in the coalition. The large banks were transformed into monetary institutions with various profiles; thus the Credit Bank /Hitelbank/ was turned into the Bank of Investments /Beruházási Bank/, while the Commercial Bank /Kereskedelmi Bank/ was re-established as the Bank of Foreign Trade /Külkereskedelmi Bank/. Following the socialization of the banks, the enterprises handled, owned or controlled by the state became preponderant /as to real weight/ and their number came up to 600, that is, almost equalled that of the former war-factories. This similarity was not only numerical, but related to significant overlappings as well. The single-account system was introduced to assure central control over the inter-enterprise transactions.

Another result of the coalition debates over the three-year plan was the establishment of new top-level organizations in the summer of 1947 to control and co-ordinate economy: the National Planning Office /Országos Tervhivatal/ and the Council Economic Planning /Tervegazdasági Tanács/. The economic commissions of the coalition parties had approximately similar, though informal roles. The special ministries were formally on the same level,

but in practice they were subordinated to the commissions. The next step was represented by the various bureaus, centres and banks; the enterprises came last. This system of management control was not exempt from disfunctional overlappings and grave internal conflicts, stemming partially from the same overlappings. Its evolution and operation was influenced largely by personal, political and tactical considerations.

10. Fundamentally new characteristics emerged first of all in the domain of the power system and the ideology legitimizing it. Getting into the Soviet sphere of interest was mainly of a political importance /apart from its economic consequences/, not that the state of affairs in 1945 necessarily determined the adoption of the Soviet-type model of political institutionalization and modernization. It did, however, mean, as was clearly seen by the evolving democratic forces, that the problem of loyalty to the Soviet Union became a key question of political life as a consequence of Hungary's peripheral status. This, together with the burdens of reconstruction and compensation, required a consolidated and stable internal situation and was



theoretically independent of whether stability was to be <sup>u</sup>guaranteed by a coalition-based democracy or dictatorship based on a one-party system. The actual foreign political situation favoured the former rather than the latter alternative.

Of the three most significant fractions of the former ruling elite the big landowners lost both their economic base and social status. The members of the other important fraction, the bureaucratic-military elite which had extended its power most successfully and was therefore in the most conspicuous political position, withdrew from political life and either left the country or got <sup>c</sup>caught by the different political screening processes or the legal proceedings of the people's courts and became declassed. Owing to their former discriminated status, a group of the big capitalists did not survive the war, whereas others, the most outstanding capitalist families among them, surrendered their wealth and their emigration was organized by the Germans themselves. Several members of this fraction remained at the head <sup>f</sup>of their factories after the war, but generally the continuity of enterprise management was assured by the former tactical-administrative staff. Plant commissions and trade

unions played important roles in the re-organization of factory life, too. The traditional structure of interest realization revived for a transitory period, together with its former accepted mechanisms. Beside their interest safeguarding functions, the members of the plant commissions took up work in factory management also and thus had a direct influence on production and investment decisions. By fulfilling this dual function, the workers occasionally became the initiators of wage discussions or strikes, even against the intentions of the plant commission.

After the war a new economic elite developed from the former strata of managers and the technical intelligentsia, whereas the majority of the new political elite was recruited from among <sup>g</sup> the leaders of the former parties of the opposition and, to a smaller extent, the professional revolutionaries.

The ideology legitimizing the regime changed radically: the "democratic-people's" character took the central place occupied formerly by the "Christian-national" ideal. This, of course, was but the regulative basis of an ideological scale ranging from political Catholicism to neo-liberalism and

Marxism and, as such, it was suitable for the legitimization of a consensually united elite's rule. As regards economic ideology, this resulted in that the corporative model lost its attractive force and the spectrum of economic concepts covered the full range of free competition, organized capitalism and total socialization with an economic system based on plan commands. The most frequently accepted common base was controlled economy, but its content underwent significant modifications: its examples were no longer the Italian and Portuguese professional orders, but the post-war English- and French-type system operating through indicative planning and partial socialization. The strategy of closing up, together with growth and structural transformation emerged gradually as autonomous objectives.

11. Plants with more than 100 employees were socialized in March 1948. Thus also the formal institutional-legal frame conditions of the illusion of an economic order founded upon private enterprises was destroyed. The Industrialists' National Organization proclaimed its dissolution shortly afterwards, the stock exchange was closed and the Chamber Commerce and Industry /Kereskedelmi és Iparkamara/

and the Office for Materials and Prices were wound up. The function of the last of these was taken over by the Supreme Council for Economic Affairs. The Ministry for Industrial Affairs /Iparügyi Minisztérium/ - which performed operative tasks as well - was re-organized and a system of industrial directorates was established. The Supreme Council for Economic Affairs worked until the summer of 1949, to be replaced by the National Planning Office /Országos Tervhivatal/. Moreover, the National Economic Council /Népgazdasági Tanács/ was established as a successor of the National Economic Planning Council. The Ministry for Industrial Affairs was divided into special ministries in several steps. The enterprises of foreign ownership, the whole commercial sector and then the plants with more than 10 employees had all been socialized by the end of the year. The forced collectivization of peasants' lands also began. As a matter of fact, part of the new landowners founded cooperatives quite willingly. Especially poor peasants were attracted, being more susceptible to socialistic ideas and having less personal experience in production. On the other hand, the first agricultural cooperatives generally functioned badly and were in the red. The bulk

of the peasantry accepted collectivization with something of a passive resistance. Some felt that they had been cheated: they did get land, the dream of so many generations, but it was taken back right away. The system of values of other significant strata also collapsed: those who used to be the respected members of village communities, "model farmers", became "fat cats", "hoarders", "kulaks" all of a sudden. Great masses were interned or imprisoned. The ever-more strict system of compulsory delivery made the broad masses of the peasantry feel that the burdens of socialist industrialization fell primarily on them.<sup>20</sup>

Thus the creation of the framework considered necessary for the realization of the first five-year plan was completed. In addition to the determination and sanctioning of investments and of the major economic parities, it also functioned as a commanding-controlling apparatus for the plan which covered the whole system of production and distribution processes.<sup>21</sup> Thus the category of state intervention practically lost sense and the controlled economy grew into a planned economy in the historical sense of the word.

The consensus of the elite was very soon polar-

ized by the fact that the Small-holders' Party /Kisgazdapárt/ gathered broad strata with conflicting and occasionally reactionary views,<sup>22</sup> and by the fact that the leadership of the Communist Party attached only a tactical significance to coalition-based democracy.<sup>23</sup> In addition, the strong deterioration of the foreign political situation was accompanied by the flare-up of local wars and the exacerbation of the relationships of the empires. All these soon resulted in evaluations appealing to the sense of the danger of another world war. Regulative ideology was ousted by a mobilizing one and the consensus of the elite was broken up by the internal conflicts. Thus the consensually unified elite was replaced by a divided and later on an ideologically unified elite.<sup>24</sup> In 1948, parallel with the nationalizations, the two big Labour parties merged and the Hungarian Workers' Party /Magyar Dolgozók Pártja/ was founded. The process in great lines was as follows: the Social Democratic Party /Szociáldemokrata Párt/ merged with the Communist Party after the screening of its members and social democratic leaders were nominated as deputies to the communist leaders. The other coalition parties and the former parties of the opposition /"chopped-up" by that time by the well-

-known "salami tactics"/ were now gradually wasted. The democracy based on coalition was then replaced by a dictatorship based on a one-party system.

The new political elite consisted mainly of professional revolutionaries among whom the Muscovite fraction /the group of former Moscow emigrants/ proved to be the strongest in the process of the show trials and cleansings. As it was put once, the "Hungarian" revolutionaries were but "small boys" compared to the group of the "Muscovites". They were forced to the second level of party leadership and the showdown with them and with those returning from Western emigration culminated in the so-called Rajk trial in 1949. The high-level party leadership gave preference in cadre selection to what they called "cadres of the people" of the younger generation over the members of the original "Hungarian" group /some of whom had been imprisoned right after 1945/. Party and state leadership merged to a great extent. By 1949 already some three-fourth of the top-level leaders had been members of the Hungarian Workers' Party. However, contemporary statements that workers occupied the leading positions at all levels seem false. As a matter of fact, less than one-third of the top-level

state leaders were of working-class origin and hardly one-fourth began their careers as workers. Nearly half of the new state leaders had already occupied various posts in the administration before 1945.

The state leadership recruited its cadres mainly from the circles of the intelligentsia and the bureaucracy.<sup>25</sup>

After the socialization the composition of the economic elite changed once again completely. The new elite consisted mainly of workers and first-generation intellectuals committed to them both politically and because of their mobility. In 1949, a year after the nationalizations, two-thirds of the new enterprise managers were of working-class origin. More than half of them had only elementary education.<sup>26</sup> Later this proportion was modified in favour of the committed and highly qualified intelligentsia. The traditional organs for interest safeguarding were either wound up, or fulfilled societal tasks bereft of their original functions. In factories wage debates and strikes were replaced by work emulations and subscriptions to loans. The above instances, already point toward what is today called commonly and reprovingly "the fifties".



12. Some methodological and theoretical conclusions follow from the above. One is that the real functioning of economic and social systems is very rarely identical with the corresponding ideological images. Also, it is helpful to make a distinction between the formal and the real functions of institutions and means, regardless of whether the real function is realized through intentional or unintentional consequences.

The evolution of both controlled and planned economy shows that neither of the two realized clearly the ideological image at the core of its system of references. In this sense, planned economy, too, was not so much a purely ideological construction, but rather a "copy" of certain practices. In the transitional period, efforts were made to bring about the necessary changes by the structural modifications of the existing institutional system, the transformation of its mode of operation and the mass replacements of the staff.

In the period under scrutiny the above conclusions are relevant in a general way to all East European changes. Apart from the countless similarities of the respective "time tables" of events - which would require separate comparative anal-

yses<sup>26</sup> -, the basic identity lies in the logic of the changes.<sup>27</sup> The construction of planned economy was legitimized by the ideological scenario of the oncoming socialism. /In 1947 the secretary of an enterprise party organization explained this phenomenon to a doubting old fellow-worker in a nut-shell: "If we step on the gas, we shall be able to enjoy the fruits of socialism ourselves"./ East European planned economies, however, realized an inadequate development strategy. The take-over of an extensive economic policy of too great a scale brought about the paradoxical consequence for the national economies of the East European periphery with a limited amount of resources that growth - perceived as an autonomous objective - contradicted effectivity; the harmonic scenario of the future was inevitably confronted with ineffectivity lasting shortages, living-standards deterioration, social and political tensions.

This program was inadequate, as regards its main structural proportions, even for the industrially developed East German and Czech-Moravian territories, although in other countries it coincided in that respect with some of the earlier development trends. However, as we have seen in the case

of Hungary, the controlled economy determined by war-time conditions was inadequate; it was loaded by internal tensions, was ineffective and required unnatural, extensive industrialization.

Would this mean, in the final reckoning, that the real constructions of controlled and planned economy - whatever the ideological differences of the two - are essentially similar phenomena, and thus the two economic systems can be considered continuous?

The essence of another set of conclusions might be the usefulness of making a distinction between the technical and historical characteristics of the investigated phenomena while answering similar questions.

Such phenomena are a result of structural characteristics and real historical processes, that is, a consequence over special interference of an economic system, a power system and the ideology legitimizing them. In a given historical situation, their combinations under the circumstances provided by the economic structure and the external political conditions are mainly determined by the balance of powers of the given social groups and by the accepted means of interest realization.

The systems of controlled and of planned economy can be considered continuous systems in the technical sense. The latter one contains new elements even in this sense, since within it, new top-level organs emerged and planning acquired an integrative role. While controlled economy operated through investment plans, this early version of planned economy introduced the system of production plans covering the whole economic life. Still, their changes pointed into the same direction and their differences were rather of a gradual than of a qualitative nature.

In the historical sense, however, the two systems cannot be considered continuous. The historical conditions were modified seriously several times, as in 1938, in 1944, in 1945 and in 1948. Power relations - including the economically significant relations of ownership - were also altered fundamentally together with the systems of objectives of political and economic ideology.

The foreign political conditions and the structural endowments restricted the field of the formation of real social interest relations; the interests were polarized and the shocks affecting the mechanisms of interest realization did not allow for the participants of economic life to find immanent solu-

tions to the external challenges.

Technical continuity, historical discontinuity:  
this is then the formula summarizing our answer to the original question. It is quite possible that the answer will not satisfy all. Some have probably anticipated a more unambiguous and "elegant" formula, whereas others were probably unable to decide what the real significance of the technical and the historical aspect is. Maybe the answer is not really unambiguous, but it is not one-sided, either. Maybe it is not too elegant as a formula, but it is certainly realistic. And, after all, that is its purpose. As to the relative weight of the technical and the historical phenomena, it can be stated that, in a certain sense, it is a function of the chosen time scale. Long-term changes spanning through several generations can be related mainly to technical components. This, however, does not mean that technical phenomena may not involve radical changes: controlled economy itself, as we have seen above, was a radical ~~short-term~~ transformation. Such short-term changes with a radical impact on a single generation, however, are mainly determined by historical factors. Since the time scale in our example was a decade, we had to attach a decisive importance to the historical aspect.

Let us make one final remark: controlled economy as a system on the making can be characterized fairly well by its genetic marks. The analysis of genetic marks is important in the case of planned economy also, but it must not be the only aspect to consider: it can provide data mainly for the investigation of preliminary conditions and troubles of adaptation.

Notes

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25. Naturally, this was only the beginning of a process of change. But taking the society as a whole, even at the beginning of the 1960s, 45 % of those who got as first job leading posts or intellectual jobs came from non-manual worker families. Later tendencies also indicate that it was not the proportion of workers in general, but those of a peasant origin that grew among the persons with a manual-worker background; this, in the 1940s, was a rare occasion. See: Rudolf Andorka, "Social Mobility and Economic Development in Hungary". Acta Oeconomica, Vol.7. No.1. /1971/, 25-44.
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