



Map of Hungary prepared by the US Office of Strategic Services in 1944, showing pre-1938 frontiers. National Library, Warsaw, Poland, polona.pl

Prof. László Borhi

Indiana University Bloomington, USA



DOI: 10.48261/INRR230521

THE PRICE OF DEFEAT: SOVIET ECONOMIC EXPANSION IN HUNGARY, 1945–1954

ARTICLES

Abstract

Sovietization and imperial expansion were two sides of the same coin in post-war Soviet policy towards Hungary, two simultaneous processes that were closely interrelated. Economic penetration in Hungary was an end in itself and it also served to remove the economic pillar of Hungarian independence. Besides promoting the goal of imperial conquest and the rooting of Stalinism, exploitative economic policies benefited Soviet reconstruction and militarization, and yielded well over a billion dollars for the Soviet economy.

Keywords: Client state, economic expansionism, Hungarian–Soviet joint companies, Potsdam declaration, reparations, sovereignty, Sovietization

Introduction

Researchers exploring the Soviet policies towards East Central Europe after the Second World War have tended to focus on the imposition of Stalinist political systems and neglected other aspects of Soviet policy. Postwar Soviet policy in East Central Europe was not all about the export of ideology and the imposition of the Soviet political system there. The focus of much of the literature on the origins of the Cold War was on whether the Soviet Union intended to Sovietize the Soviet occupied part of the European continent from the outset, or, whether Stalin imposed the Soviet-type communist systems in response to external – American – pressure and a sense of insecurity. This case study, focusing on Hungary, will show that there was another, often less obvious dimension of Soviet policy, namely, traditional imperial expansion. In fact, I will argue that in Hungary as elsewhere in the region, there were two simultaneous, albeit interconnected policies: a creeping introduction of a Stalinist political system and the construction of a Soviet economic-military empire (Borhi 2004; *Soviet Occupation* 2015). These were two sides of the same coin: the introduction of ideologically compliant regimes ensured that the Soviet Union's imperial demands would be met unconditionally. By the time the last vestiges of the multiparty system were eliminated in 1948, Hungary, as other parts of the continent conquered by the Red Army, was Soviet economic and military space. The history of Soviet expansion underscores Hans Morgenthau's assertion that economic imperialism is both an end in itself and a tool of political expansion (Morgenthau 1967).

Stalin never concealed that he was looking for an exclusive sphere of influence in Europe. He said as much to the British foreign secretary, Anthony Eden while German panzers were at the gates of Moscow in December 1941. The Soviets treated Hungary as their exclusive sphere from the outset. Marshal Kliment Voroshilov, who acted as the chairman of the Allied Control Commission, declared in 1945, 'this is our sphere and we will say who is allowed to enter' (General Edgcombe's notes of an ACC meeting concerning the freedom of movement of the ACC staff in Hungary, the Hungarian National Bank, Article 11 of the Armistice, etc., 25 January 1946. *Documents of the Meetings* 2000, 123). It is important to remember that the Soviets had the final say in Hungary's armistice and the peace terms as well. Most importantly for Hungary, Moscow blocked any territorial revision

of the pre-1938 borders even though the British and the Americans supported a minor rectification of the Hungarian – Romanian border in favor of the former, in order to create ethnically fairer, and hence less hostile conditions in the region. In some areas, however, the United States and Great Britain were able to influence the outcome. The Soviet position on minorities was that it was only a matter of boxcars. Soviet diplomacy supported the Czechoslovak quest to expel the Hungarian minority on the basis of collective security. Molotov had established that the Hungarian people were collectively responsible for the war. Despite Soviet support, Prague was unable to include this clause into the Hungarian treaty due to Anglo-American resistance. Instead of a wholesale expulsion of Hungarians the Czechs were forced to accept a bilateral agreement with Budapest on a population exchange. Moscow also supported Czechoslovak diplomacy in the acquisition of a bridgehead consisting of five Hungarian villages around Bratislava, but due to American opposition this was reduced to three villages to be handed over to Czechoslovakia. Yet, when it came to domestic matters there was little the Anglo-Saxon powers could or wanted to do to curb the Soviet takeover.

Washington was ready to accept the Soviet decisive voice in political and security matters relating to East Central European states such as Hungary. Yet, they were hoping that the Soviets would adopt and open a sphere approach, i.e. that these states would be free to conduct economic relations with the West. Yet, less than a year after the end of the war, the American minister in Budapest wrote that Hungary had become a Soviet economic colony, the Soviet influence in that sphere went deeper than the German had under the war (the Minister [Schoenfeld] in Hungary to the Secretary of State, May 2, 1946. In *Foreign Relations of the United States* 1969: 1946, vol. VI, doc. no. 206, p. 293). Soviet economic penetration went side by side with economic centralization, the state allocation of raw materials semi-finished goods and loans, as well as a gradual financial exsanguination of western companies such as IBM or Ford. By the end of 1945, the fundamentals of a central command economy were laid. In December 1945, Stalin ordered the establishment of the Supreme Economic Council, a government agency that would control all aspects of economic life, including the budget, the formulation of which was taken away from the parliament. A communist party leader Mátyás Rákosi told Vyacheslav Molotov in April 1947, that there was already a “communist economic dictatorship,” the banks were no longer granting loan without the communist approval (a transcript of the talk of V. M. Molotov with

M. Rákosi on the political situation in Hungary. *Vostochnaya* 1997, 616). The Prime Minister Ferenc Nagy claimed that the Supreme Economic Council, which was under communist leadership, acted like a state within the state.

Two sets of policies played a major role in the Soviet economic expansion in Hungary: reparations and the establishment of Soviet companies under the aegis of the Chief Directorate of Soviet Property Abroad (*Главное Управление Советским Имуществом За Границей*, *Glavnoe Upravlenie Sovetskim Imushchestvom za Granitsey*, GUSIMZ). Reparations look innocent enough from the perspective of imperial expansion. In fact, the collection of compensation for the vast damages suffered by the Soviet economy due to the German invasion was a major contribution to the extension of the Soviet sphere of influence.

Reparations

Stalin sought a large loan from the United States and reparations – at one point 75 billion dollars were mentioned, later reduced to 10 billion, primarily from Germany, to facilitate economic reconstruction. There was no doubt that the Soviets were entitled to reparations, the question was how they were to be collected. The Soviets insisted on a lump sum, the United States had to take into account the capacity of the economies in question to bear the burden in order to avoid the repetition of what happened in Germany after the First World War. The Hungarian armistice agreement fixed Hungary's obligations at 300 million dollars in six years, down from 400 million initially proposed by Moscow. Two thirds of this figure would go to the USSR. In the late 1944, this figure seemed viable and within the capacity of the Hungarians. However, the largest blow to the economy was yet to come. In addition to the immense damage caused by fighting and the country's strategic bombing, the Red Army began to systematically dismantle whole industrial plants and take them back to the USSR. These included establishments that were expected to produce for reparations. Some of the plants involved were also the flagships of the industry, for example, the General Electric subsidiary Tungsram. They were never included in the reparation payments although Tungsram's equipment shipped off in 700 wagons was estimated at 17 million dollars in itself (*Az Egyesült Izzó feljegyzése Pokorni Hermann altábornagy jóvátételi kormánybiztosnak* [note from Egyesült Izzó enterprise to

Gen. Hermann Pokorny, Hungarian government commissioner for the reparations], June 22, 1945. Magyar Nemzeti Levéltár Országos Levéltára [Hungarian National Archives in Budapest], hereinafter: MNL OL, Küm, Szu tük, XIX-J-1-j, IV-536, box 30). The fact that the industrial base diminished due to the war and the collection of war trophy affected the country's capacity to pay reparations. In fact, the Hungarian provisional government offered to make the payments in agricultural produce, which seemed to be a logical choice for the Soviets to accept as they were facing a severe shortage of food. Instead, Moscow insisted on specially manufactured industrial items. The armistice stipulated that 1938 prices should be taken into account when determining the value of the reparation products but the Soviets insisted on the *world* market prices, which were invariably lower than the Hungarian production prices. In addition, since the goods, such as floating cranes, had individual specifications, the Soviets unilaterally determined the price, setting it very low in order to cram as many goods as possible into the 200 million dollars. It was calculated that the actual payments made by the Hungarians may have reached 400-600 million dollars. For contemporary calculations regarding the reparation burden see (Feljegyzés Magyarország jóvátételi kötelezettsége tárgyában [a note on Hungarian reparation obligations], November 15, 1945. In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-526-5, box 28; Feljegyzés az ipari miniszter számára [a note for the Minister of Industry], January 8, 1947. In MNL OL, XIX-F-1-b, 44 d.; Rákosi 1997, vol. 2, p. 659; Feljegyzés az ipari miniszter számára [a note for the Minister of Industry], November 30, 1947. In MNL OL, Küm, XIX-F-1-b, box 44; Feljegyzés Magyarország gazdasági és pénzügyi helyzetéről [a note concerning Hungary's economic and financial situation], May 17, 1947. In MNL OL, Püm, NPF, XIX-L-1-k, box 246; Feljegyzése a Szovjetunióval szemben fennálló hátralékos jóvátételi tartozás 50%-os mérséklésének jelentősége [a note of József Bartha and János Baracs concerning the 50% reduction of the reparations obligations towards Soviet Union], August 3, 1949. In MNL OL, Püm, NPF, XIX-L-1-k, box 244; A Pénzügyminisztérium IV/b ügyosztályának feljegyzése Bacsoni főosztályvezető részére, A szovjet jóvátétel és a jóvátételi engedmények jelentősége [a note from Department IV/b of the Ministry of Finances to the department head Bacsoni, concerning the significance of the Soviet reparations and the reparations-related concessions], July 24, 1950. In MNL OL, Püm, NPF, XIX-L-1-k, box 244; Melléklet Nyárady Miklós pénzügyminiszter 84.246/1947.IV.b számú minisztertanácsi előterjesztéshez, feljegyzés

a magyarországi német követelések ügyében [the supplement by the Minister of Fincences, Miklós Nyárady, to the Government's project No. 84.246/1947.IV.b, a note concerning German claims in Hungary], undated document (August 1947). In: MNL OL, Püm, NPF, XIX-L-1-k, box 245; Lásd: Orosz jóvátételi árak korrekciója [adjustment of the Russian reparation prices], undated document. In: MNL OL, Püm, NKF, XIX-L-1-k, box 244; Egyezmény a Magyar Köztársaság kormánya és a Szocialista Szovjet Köztársaságok kormánya között azon szállítások árainak részbeni emelése és az ezzel kapcsolatos szállítási mennyiség csökkentésének tekintetében, amely szállításokat Magyarország az általa a Szovjetunióknak hadicselekmények és szovjet terület megszállása által okozott jóvátétel fejében teljesíteni tartozik [Agreement between Government of the Hungarian Republic and the Soviet Government concerning increase of the prices and reduction of the Hungarian transport obligations due as compensation for war acts and occupation of the Soviet territory], January 20, 1948; Feljegyzés Magyarország jóvátételi kötelezettségéről [a note concerning Hungarian reparation obligations]. In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-526.5, box 28; *A magyar jóvátétel* 1998). In the course of the reparation talks, the Soviets listed the products they wanted and for how much. For instance for 550 radial drills they agreed on only one third of the real price for 525 engines on half, and for 15 thousand electric engines only 15 percent and so forth (on the arbitrary pricing of reparation deliveries see: A külügyminiszter szóbeli feljegyzése [a verbal note of the minister of foreign affairs]. In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-536.2, box 30; A Jóvátételi Hivatal feljegyzése [a note of the reparations office], May 10, 1947. In: MNL OL, Püm, NPF, XIX-L-1-k, box 246).

Half of the country's industry and 90 percent of the heavy industry worked for reparations under Soviet supervision. In the crucial years between 1945 and 1947, deliveries amounted to 50–60 percent of the budget (Pető, Szakács 1986, 21; Kertész 1984, 43). In addition to the burden of reparations, the Hungarian budget was also responsible for maintaining the Red Army contingents stationed in the country. This included supplies, utilities and even the monthly allowance for the troops. The armistice agreement stipulated that Hungary was responsible for the expenses of the Allied Control Commission, and not the expenses of the occupation forces. Nevertheless, the costs incurred by the Hungarian budget regarding the occupation army may have doubled the reparation costs in the first two years and depleted the country's resources in agricultural produce. For some

foodstuffs the Soviet consumption exceeded that of the population as a whole. This was because one to 1,5 million soldiers needed supplies and the Soviets exported some of the foodstuffs they requisitioned from their hosts. The maintenance cost of the Red Army can be inferred from a memorandum dating from September 1947, which stated that the country spent 511 million forints on this expense in the previous twelve months. By then the size the Soviet army had dropped considerably, therefore we may assume that in the 16 months between April 1945 and September 1946, the country spent at least the same amount as in the following months and possibly more (A magyar-szovjet állandó bizottság feljegyzése a Vörös Hadsereg ellátására teljesített szolgáltatások megtérítéséről [Memorandum of the Soviet-Magyar Permanent Commission concerning the refunding of the services provided to Soviet Army], March 2, 1948. In MNL OL Püm, NPF, XIX-L-1-k, box 248). Thus the financial burdens far exceeded the amount envisioned in the armistice particularly in the first two years. In the eleven months following June 1945, the country spent 30 percent of the 1938 gold reserve on furnishing reparations and the maintenance of the Red Army and the ACC (MNL OL, Püm, NFP, XIX-L-1-k, box 244). This resulted in the worst hyperinflation in history, exceeding even the legendary German one in the 1920s. In addition to the largest expenditures, which were reparations and maintaining the Red Army, other costs, including organized looting of the industrial base, the cost incurred by maintaining the ACC as well as the fact that the Soviet troops did not pay for their purchases, all of which caused prices to skyrocket (on the budgetary and money circulation data see: Jelentés a pénzügyi államtitkárnak [report to the secretary of state in the Ministry of Finances], April 30, 1946. In: MNL OL, XIX-A-83-a MTJKV). In the first months of the occupation regime and reparation shipments, the amount of money in circulation and the black market exchange rate of the dollar grew exponentially. (For the relationship between these figures and the consumption of the Soviet Army see: A pénzügyminiszter jelentése [report of the Minister of Finances], December 5, 1945. In: MNL OL, XIX-A-83-a, MT jkv.). By 1947, money had to be weighed when a purchase was made. Savings were wiped out. A successful stabilization of the currency (the prewar pengő was replaced by the forint) was carried out in accordance with the communist economic principle of centralization. In the words of a contemporary economist, this was the world's boldest experiment in the field of economic planning.

The Economic Agreement of 1945 and the Potsdam Declaration

In August 1945, the communist Minister of Trade, Ernő Gerő launched an agreement in Moscow which would have a large impact on the economic Sovietization of the country. The agreement was not unique to Hungary, the Soviets signed a similar agreement with Romania on the victory day in Europe and also Bulgaria. The minister of trade did not have his government's authorization for the agreement. After a contentious debate in the council of ministers, the newly established Supreme National Council ratified it because it may not have passed in the parliament. The agreement had the effect of providing raw materials for the industry and a market for Hungarian commodities. The longer term effect was negative, because it had the effect of turning Hungarian foreign trade away from the West, and towards the Soviet Union. By 1948, Hungary's most important trading partner was the Soviet Union. In comparison, in 1939, the Soviet Union's share was less than one percent. Moscow was later able to use its dominating role as trading partner as political leverage.

The second part of the agreement envisioned the establishment of joint stock Soviet–Hungarian companies within the framework of securing broad Soviet participation in various sectors of Hungarian economy similarly to that of Romanian. According to the Potsdam Declaration, the Soviet Union was entitled to all German and Italian assets in the former satellite countries. In accordance with the Declaration, the Soviet Union seized around 400 companies, several hundred real estates, forests, houses, movie theaters and shops (*A magyar jóvátétel* 1998, 10). In some cases only a small fraction of a company was acquired, in others, all of it. Sometimes the Soviets seized assets that were only partially German-owned or not even German-owned at all. A case in point was *Creditanstalt Bankverein*, the Hungarian daughter company of which was handed over to the Soviet Union on the basis of a decision made by the ACC and the Supreme Economic Council, even though the ACC in Austria declared it to be Austrian property, and the Viennese parent company was not handed over to the Soviet Union. The stocks of Hungarian Asphalt Company were deposited with CA, eighty percent the company went to the Soviet Union even though CA was not an owner of the stocks. According to the American position, the property of Austrian citizens or property from the territories that did not form

part of the German Reich prior to 31 December 1937, could not be taken as German and hence could not fall under the reparations for the Soviets. In addition, the 1943 London Declaration of the Allies provided that assets ceded to the Germans under duress could not be regarded German. After the Anschluss, the Austrian government handed over *Creditanstalt Bankverein* to the German Goering group (Feljegyzés a Jóvátételi Hivatalnak [note of the reparations office], July 9, 1947. In MNL OL, XIX-F-1-b, box 48; Feljegyzés az Általános Magyar Hitelbankról [note of the Hungarian General Credit Bank], Januar 2, 1946. In MNL OL, XIX-F-1-b, box 48). Even though Moscow signed the London Declaration, the Soviet position was that when an asset was in German hands at the end of the war, it should be taken as German, regardless of how they got hold of it. Altogether forty Austrian companies in Hungary were partially or fully handed over to the Soviets (Otchet MID Vengrii posol'stvu SSSR v Vengrii [report of the Hungarian Ministry of Foreign Affairs to the Soviet mission in Hungary], July 21, 1955. In Arkhiv vneyshey politiki Rossiyskoy Federatsii [Archives of the Russian Federation Foreign Policy], hereinafter AVPRE, fond 077, opis 35, por. 4, papka 45, delo 14). According to the memorandum, the Soviets acquired the whole or part of the following Austrian assets in Hungary: Steyr-Austro-Daimler-Puch, 60%; Hofherr & Schrantz 78%, Julius Meinel chain, 100%; Wiener Allianz insurance company 100%; Fellten & Guillaume, 100%. By then the Soviets had removed the machinery of Hofherr Schrantz and Felten Guillaume.

On April 14, 1945, the Soviets presented Hungarian government with a provisional list of companies to be handed over. The list contained fifty firms, which, according to their interpretation of the Potsdam Declaration, they were entitled to. The Soviets went on to continue their search for German firms in Hungary until the end of 1949. A provisional list was based on the list compiled in 1942 by the Hungarian National Bank for the Dresdner Bank of those companies that transferred dividends to Germany on the basis of an agreement signed between the two countries. The Soviets were most interested in mining and heavy industrial companies, and included firms involved in the excavation and processing of aluminum-oxide, bauxite, manganese and coal as well as manufacturers of aircraft, ships, wagons, machinery and textile. Some of these companies were returned to Hungary in 1949, in return for 14 million dollars. The remaining 77 were sold to the Hungarian government in 1952, in return for a shipment of products worth 990 million forints.

Another consequence of the Postdam Declaration was that the Soviet Union was entitled to all outstanding German claims on Hungary. Hungarian claims on Germany, on the other hand, were waived by article 30 of the Peace Treaty even though the German debt to Hungary was much higher, i.e. the balance on the bilateral clearing account was positive for the Hungarian side. The Soviets demanded an exorbitant sum, 200 million dollars. General Sviridov, the acting chairman of the ACC announced the Soviet Union's claim on all companies and assets of the flagship of Hungarian heavy industry, the Weiss Manfred concern. On the same grounds, the Soviets also claimed the remaining 49 percent of the Hungarian Optical Works, 51 percent of which was already in the Soviet hands. The Prime Minister Ferenc Nagy sent the Minister of Finance, Miklós Nyárády, to Moscow to negotiate an agreement. Nagy told Nyárády that Hungary was "in great peril."

"If you don't go, the Russians will get what they want and will thrust us in great chaos. This may be the pretext Rákosi needs to seize power"
(Nyárády 1952).

Nyárády's negotiating partner in Moscow was the director of the Chief Directorate of the Soviet Property Abroad [GUSIMZ]. Vsevolod Merkulov turned out to be a fair negotiating partner despite his fearsome reputation as the former head of the NKGB. Eventually, the Soviet claim was dropped to 45 million dollars, two thirds of which would be invested in Hungary the rest to be paid in kind. In addition, 24 million forints were paid out for the outstanding debt of Hungarian state-owned companies to German firms. The Soviets also seized the Danube Aircraft Factory in return for its debt. Most importantly, the Weiss Manfred group was left in the hands of the Hungarians (Jegyzőkönyv az 1947. augusztus 2-án tartott szovjet-magyar tárgyalásokról [minutes of the Soviet-Hungarian negotiations held on August 2, 1947]. In MNL OL, Püm, XIX-L-1-k, box 245; In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-526.5, box 28; Minisztertanácsi előterjesztés (Nyárády Miklós) [Government's proposal (Nyárády Miklós)], May 1947. In: MNL OL, Püm, NFP, XIX-L-1-k, box 246; Feljegyzés a potsdami szerződés végrehajtása során felmerült egyes kérdések tisztázásáról [note concerning clarification of some matters raised during the implementation of Potsdam Conference provisions], January 15, 1947. In: MNL OL, Püm, NFP, XIX-L-1-k, box 246).

Joint Stock Companies

Joint stock companies were the standard vehicles for the Soviet economic penetration into the economies of the former German satellite states or other areas under Soviet control, such as Iran and Manchuria. On May 8 1945, for instance, Romania and the Soviet Union concluded an agreement which catered for the establishment of joint stock companies [*Sovrom*] in the field of forestry, agriculture, mining, industry, transport as well as banking and insurance. The Soviet contribution to these companies as well as the ones set up in Hungary were the assets acquired due to the stipulations of the Potsdam Declaration. *Sovroms*, like their counterparts in Hungary were tax exempt and their profit was guaranteed by the state. All Hungarian – Soviet joint stock companies were established for an unlimited period, which suggested that the Soviets were preparing to integrate the country into their zone indefinitely. By contrast, the oil company jointly established with Austria was set up for a limited time of fifty years only, suggesting that there was a significant difference in the importance of the two states for the Soviet Union (*Soviet Occupation* 2015).

On March 29, 1946, the two countries signed an agreement on the establishment of a shipping company named *Meszhart*, which would provide the template for the rest of the companies. The Hungarian government leased all ports on the rivers Danube and Tisza as well as the free port of Csepel, the only such institution in the country, to the company for the period of thirty years. A protocol signed in 1947 provided access to maritime ports for both parties on a most favoured nation clause basis, a provision which favored landlocked Hungary. The company enjoyed a tax exempt status and was also exempted from paying duties. Coal companies from the Mecsek region, which the Soviet Union acquired as former German assets, were attached to *Meszhart*.

A similar agreement was signed a few days later on a joint aviation company, *Maszovlet*, which granted monopoly over Hungarian air traffic, as well as the use of existing airport facilities, and the monopoly of constructing new civil aviation facilities for thirty years. At the time when the agreement was signed, the Soviet Union's military command exercised control over Hungarian airspace. Thus, the Hungarian government was not in a position to grant landing rights to foreign aviation which means that the Soviet Union alone enjoyed

landing rights in the country. In theory, after the peace agreement was signed, Hungary should have reclaimed sovereignty over its airspace. A protocol signed in 1947 extended the Soviet Union's prerogative to grant landing rights in Hungary, as well the landing rights for the Soviet civilian aviation.

In early April, a Hungarian government delegation was getting ready to leave for talks in Moscow. Only a day before the departure, Deputy Prime Minister Árpád Szakasits and the Soviet Minister of Industry, Lev Nikolaevich Bobkov, signed an agreement on three joint bauxite companies. It is important to note that Hungary was one of the world's leading producers of the strategic ore (Egyezmény a Magyar Köztársaság Kormánya és a Szocialista Szovjet Köztársaságok Szövetségének Kormánya közötti Magyar-Szovjet Bauxit-Alumínium társaságok létesítéséről [Agreement between Government of Hungarian Republic and Government of Soviet Union concerning establishment of the Hungarian-Soviet Aluminium-Bauxite companies], April 8, 1946. In MNL OL, KÜMüm, Szu tük, XIX-J-1-j, IV-548, box 34). The timing of the agreement gave rise to speculations. Bilateral talks between experts were being conducted to work out contentious issues regarding the establishment of the companies, but these talks were suspended. The government may have agreed to sign the agreement for political reasons, perhaps in the hope that, in return, Stalin may agree to territorial rectification in Hungary's favour, to some extent (Békés 1992). If these indeed were the Premier's calculations, he was to be disappointed: Stalin ruled out even a minor adjustment of the Trianon border.

The bauxite agreement stipulated that the Soviet Union received a fifty percent share of the Hungary's two largest bauxite companies, the first of which controlled 90 percent of the deposits. The Soviet contribution was a bauxite company and equipment acquired as the former German assets. In addition, a Hungarian-Soviet aluminum-oxide Company was also established. The agreement stipulated that the production of bauxite would be raised in order to boost exports, and that the Soviet Union's needs enjoyed priority. The joint companies were given exclusive right to explore bauxite deposits in Hungary. The original agreement set a quota for the amount of ore to be produced in the first three years, which was to increase from 400,000 tons in 1946, to 700,000 two years later. The three joint companies were established without time limit. They were allowed to freely dispose of their income, which put them in a privileged position as privately owned Hungarian or foreign [non-Soviet] owned firms were not allowed to

dispose of their incomes. They were also in an exclusive position as compared to the Hungarian and Western-owned companies because they were exempt from tax and duty.

The companies were overseen by a board of directors, the managing director and his deputy, and until the nationalization, a board of shareholders. The head of the board of directors was Hungarian and the managing director, who was in charge of administrative matters, was Soviet. It was the managing director who wielded power in all the joint companies. They signed contracts, sold and leased assets, applied for loans, they were in charge of financial matters and had the right to hire and fire, and pay the employees. Even though the companies were supposed to operate under the Hungarian law, the managing directors often disregarded it and acted arbitrarily.

On the same day when bauxite agreements were signed, and only four days after the Iranian government agreed to an establishment of an Iranian-Soviet oil company, Hungary agreed to establish two Soviet-Hungarian oil companies, Maszovol and Molaj (Egyezmény a Magyar Köztársaság Kormánya és a Szocialista Szovjet Köztársaságok Szövetségének Kormánya között Magyar-Szovjet Nyersolaj Részvénytársaságok létesítése tárgyában [Agreement between Government of Hungarian Republic and Government of Soviet Union concerning an establishment of the Hungarian-Soviet crude oil joint stock companies], April 8, 1946. In: MNL OL, Küm, Szu. tük, XIX-J-1-j, IV-548, box 34). Maszovol inherited the concessions for the exploration, processing and sale of oil and natural gas in Hungary that had belonged to a German – Hungarian oil company named Manat. Maszovol inherited the Hungarian government's share of 15 percent of all oil and gas produced in the country and was entitled to export its products to any state that had a trade agreement with Hungary. Molaj's profile was oil refinery and was established out of an older company 50 percent of the shares of which were handed over to the Soviet Union in return for compensation. The problem for the joint oil companies was that a Hungarian-American company, *Maort* still held the concession for the Zala oil fields, which had the largest known Hungarian oil and natural gas deposit at the time. As we shall see, *Maort* would be soon nationalized and eventually integrated into the Soviet holding system.

In the meantime, the country's Sovietization received a new impetus. Deputy Prime Minister and Communist Party leader, Mátyás Rákosi, saw Stalin in Moscow in April 1946. He informed the close circle of people trusted by the party of Stalin's directives at a closed session



Vladimir G. Dekanozov on his arrival to Berlin, 24 November 1940. V.G. Dekanozov (1898–1953), deputy head of GUGB NKVD (1938–1939), head of INO (1938–1939), deputy head of NKID (1939–1941), Soviet ambassador in Germany (1940–1941), deputy head of MID (1946–1947), deputy head of GUSIMZ (1946–1949), minister of internal affairs of Georgian Soviet Socialist Republic (1953), arrested and executed as Lavrentiy Beria's associate (1953). German press photo, National Digital Archives, Warsaw, Poland, collection Wydawnictwo Prasowe Kraków–Warszawa, ref. no. 3/2/0/-/12620

of the central committee on May 17. The essence of his long and rambling speech was that once the peace treaty was signed, Moscow would give the green light for the establishment of the dictatorship of the proletariat irrespective of the international conditions. The two workers' parties, the communists and social democrats, would be merged; a new communist international for the coordination of communist policies would be formed. The communists' previous „moderation” was due to tactical reasons, but, the party leader declared that “it was time for us to remind our opponents that we are communists” (Rákosi's report for the Political Committee of Hungarian Communist Party of May 17, 1946 in: *Politikátörténeti Intézet Levéltára* [Institute of Political History Archives in Budapest],

274 f., 2. cs., 34. őe.). They did it, and by the early summer of 1947, the largest member of the coalition, the Smallholder Party, was forced into submission and the Prime Minister Ferenc Nagy resigned.

Moscow was dissatisfied with the implementation of the agreements regarding the joint companies as well as with the financial situation of these companies. In a memorandum to the Hungarian government, GUSIMZ head Merkulov charged Hungarian government of having accumulated a debt of 63 million forints towards the Soviet-Hungarian companies, refusing to transfer dividends and profits to the Soviet Union, having paid too little for the products of the joint companies, having failed to secure the bauxite companies' monopoly on bauxite exploration, and, finally, of failing to supply Molaj with the agreed quota of oil. Merkulov demanded that these issues be resolved and that the German assets be transferred to the Soviet Union with their debts paid off (A vegyes szovjet-magyar részvénytársaságok és a magyarországi szovjet vállalatok normális működése előfeltételeinek megteremtése érdekében megoldásra váró kérdések [a note concerning the matters to solve in order to introduce the conditions for the establishment of Soviet-Hungarian joint stock companies], undated document of 1947. In: MNL OL, Püm, NPF, XIX-L-1-k, box 246).

A bilateral protocol signed on December 9, 1947, was meant to settle outstanding issues and regulate the operation of the companies. This included the settlement on mutual financial claims and the rights to the bauxite companies. The Hungarian government took responsibility for the payment of the outstanding debts to third parties of the former German-owned companies to be handed over to the Soviets. Hungary was obligated to pay an annual 33,5 million forints in dividends to the Soviet Union. This was an estimated sum, based on the calculations made before the companies' annual financial balance was known. The remaining foreign-owned companies were not allowed to pay dividends or dispose of their profits. Hence, this provision was a violation of article 33/c of the peace treaty, according to which all citizens of the United Nations were to enjoy most favored nation treatment in the field of commerce, industry and shipping. Payment of dividends was made in kind, according to the mutually agreed prices. Dividends increased annually, even when the companies were making losses. In 1950, 138 million forints worth of goods were transferred to Moscow in dividends, including 28,5 million tons of bauxite. Another protocol, signed in July 1948, obligated Hungary to construct an aluminum-oxide plant in Almásfüzitő in 1949–1950. The costs of construction were estimated at 238 million forints,

two-thirds of which were to be financed from the Hungarian budget. The plant was needed because the Soviet Union concluded a bauxite agreement with Yugoslavia, one of the world's largest producers of the ore (see: Jegyzőkönyv a volt német aktíváknak az Sz. Sz. K. Sz. részére leendő átadásra vonatkozó kötelezettség Magyarország által történő teljesítésével kapcsolatos kérdések tárgyában; Jegyzőkönyv a Magyarország és az Sz. Sz. K. Sz. közötti gazdasági együttműködésről szóló, az 1945. év augusztus hó 27. napján kelt egyezménynek megfelelően alapított magyar-szovjet vegyes társaságok, valamint a berlini háromhatalmi értekezlet határozatai alapján az Sz. Sz. K. Sz. tulajdonába átment vállalatok működésével kapcsolatos egyes kérdések rendezése tárgyában [A protocol concerning matters related to the fulfillment by Hungary of the obligation to transfer the former German assets to the Soviet Union. A protocol concerning the Hungarian-Soviet joint ventures established in accordance with the Convention on the Economic cooperation between Hungary and the Soviet Union. A note concerning the settlement related to the operation of companies transferred to the ownership of the Soviet Union], December 9, 1947. In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-548, box 34). In 1948, the short-lived postwar multiparty system in Hungary formally came to an end. The communist party annexed the social democrats and the rest of the parties, and their leaders were hounded out of existence. By then, the country was firmly integrated into the Soviet economic and military space. Under the pretext of providing a logistical line for the Soviet troops in Austria, the Soviet military kept Hungary – and also Romania – occupied even after the conclusion of the peace treaty in Paris. In December 1948, a Soviet – Hungarian military agreement was concluded that went into effect retroactively (*Egyezmények* 1995, 126). The agreement extended the Soviet defensive periphery into Hungary basically at the latter's expense. Two thirds of all costs of stationing the Soviet troops, including the utilities and monthly pay, were to be covered by the Hungarians, the rest would come from the USSR, in return for receipts, which the Soviet authorities would usually reject. The Hungarian authorities were not to be informed about the Soviet troop movements in and out of the country. Soviet armed forces were allowed to use the country's territory without constraint for an annual fee of 200 dollars, and to expropriate agricultural land for the military purposes. The country's armed forces, which in violation of the peace treaty numbered 240,000 men by the early 1950s, were overseen by the Soviet military advisors.



Hungarian state visit in Poland, June 1948. From left to right: Jakub Berman, member of the Central Committee of the Polish Workers' Party (*Polska Partia Robotnicza*, PPR), Lajos Dinnyés, Hungarian prime minister, Józef Cyrankiewicz, Polish prime minister, Matyas Rakosi, Hungarian deputy prime minister and general secretary of the Hungarian Working People's Party (*Magyar Dolgozók Pártja*, MDP), Władysław Gomułka, Polish deputy prime minister and PPR general secretary, Antoni Korzycki, Polish deputy prime minister. National Digital Archives, Warsaw, Poland, collection Socjalistyczna Agencja Prasowa, ref. no. 3/3/0/8/278

A year later, the Soviet economic empire was also concluded. In view of the newly established central command system, bilateral talks were held in Moscow to regulate the position of the joint companies. The Hungarians attempted to protect the country's economic sovereignty but the head of the Soviet delegation, Vladimir Dekanozov, a former leading official of the Soviet state security establishment retorted, "The victorious nation demands to assert its rights as the defeated nation started a war against it." (A szovjet-magyar gazdasági tárgyalások második, moszkvai ülészaka, a magyar-szovjet állandó gazdasági bizottság második ülése [a note concerning the second round of the Soviet-Hungarian economic negotiations in in Moscow, and the second meeting of the Soviet-Magyar permanent economic committee], April 11, 1949. In: MNL OL, Küm, Szu tük, XIX-J-1-j, IV-510-b, box 26). The Hungarians wanted to integrate the joint companies into the country's economic system. Dekanozov complained that it was "unjust" that the

Soviet Union is unable to exert its influence on companies which are “the property of the Soviet Union, and which produce strategically important raw such as bauxite and oil.” The Hungarians lamented that the companies were under Soviet control and certain agencies in Moscow were giving them directives “as if they were Soviet”, and wanted more control in running the companies. According to the 1946 agreements, the Soviets had the right to set the prices but in the new central command system all pricing was the prerogative of the State Price Office. The Soviet situation was paradoxical, because as producers they were interested in high prices. Yet, they were also the buyers of the same goods and, in that capacity, they wanted the prices to be low. They argued that they were the most important consumers of the products and therefore they had the right to be involved in setting the prices. This raised sovereignty issues. Therefore, the Hungarian party suggested that the State Price Office should consult the prices with the companies’ Soviet leaders but the domestic authorities should have the last word.

Price control was not the only absurdity of the central command system that the dispute over the joint companies revealed. The 1946 agreements provided that the companies disposed of their products but the centralization of domestic and foreign trade required that they renounce this right. In the new system, the state-owned trading companies had the sole right to sell goods abroad. In addition, the Central Planning Office was supposed to determine the quantity of the goods that the state would purchase from these firms. This violated the Soviets’ right, as owners, to determine the production of their own companies. Therefore, the Soviets recommended that the plans of the two countries be coordinated but just like pricing also this issue involved questions of sovereignty. In terms of their finances, the Soviet companies [not just the joint stock but the others as well] were outside of the newly centralized account system of the Hungarian National Bank and their financial transactions were conducted by Kereskedelmi és Iparbank, a financial institution the Soviets had acquired as a German asset. This too, was seen as a violation of sovereignty. The talks concluded with a compromise. The Soviets withdrew their demand for a fifty percent share in the Ajka Power Plant. However, a Hungarian effort to transform the Urkut Manganese Mine, which was a fully Sovietized company, into a joint stock one failed because Moscow wanted a share of the manganese production in return. The Hungarians wanted to review the list of assets which in their view was handed over to the Soviets as the former German

companies in error. The Soviets rejected the proposal and agreed only to put an end to their search for German assets in Hungary.

Minor changes occurred in the operation of the companies to appease concerns of sovereignty. Maszovlet was instructed to observe the Hungarian government's financial concerns "as much as possible" but the company's losses were still covered by the Hungarian budget and the Hungarians were allowed to influence the airline's foreign schedule. The accounts of three companies were transferred to the National Bank, the other three stayed with the Soviet bank. The Moscow agreement signed on 31 December 1949, Hungarian authorities were required to instruct the Price Office to consult the Soviet management regarding the pricing of the products of the joint companies and to take into account their observations to the extent possible, but the companies were obligated to produce the quantity determined by the Hungarian planning authorities. Most importantly, the Soviets dropped the idea of coordinating Soviet and Hungarian planning. The management of the joint companies remained the Soviet prerogative. The Hungarians no longer wanted the Hungarian deputy of the general managers to be merely a "puppet." The Soviets agreed to instruct the Soviet management to adhere to the Hungarian law but reserved the right to appeal to the authorities in case the law violated the rights of the Soviet companies.

The structure of the joint companies was rationalized by a merger: the bauxite companies were merged into Maszobal and the oil companies into Maszolaj (Egyezmény a Magyar Népköztársaság kormánya és a Szovjet Szocialista Köztársaságok Szövetségének kormánya között az Alumíniumércbánya és Ipar és a Magyar Bauxitbánya magyar-szovjet bauxit-alumínium részvénytársaság alapítása tárgyában [An agreement between the Government of the Hungarian Republic and the Government of the Soviet Union concerning the establishment of the aluminum ore mine and plant, and of the Hungarian Bauxit Mine a Hungarian-Soviet Bauxit-Aluminum joint stock company], December 31, 1949. In MNL OL, Küm, Szu tük, XIX-J-1-j, IV-548.1, box 35; Jegyzőkönyv a Magyar Népköztársaság Kormánya és a Szovjet Szocialista Köztársaságok Szövetségének kormánya között az Alumínium Ércbánya és Ipar és a Magyar Bauxitbánya magyar-szovjet bauxit-alumínium részvénytársaságok egyesülése és egységes magyar-szovjet bauxit-alumínium társaság alapítása tárgyában [A protocol between the Government of the Hungarian People's Republic and the Government of the Soviet Union concerning the merger of the aluminum ore mine and plant, and of the Hungarian bauxite mine into the Hungarian-Soviet

Bauxite-Aluminum joint stock companies and the establishment of a united Hungarian-Soviet Bauxite-Aluminum company], December 31, 1949. In: MNL OL, Küm, Szu tük, XIX-J-1-j, IV-548/1, box 35). The latter acquired the concession of the former Hungarian – American oil company, Maort, which had been nationalized without compensation in 1948. The company's former management and some of its experts had been arrested and stood in the docks as part of a string of Stalinist bourgeois sabotage trials. The company's chief geologist, Simon Papp had been sentenced to death but this was commuted to prison. Papp was forced to work for Maszovol from jail to help the company find new oil deposits at the time when Maort's concession, the Zala oil fields were being destroyed by an overproduction. Maort's saga highlights the link between the imperial expansion and Stalinization. The defendants of the Maort "sabotage" trial represented the "enemies" the new regime wanted to destroy: members of the "former ruling classes," experts, scientists and foreigners. The lesson to be learned by the Hungarians was that all of these were traitors and that any continued western presence in the country was inimical to socialist progress therefore that presence needed to be rooted out (Előzetes jelentés a Maortnál történt vizsgálatról [Preliminary report concerning Maort case]. In MNL OL, XIX-F-1-kk, box 9; Timár ezredes jelentése Rákosinak [Col. Timár's report to Rákosi]. In MNL OL, box 276 f., 67 cs., 155 óe; Borhi 2004; Kartona 2002; Szakács, Zinner 1997). The economic effect was clear: in 1952, when Maszovol and Maort merged, the Soviet-owned company controlled 99 percent of the Hungarian oil production, which in its peak years exceeded 600 thousand tons a year. In 1952, the Soviet Union offered the Soviet companies in Hungary for sale for an amount of 990 million forints [approximately 160 million dollars] to be paid in commodities such as bauxite. These included the Hungarian Optical Works and the delicacy chain Meinel. Two years later, the Soviet Union divested of the joint stock companies all over the Soviet bloc. By the time the joint companies were given back in return for a payment that was cancelled after 1956, the Soviet Union had collected minimally 1,5 billion dollars in commodities and other forms of payment. This figure does not include the benefits of an unlimited access to the key strategic materials accessed below the world market, and possibly even below the production price. Neither does this amount take into account the value of the work of many hundreds of thousands of forced laborers. Hungary was an essential part of the Soviet economic and military space and performed economic and military services for Moscow as a Marxist-Leninist client state.

References

- A magyar jóvátétel és ami mögötte van... Válogatott dokumentumok 1945–1949. Ed. Balogh, Sándor, Földesi, Margit. Budapest: Napvilág Kiadó, 1998.
- Documents of the Meetings of the Allied Control Commission in Hungary*. Ed. Bendegúz, Cseh Gergő. Budapest: Magyar Tudományos Akadémia Jelenkor-kutató Bizottság [Series *Iratok a magyarországi Szövetséges Ellenőrző Bizottság történetéhez, 1945-1947*], 2000.
- Békés, Csaba. "Dokumentumok a magyar kormánydelegáció 1946. áprilisi moszkvai tárgyalásairól". *Regio-Kisebbségi Szemle* 3 (3) (1992): 161–194. Accessed June 30, 2020. <http://epa.oszk.hu/00000/00036/00011/pdf/11.pdf>.
- Borhi, László. *Hungary in the Cold War – Between the United States and the Soviet Union, 1945 –1956*. Budapest, New York: Central European University Press, 2004.
- "Egyezmények' a szovjet csapatok magyarországi tartózkodásáról". Ed. Pataki, István. *Múltunk* 40 (3) (1995): 123–158.
- Foreign Relations of the United States*, 1946, vol. VI. Ed. Churchill, Rogers P., Slany, William, Gleason, S. Everett. Washington D.C.: United States Government Printing Office, 1969. Accessed June 29, 2020. <https://history.state.gov/historicaldocuments/frus1946v06>.
- Katona, Klára. "A Maort-per előtörténete". In *Trezor 2. A Történeti Hivatal Évkönyve 2000–2001*. Ed. Gyarmati, György. Budapest: Történeti Hivatal, 2002.
- Kertész, Stephen Denis. *Between Russia and the West. Hungary and the Illusions of Peacemaking*. Notre Dame, Ind. and London: University of Notre Dame Press, 1984.
- Morgenthau, Hans J. *Politics among Nations: The Struggle for Power and Peace*. New York: Knopf [4th edition], 1967.
- Nyaradi, Nicholas. *My Ringside Seat in Moscow*. New York: Thomas Y. Crowell Company, 1952.
- Pető, Iván, and Szakács, Sándor. *A hazai gazdaság négy évtizedének története*, vol. 1. *Az újjáépítés és a tervutasításos irányítás időszaka 1945-1968*. Budapest: Közgazdasági és Jogi Könyvkiadó, 1986.
- Rákosi Máttyás – *Visszaemlékezések 1940-1956*. Vol. 1–2. Ed. Feitl, István, Gellériné, Lázár Márta, and Sipos, Levente. Budapest: Napvilág Kiadó, 1997.
- Soviet Occupation of Romania, Hungary and Austria 1944/1945 – 1948/1949*. Ed. Békés, Csaba, Borhi, László, Ruggenthaler, Peter, and Trașcă, Ottmar. Budapest: Central European University Press, 2015.
- Szakács, Sándor, and Zinner, Tibor. *A háború megváltozott természete. Adalékok és adalékok, tények és összefüggések, 1944-1948*. Budapest: Batthyány Társaság, 1997.
- Vostochnaya Evropa v dokumentakh rossiyskikh arkhivov 1944–1953 gg.* Vol. I. 1944–1948 gg. Ed. Volokitina, Tat'yana Viktorovna. Novosibirsk: Sibirskiy khronograf, 1997.