MULTIDISZCIPLINÁRIS KIHÍVÁSOK

SOKSZÍNŰ VÁLASZOK

GAZDÁLKODÁS- ÉS SZERVEZÉSTUDOMÁNYI FOLYÓIRAT

MULTIDISCIPLINARY CHALLENGES

DIVERSE RESPONSES

JOURNAL OF MANAGEMENT
AND BUSINESS AMINISTRATION

18 57
BGE

2021/1.

A VILÁGGAZDASÁGI VÁLSÁG (1929-1933) MAGYARORSZÁG GAZDASÁGÁRA GYAKOROLT HATÁSAI

THE IMPACTS OF THE GREAT DEPRESSION 1929-33 ON HUNGARY'S ECONOMY

DOMONKOS Endre

Kulcsszavak: *gazdaságtörténet, világgazdasági válság, Magyarország, ipar, mezőgazdaság, pénzügyek*

Keywords: *economic history, Great Depression, Hungary, industry, agriculture, finance*

JEL kód: *N14*

https://doi.org/10.33565/MKSV.2021.01.01

ÖSSZEFOGLALÓ

Az 1929-1933-as világgazdasági válság súlyos következményekkel járt hazánk nemzetgazdaságára. A mezőgazdasági termékek világpiaci árcsökkenése az 1920-as évek második felétől rendkívül kedvezőtlenül érintette Magyarország és a térség agrárexportőr országait. Az agrárárak kedvezőtlen alakulása mellett további nehézséget jelentett a gazdaságilag fejlett országok által bevezetett protekcionista intézkedések (vámok és mennyiségi korlátozások). Mindezek következtében a korábbi értékesítési lehetőségek megszűntek vagy erőteljesen korlátozódtak. A helyzetet tovább súlyosbította, hogy az iparcikkek árai már az 1920-as években meghaladták a mezőgazdasági termékekét, így az agrárolló egyre szélesebbre nyílt.

Jóllehet a válság először az agrárágazatban bontakozott ki, annak hatásai értelemszerűen átterjedtek az iparra is. Magyarországon az ipari válság főleg – az értékesítési piacok hiánya miatt – a nehézipari ágazatokat érintette, miközben a könnyűipar esetében lényegesen kisebb volt a termelés volumenének visszaesése.

Az osztrák Kredit Anstalt 1931. május 12-én bekövetkezett fizetésképtelensége miatt a magyar bankrendszer is súlyos helyzetbe került. A bankzárlat elrendelése és a visszafizetések felfüggesztése mellett bevezették a kötött devizagazdálkodást.

Lényeges változásra került sor a külkereskedelem terén. 1937-ben a magyar kivitel 42 százaléka, az Anschlusst követően pedig több mint 50 százaléka Németországba irányult. Az 1930-as évek végén hazánk legfontosabb külkereskedelmi partnere a Harmadik Birodalom lett.

Az 1930-as évek közepétől kezdődő kedvező világgazdasági feltételeknek és a német újrafegyverkezési programnak, valamint a szervezett állami beavatkozásnak köszönhetően a magyar gazdaság teljesítménye 1937-re meghaladta a válság előtti szintet. A győri program (1938. március 12.) katonai és infrastrukturális fejlesztéseinek köszönhetően gazdasági konjunktúra bontakozott ki, amely kedvező hatást gyakorolt mind a nehéz, mind a könnyűipari ágazatok fejlődésére.

SUMMARY

The Great Depression of 1929-33 had serious consequences on Hungary's economy. The Central and Eastern European countries, including Hungary were hit severely by the downturn of the wholesale prices as regards of agricultural products in international markets. Besides declining prices another major problem was that the industrialised countries introduced protectionist measures (customs duties and quotas). As a result of this process, market opportunities were constrained and later ceased to exist. The situation was further aggravated by

the fact that the unfavourable gap between agrarian and industrial prices further widened in the 1920s.

Although the crisis started to emerge in the agriculture, its effects were extended to the industry as well. Due to the lack of safe markets, heavy industrial branches declined sharply, whereas the volume of output fell modest in the light industry.

The bankruptcy of the Austrian Credit Anstalt on 12th Mai 1931 adversely affected Hungary's financial system. In order to overcome the difficulties, banking holiday was ordered by the government, which coupled with the suspension of all payments and the introduction of foreign exchange control.

Foreign trade has changed significantly. In 1937, the share of Hungary's export in Germany's trade was 42 percent, which increased to more than 50 percent after the Anschluss. Thus, at the end of the 1930s, the Third Reich became the most important trade partner of Hungary.

Thanks to favourable external conditions accompanied by the rearmament programme of Nazi Germany and state intervention, the performance of the Hungarian economy improved, and by 1937 it surpassed the pre-depression level. The Győr Programme, announced on 12th March 1938 with its military and infrastructural development contributed to the economic boom, which had positive impacts both in the heavy and light industrial branches.

INTRODUCTION

The world economic crisis, which started in the field of agriculture in Central and Eastern Europe, including Hungary had profound impacts on the industry as well. The Great Depression clearly showed the vulnerability of the Hungarian economy. Although the crisis had devastating consequences both in the agriculture and financial sector, it hit the industry – except of heavy industry – to a lesser extent.

The objective of the paper is to give an overview about the effects of the Great Depression on Hungary's economy. In order to understand the roots of the economic recession between 1929 and 1933, emphasis will be placed on the situation of agriculture, industry and finances. Finally, I will evaluate the crisis management measures, introduced by the government in the 1930s and Hungary's economic recovery together with the considerable changes occurred in her foreign trade. Because of length constraints, I will not highlight the domestic politics of Hungary as well the impacts of the crisis on the economies of other Central and Eastern European countries.

RESEARCH METHODOLOGY

By analysing the effects of the world economic crisis, primary sources and statistical data will be used in each sector of the economy (agriculture, industry, financial sector, and foreign trade). The paper also focuses on the main reasons of the Hungarian economic recovery in the middle of the 1930s by comparing the most important indicators, such as agricultural and industrial output and per capita GNP in an international context.

LITERATURE REVIEW

The impacts of the Great Depression on Hungary's agriculture

The world economic crisis in the autumn of 1929 put an end to the prosperity that characterised the national economy from the mid-1920s. As the depression was global in its nature, advanced industrial economies were also hit severely. The Stock Market crash on 24th October 1929 in New York coupled with overproduction, led to the fall in prices and later industrial output also declined significantly. In 1932, whilst industrial production of the United States and Germany shrank by 46 and 40 percent, it plummeted more than 30 percent in France and 16 percent in Great Britain. At the same time, the production of consumers' goods showed an average decline of around 10 percent, but the output of producers' goods was 40 percent below of the 1929 level. Mass unemployment was a concomitant of the economic depression. As the crisis deepened further approximately 22 and 44 percent of active workforce did not have a job in Britain and in Germany. According to Tomka, the labour market situation was especially severe in Germany because the number of unemployed reached 4.5 million in 1931, which grew to 7-8 million by the winter of 1932-33 (Tomka, 2013:213). In March 1933, the number of idle workers reached 30 million in the industrial countries. Agriculture had to face by the problems of marketing after World War I. Another major problem was that in the early of thirties the world prices of wheat halved on the Liverpool Exchange and fell to one-third by 1934. Meat prices on the world market dropped to 40 percent of the pre-depression level, and the price of index of agricultural products touched a nadir of 37 per cent of that of 1929. Recovery thereafter was minimal, and from 1931 to 1937 the index remained between 37 and 54 percent (Berend – Ránki, 1976).

The crisis had devastating impacts on the national economies of Central and Eastern Europe, including Hungary. First, the collapse of the international market

was accompanied by the downturn in wholesale prices on the domestic market. From 1928 to 1933 prices fell by 54 and 48 percent, which led to the shrinkage of export potential. This was shown by the fact that Hungarian agricultural exports in 1934 were 27 percent less than in 1929. Between 1929 and 1934, calculated on constant prices, agricultural exports dropped by 27 percent, but on a current-price basis the value of exports shrank prices with only a 35 percent decrease in export prices. As a result of price collapse, Hungary suffered a significant deterioriation in its terms of trade. At first, farmers attempted to compensate the price decline by increasing output and raising the quantities exported. This policy met with only limited success, as external market conditions further deteriorated after 1930 and export volumes declined sharply. Aldcroft and Morewood pointed out that the massive drop in export earnings entailed a serious loss of international purchasing power and a rising debt burden relative to exchange earnings. Since most international debts remained fixed in foreign currency terms the debt servicing power of exports fell by one-half in Hungary (Aldcroft – Morewood, 1995:167).
The price changes negatively affected the peasant holdings. Agrarian incomes decreased by two-thirds in Hungary. The situation was aggravated by the unfavourable gap between agrarian and industrial prices. Whereas the former fell by 50-60 percent, the price of goods purchased by the peasants rarely shrank more than 30 percent. Because incomes declined significantly, debt burden increased as a proportion of income and by 1932 many peasants were on the verge of bankruptcy (Aldcroft – Morewood, 1995:167).

***Table 1.* Price index of agricultural products and industrial goods between 1924 and 1938 (percent, 1913=100%)**

	Producer price index of agricultural products	Industrial fuel	Consumer goods	All manufactured goods
1924	161.1	169.7	188.6	184.8
1928	140.1	154.0	155.9	155.5
1933	71.0	124.6	119.8	130.8
1938	87.5	141.3	156.6	153.5

Source: Gunst, P., 1974. A mezőgazdasági termelés története Magyarországon 1920–1938 (The history of agricultural output in Hungary between 1920 and 1938). Budapest: Akadémiai Kiadó. p. 74.

As a result of financial problems new investments were completely cancelled. In contrast with the twenties, when the number of tractors rose relatively rapidly, virtually no tractors were bought after the depression. In 1938 the number of tractors was just about the same as the pre-depression peak (6,957). The use of artificial fertilisers per hectare dropped from 4.4 kg to 0.5 kg between 1930 and 1933 and even by 1938 had not reached 2 kg per hectare again (Berend, 1985: 174-175).

In order to avoid the bankruptcy of peasant holdings, the government adopted the following measures:

1. sales by auction were prohibited, and after a reduction of high rates of interest in 1933, a comprehensive decree was issued providing for the protection of farmers. Certain categories of estates were legally protected by the government according to the levels of debt. Both interest and amortization were substantially reduced, and partly covered by the state itself (Ránki – Tomaszewski, 1986:24). In 1933-35, 32.5 million pengős and between 1935-37, 75.6 million pengős were paid to creditors by the state. In some cases, the payment of mortgages was suspended. These measures affected 22 percent of farms under 4 hectares and 62 percent of estates above 40 hectares and contributed to the alleviation of the crisis in the agriculture (Berend, 1986:178).
2. The state monopoly of agricultural marketing was introduced in order to raise home prices and widen export markets. Therefore, the system of boletta was introduced to counterbalance the fall of domestic prices, which functioned for four years. The state subsidised each quintal of grain. The actual subsidy fluctuated from year to year, but the buyer had to pay more than the market price for grain, 1 boletta per quintal, which varied between 3 and 6 pengős in the years of the 1930s, and the seller used the bolettas for paying tax (Szávai, 2009:123).
3. Finally, a new wave of state intervention in economic processes started from 1934. In Hungary, the sales of agricultural products were monopolised by state agencies. The Hangya Cooperative and Futura Rt., 70 and 100 percent state owned companies, respectively, monopolised 80-85 percent of agricultural exports (Berend, 2006:66).

The consequences of industrial recession

Whereas agriculture was hit severely by the Great Depression, the economic crisis had different impacts on the industry. First, it affected those branches of industry, which produced capital goods, especially iron, metals, machinery, building materials and timber. The main problem was the lack of safe markets for industrial products, which was further exacerbated by the introduction of high import tariffs and prices. The relatively high prices led to an unnecessary hoarding. In 1932, the combined production of iron, metals, building materials and machinery dropped to 52 percent of the pre-depression level (Kaposi, 2002: 297-298). It must be noted that coal production hardly declined, thanks to the government decree of 1930, which compelled the state administration and municipal communities to apply domestic resources. From 1931 onwards, importation of coal was authorised exclusively by the Ministry of Trade. As a consequence of these measures, coal imports – except for charcoal – ceased in Hungary because it decreased from 1.9 million to 0.3 million tons over the period 1929-1933 (Honvári, 2005:66).

Despite the sharp decline of consumer goods' industries, there were certain sectors, such as textiles, leather and paper in which the volume of production in 1933 exceeded 10 percent that of 1929 level. This could be explained by government intervention because the majority of light industrial branches enjoyed a customs protection during the Great Depression. The import needs of domestic manufacturers in the textile industry were also reduced substantially, which fell from 34 to 2.6 percent between 1929 and 1934 (Kaposi, 2002:298).

As regards industrial production, it touched a nadir in 1932, when total manufacturing output barely reached 76 percent that of the pre-depression level. The production of machineries and building materials stood at 47.7 and 52.2 percent, whilst output in the textiles and chemicals declined only by 3.3 and 8.2-8.7 percent. The leather industry and chemicals showed 4 and 11-18 percent increase despite the economic difficulties occurred in Hungary. Decline of output in the food-processing, clothing and printing industries was substantially lower than in the case of producers' goods. In 1932, the production of light industrial branches varied between 70 and 82 percent (Gunst, 1996:51).

Lethbridge noted that three sectors, which were worst hit by the depression, were transport, which declined by 37.2 percent, trade, down by 24.2 percent, and manufacturing, which shrank by an annual average rate of 5.3 percent to the level 23.2 percent below the 1928/29 peak. Small-scale industry and construction declined much less, and in 1933/34 were only 9.5 percent below the pre-depression level. Therefore, Net National Product (NNP) declined by 9.4 percent between 1928/29 and 1932/33, while NNP per capita fell by 11.0 percent (Lethbridge, 1985:556).

***Table 2.* Manufacturing production in Hungary (1929=100%)**

Industrial branch	1931	1932	1933	1934
Iron and metallurgy	72.0	59.2	59.3	78.0
Machinery	61.5	47.7	45.0	61.0
Building materials	63.7	52.2	49.8	65.3
Timber	61.2	51.8	55.8	70.0
Food-processing	83.3	77.4	79.0	82.3
Clothing	80.2	70.0	76.1	86.0
Printing industry	89.3	82.0	82.0	85.0
Electricity generation	104.5	98.5	104.5	105.0
Brut output of manufacturing industry	83.4	75.9	88.1	91.2

Source: Gunst, P., 1996. Magyarország gazdaságtörténete 1914-1989 (Economic History of Hungary, 1914-89). Budapest: Nemzeti Tankönyvkiadó, p. 55.

Kaposi stressed that the world economic crisis hit the Hungarian industry to a lesser extent. In 1932, industrial output stood at 74 percent of the 1929 level, but one year later it increased by 8 percent. Although the value of industrial production declined by 37 percent in 1932, the terms of trade improved in the industry as basic commodities and agricultural raw materials became cheaper (Kaposi, 2002: 298-299).

The effects of financial crisis in Hungary and the start of economic recovery from the mid-1930s

Economic downturn was accompanied by a financial crisis, which had devastating impacts on Hungary's economy that depended heavily on foreign loans. From 1929 onwards, as a consequence of the fall in capital exports, commercial banks of the United States started to withdraw the credits, which were granted to the

European countries after World War I. It was more and more difficult to obtain new loans in the international money market. The crisis of financial sector began with the bankruptcy of Credit Anstalt on 14th May 1931, which was the largest banking institution in Austria. At first, it seemed that Western European creditors were interested in rescuing the most important Austrian bank but because of the planned customs union between Austria and Germany in March of 1931, the proposal was rejected by France and Great Britain, which were anxious about the creation of the concept of Mitteleuropa in the region as a whole (Ormos, 2009). Therefore, all short- and long-term credits were completely withdrawn from Credit Anstalt. In the summer of 1931, the German banking system got into difficulties when Reichsbank was obliged to pay out gold foreign exchange to the amount of 2 billion Reichsmark, which exhausted the country's reserves. The problem was further aggravated by the fact that in 1929, Germany's foreign debt climbed to 25 billion Reichsmark, while liabilities of the state were 10 billion Reichsmark (Németh, 2002:142). The bankruptcy of Germany's and Austria's financial institutions profoundly affected the Central and Eastern European countries. The situation was particularly dangerous in Hungary. Between 1st May and 13th July 1931, the Central Bank of Hungary paid out fold and foreign currency to a value of some 200 million pengős, which exceeded its entire reserve of precious metals and foreign currency in April. According to Ránki and Tomaszewski in 1931 Hungary's foreign indebtedness reached 4.3 billion pengős, the amortisation cost of which was 300 million pengős a year. This equalled 8 percent of the national income and accounted for 50 percent of the value of annual exports (Ránki – Tomaszewski, 1986:26).

Table 3. **The composition of external debt at the end of 1931 in Hungary (expressed in million pengős)**

State	1567.4
Municipalities	547.1
Churches	23.8
Private entities	2170.8
Total	4309.1

Source: Csikós-Nagy B., 1996. A XX. század magyar gazdaságpolitikája. Tanulságok az ezredforduló küszöbén (Hungarian economic policy of the XXth century. Lessons at the turn of the millennium). Budapest: Akadémiai Kiadó. p. 84.

***Table 4.* Gold and foreign exchange reserves in Hungary (expressed in million pengős)**

Year	Gold reserves	Foreign exchange reserves
1927	183.8	92.9
1928	197.6	75.9
1929	178.7	34.0
1930	162.6	21.6

Source: Csikós-Nagy B., 1996. A XX. század magyar gazdaságpolitikája. Tanulságok az ezredforduló küszöbén (Hungarian economic policy of the XXth century. Lessons at the turn of the millennium). Budapest: Akadémiai Kiadó. p. 90.

The endeavour of the Bethlen government was to avoid bankruptcy. Thus, it ordered a three-day banking holiday in order to suspend all payments and limit the withdrawals of deposits. When the banks reopened a directive was issued that only 5 percent of any deposit up to a maximum of 1,000 pengős could be withdrawn. As a result of the financial crisis, controls were instituted on gold and foreign currencies. Therefore, free exchange of the pengő was terminated and from the summer of 1931 all transactions in foreign currency depended on the permission of the National Bank (Gunst, 1996:52). By the end of 1931, a complete moratorium on all transfers of money out of the country was ordered. According to this regulation, all foreign payments were suspended. Henceforward Hungarian debtors were obliged paid the equivalent of their foreign obligations in pengős to a Foreign Creditors' Fund (Külföldi Hitelezők Alapja) administered by the National Bank. The ban was applied to the repayment of short-term foreign debts expressed in pengős (Honvári, 2005:71).

These measures served to maintain the balance in trade and restore the internal equilibrium of the national economy. The restrictions were not suspended by the government at the end of the 1930s, but on the contrary, they were extended after the period of 1945 within the system of centrally planned economy. Finally, they were only abolished in Hungary at the turn of the millennium (Palotás, 2003:248). Because of Hungary's large indebtedness, currency devaluation could not help to reduce the huge debt burden expressed in pengős. The Hungarian government decided to introduce the premium system, first worked out in Nazi Germany. This meant that official exchange rate did not vary but it was possible to convert foreign currencies into pengős at more than the official rate. Thus, a premium was paid for foreign currency. At first, the National Bank applied flexible rates, assuring exporters a premium of 20 to 50 percent, which consisted of 500 different items. In 1935 a new variation of the same system was introduced. The differentials between various articles were abolished, and instead a permanent scale of premia tied to each currency was applied (Ránki – Tomaszewski, 1986:28). In the second half of the 1930s, the highest premium was placed on the currencies of free exchange countries, such as Denmark, France, Great Britain, the Netherlands, Switzerland, the United States and Canada. In their case the premium was 50 percent, whilst it accounted for 47 percent of that for the Italian lira, 46 and 33.5 percent of that for the Bulgarian leva and Yugoslav dinar, 33 and 18 percent of that for the drachma and Reichsmark (Draskóczy et. al., 1998:377).

Another main objective that helped to overcome the difficulties was the premium system. This contributed to an improvement of the financial and economic situation. The system was applied not only to exports but also to imports. These import premia caused a reduction in imports and reduced the ability of foreign goods to compete. The premium system coupled with import restrictions and protective customs duties, played an important role in the monopolisation of domestic market for Hungarian heavy industry because it maintained artificially high domestic price level in many areas. It complemented the policy of exporting at reduced prices, which meant charging the domestic consumer higher prices as products were selling cheaply in foreign markets (Ránki – Tomaszewski, 1986:28).

However, the financial measures introduced by the government were still not enough to solve the county's market and foreign exchange difficulties. As the crisis was a world-wide phenomenon, it was only possible to emerge from it through a change in external economic conditions. From 1934, there were several factors that helped the recovery in Hungary:

1. In 1934 and 1936, as a consequence of extremely dry weather, agriculture was hit by drought for two years, which decreased world production. In 1934 Europe, America and Australia had a wheat production 16 percent lower than the average for the previous four years. In addition, the German economic policy of rearmament and building the Grossraumwirtschaft in Central and Southeastern Europe gradually changed the market situation for agricultural products in Europe. Furthermore, industrial production started to increase again. After the nadir of the depression in the early of the 1930s, both employment and consumption regained the level they had reached before the crisis. These

tendencies were linked to the impacts of war preparations in the second half of the decade (Berend, 1985:181).

2. The cancellation of all war reparations payments under an international agreement was even more important for Hungary. According to an agreement, signed in 1933 debtor countries were allowed some relief both on interest rates and the schedule for loan repayments. As a result of depreciation of major foreign currencies, the national debt was brought down from 4.3 billion to 2.5 billion pengős by the middle of the 1930s. This meant that foreign lenders had to write off between 40 and 70 percent of the loans that had been extended to Hungary. Under the agreement, signed by the National Bank with foreign creditors in 1937, Hungary undertook to repay its outstanding debt in annual tranches of 46 million pengős (Romsics, 1999:140).
3. Because of disequilibrium in the balance of payments and trade, caused by the world economic crisis between 1929 and 1933, the Neuer Plan was elaborated by Hjalmar Schacht. The core element of the concept was to provide deliveries of agricultural products and raw materials from Central, Eastern and Southeastern European countries to the Third Reich, which were essential for the German war economy. Already in the 1930s, Hungary and other Central and Eastern European countries suffered from the impacts of the world-wide economic crisis and from the lack of markets and currency. Because industrialized countries imposed restrictions on imports (customs duties and quotas) only Germany could purchase the agricultural products at fixed prices, which were higher than world market prices. The Nazi leadership recognised the key role of the Danube region, including Hungary (Domonkos, 2016:300-320). Drabek stated that "Germany was particularly active in this respect. All its foreign-exchange transactions became subject to foreign exchange controls from 1934, and its trade was organised on a basis of clearing agreements" (Drabek, 1985:436). The year of 1934 was a turning-point for Hungary and for Eastern Europe as well. The German-Hungarian trade agreement, which was signed in February of 1934, permitted Germany's government to purchase 50,000 tons of wheat, 75,000 tons of animal fodder, 6,000 head of sheep, 3,000 tons of pork and 3,000 tons of lard (Berend – Ránki, 1987:816). Agricultural export was subsidised by Hungary in a worth of 22 million pengős annually, which complemented the quota system. This made it possible to sell agricultural products above the world market

prices (Szávai, 2009:123). In return, the Hungarian government lowered import tariffs for German manufactured goods by 20-30 percent. On the basis of this agreement Hungary, Italy and Germany signed the 'Rome Protocols', which created an economic bloc among the three countries by opening up of markets to each other. At the same time, a German-led Central and Eastern European bloc was established, based on strictly bilateral agreements (Berend, 2006:67).

There were several important advantages for Germany in conducting her trade with the countries of Central and South-Eastern Europe, including Hungary. Teichova stressed that by holding credit balances in blocked accounts for imports from south-east Europe, the Third Reich was able to draw upon interest-free loans for increasingly long periods in order to solve part of her debt and foreign exchange problems. She could gain free exchange by re-exporting agricultural products, thus selling as yet unpaid goods and was interested in finding a way into world markets over the relatively less developed Danubian countries. After 1934 Germany strived for purchasing as much as possible over the clearings, which compelled the governments of the capital-starved exporting countries to become involuntary exporters of capital as well, as they were credit-financing Germany's imports. The supply of primary products from the Danubian states mitigated the problems of bottlenecks in her domestic economy caused by her public works and rearmament programmes under Schacht's New Plan and from 1936 under Goerings's Four Year Plan. However, bilateral trade with Southeast European countries eased the supply situation on her domestic market, this did not solve Germany's food and raw material shortages (Teichova, 1989:952-953).

As a consequence of Germany's expansion in the Danubian basin, radical change occurred in Hungary's trade relations. From the mid-1930s Germany became the most important trading partner because her share in Hungarian exports was doubled in a single year, from 11.2 percent in 1933 to 22.2 percent in 1934, and so she took the lead over Austria. This trend continued throughout the 1930s: the Third Reich's share in Hungarian exports grew to 42 percent by 1937, and after the Anschluss of 1938 it surpassed 50 percent (Tóth, 2005:506). At the end of the decade, the economic influence of Nazi Germany further strengthened in Central, Eastern and Southeastern Europe, including Hungary. The close relationship between Germany and her eastern neighbours already apparent before 1939 is demonstrated clearly by the data for trade shares (Aldcroft – Morewood, 1995:90).

Table 5. **German share in foreign trade in percent**

	Exports to Germany, percent total		**Imports from Germany, percent of total**	
Country	1933	1939	1933	1939
Bulgaria	36.0	71.1	38.2	69.5
Hungary	11.2	52.4	19.6	52.5
Romania	16.6	43.1	18.6	56.1
Yugoslavia	13.9	45.9	13.2	53.2

Source: Berend, I. T., 2006. An Economic History of Twentieth-Century Europe. Economic Regimes from Laissez-Faire to Globalization. Cambridge: Cambridge University Press, p. 127.

By 1939, Hungary Romania and Yugoslavia conducted half, and Bulgaria 70 percent of their foreign trade with Germany. Berend and Ránki stressed that it was meant not as a matter of regular foreign trade, but rather an economic dictation of the Third Reich (Berend – Ránki, 1977:142). The bulk of Hungarian exports consisted of agricultural products, which were delivered to Nazi Germany. There was similar growth in Hungarian imports of German goods, which comprised chiefly machinery, tools, automobiles, pharmaceuticals and dyes. Italy was the second largest trading partner for Hungary. In 1941 the two countries accounted for 74 percent of all Hungarian exports, whilst supplied 79 percent of its imports. Economic ties with neighbouring countries and other parts of Europe and the rest of world decreased significantly (Tóth, 2005:506-507). In parallel with trade expansion in the region as a whole, the Germans also acquired influence in the industrial and financial sector of Hungary because 50 percent of foreign direct investments were owned by German investors. They played a dominant role in the armament, transport and metal industries (Kaposi, 2002:304).

Thanks to the improvement of international economic conditions, which was accompanied by the restoration of agricultural commodity prices and easing of credit conditions, the Hungarian economy was capable to overcome the difficulties caused by the Great Depression. In 1937 industrial production surpassed the level of 1929. In the field of agriculture, both the sown area and harvest as well as livestock for 1937-38 regained the pre-depression levels. Besides industry, trade and service sector showed the most dynamic development, whereas the share of agriculture in the national income fell below 40 percent (Romsics, 1999:142).

The most striking change within the industrial sector was the growth of 4 percent in heavy industry, including chemicals, which started to play an increasingly important role in the national economy. This related to the fact that in the early 1930s new oil reserves were discovered, and in 1937-1938 oil was found in significant quantities. Therefore, oil production rose from 2,200 tons in 1937 to 42,700 tons in 1938. Gas production also increased from 1.6 million cubic metres to 7.7 million cubic meters between 1931 and 1939, which gave further boost to the development of chemical industry (Romsics, 1999:142-143). Bauxite production also grew significantly, and Hungary's first alumina extraction plant started its operation in Magyaróvár during 1934. In 1935 the first aluminium smeltery was opened on Csepel Island (Romsics 2017, :386). At the end of the 1930s, the bulk of unprocessed bauxite was delivered to Germany.

Economic recovery was promoted by the Győr Programme, which was announced on 12th March 1938 by Kálmán Darányi, Prime Minister of Hungary. The programme was approved by the Parliament in May of 1938 and the government wanted to invest 1,000 mn pengős in armaments. Its main objective was to modernise the armed forces and military infrastructure in Hungary. About 60 percent of investment was designed for direct military purposes, while the remaining was allotted to indirect military investments, chiefly for the development of transport and telecommunications. The term set for the completion of the programme was originally 5 years. The substantial investments were covered by the state through the levy of a single property tax of 600 million pengős. The property tax was to be paid by all natural and legal persons whose property value exceeded 50,000 pengős. Additional sources, necessary for the implementation of the programme were covered by the issue of an internal loan of 400 million pengős. As a result of increased state demands, 'war prosperity' emerged from the second half of 1938. State orders given towards the end of 1938 to industry amounted to 150-200 million pengős. Of these orders 70-75 percent were obtained by the iron, metal, machine and electrical industries (Ránki – Tomaszewski, 1986:41-42). In the field of weapon and armaments industry state-owned companies (the Hungarian Wagon and Machine Works in Győr, MÁVAG and Manfréd Weiss Works) were the biggest beneficiaries of the economic boom

(Domonkos, 2018:124). Thanks to the rearmament programme of Germany from 1934 onwards and the increased role of state orders, industrial output in Hungary grew continuously at the end of the 1930s. From 1938 to 1939 war expenditures reached 16 billion pengős, which absorbed 22 per cent of the national income (Szávai, 2009:124).

Electrification of the country continued from the second half of 1930s. The number of communities being tied into the grid rose from 300 in 1928 to 1200 in 1938. At the same time, 36 percent of settlements and 71 percent of the country's population now had access to power. The majority of towns and villages were supplied with electricity (Romsics, 2017:408).

As regards agriculture, the average yields of the seven main crops in the thirties reached only 85 percent of the European average. Berend emphasizes that partly as a result of the moderate growth of yields, but particularly of increasing labour input and the enlargement of land under cultivation, production achieved considerable development from the early twenties to the late thirties. On five-year averages from 1920-24 to 1935-38, wheat production in Hungary increased by two-thirds, maize production in the same period grew by 80-86 percent. He also pointed out that between 1934 and 1938, of the principal Hungarian crops only maize, wheat and potatoes surpassed the level of 1911-15 (by 53, 12 and 10 per cent respectively), while barley, rye, oats and sugar beet lagged by 13 to 40 percent and aggregate livestock was 15 percent less in 1938 than that of 1911 (Berend, 1985:197-202).

In parallel with the decrease of the areas sown with grain, more labour-intensive crops were cultivated in the rural areas. Because of deliberate governmental measures, introduced during the 1930s horticulture and fruit production further developed, which provided further basis for the canning industry. However, the share of food industry in total manufacturing output fell from 36 to 30 percent between 1929 and 1938 but output of preserved vegetables and fruits had doubled in relation to pre-depression levels by 1938 (Romsics, 1999:143).

There are several calculations for the economic performance of Hungary during the interwar years. As far as industrial development was concerned, Teichova noted that Hungary's manufacturing industry recovered only moderately and was characterised by the vicissitudes of the trade cycle. The annual growth rate of industrial output throughout the interwar period was below 1.5 percent against a 5 percent average annual growth rate at the end of the 19th century (Teichova, 1985:234). Agriculture stagnated and only succeeded overcoming the difficulties of the Great Depression from 1934. The calculations of Bairoch showed that by the end of the 1930s, the Hungarian economy not only recovered the pre-depression level but surpassed it because per capita national income in 1938 was 6 percent higher than that of 1928-1929. In the same quarter of a century, the per capita GNP grew in Germany by 48 percent, France 34 percent, Italy 25 percent Yugoslavia 19 percent, Great Britain 18 percent and Czechoslovakia 4 percent. Whilst Hungarian per capita national income had been 69 percent of the European average in 1913, which rose to 74 percent in 1929, it dropped to 67 percent by 1938. In 1938, the per capita of national income was 38 percent of that in Great Britain, 40 percent of the German, 48 percent of the French, 70 percent of the Austrian, 82 percent of the Czech, 121 percent of the Polish, 128 percent of the Portuguese and 131 percent of the Romanian figure. The Hungarian economy preserved its traditional position between the Balkans and the Czech Moravian territories (Tóth, 2005:507-508). Its development was characterised by moderate growth, which fitted into the general trends. Despite the economic difficulties in the first half of the 1920s, the annual growth rate of 1.5 percent may be regarded as a considerable achievement. Import substitution in various less labour-intensive industries played a crucial role in strengthening the country's base and stimulating the recovery in manufactures. Finally, armaments boom promoted the recovery of the national economy at the end of the decade, which produced high growth rates in the heavy industrial branches (Lethbridge, 1985:556).

CONCLUDING REMARKS

The Great Depression had negative impacts on Hungary's economy. The collapse of international market was accompanied by the downturn in wholesale prices on the domestic market. This problem was exacerbated by the fact that agricultural export declined sharply. As a result of price collapse, Hungary suffered a significant deterioriation in its terms of trade. Because incomes declined significantly and debt burden increased substantially, many peasants were on the verge of bankruptcy. Due to financial problems all new investments were cancelled in the agriculture. In the crisis years, both the use of farm machinery and fertilisers came to halt, which showed the relative backwardness of the Hungarian agrarian sector compared to Western Europe. In order to alleviate the

bankruptcy of peasant holdings, the government prohibited sales by action and reduced the high rates of interest. The sales of agricultural products were also monopolised by state agencies to raise domestic prices. As a consequence of these measures and because external conditions started to improve from 1934 onwards, both the sown area and harvest, as well as livestock for 1937-38 regained its pre-crisis level.
As far as industry was concerned, statistical data show that heavy industrial branches (iron, metals and construction sector) fell by more than 50 percent, whereas light industries hardly declined, and there were certain sectors such as the manufacture of textiles and clothing, which were capable to grow modestly during the economic crisis. Industrial production touched its nadir in 1932, but by 1937 it surpassed the level of 1929.

Hungary's economy was adversely affected by the financial crisis because it depended heavily on foreign loans. To avoid bankruptcy and restore the internal equilibrium, all foreign payments were suspended by the government. Foreign exchange control was introduced, which was complemented by the application of the premium system to mitigate foreign exchange difficulties.
Owing to favourable changes in external economic conditions coupled with deliberate government measures, the Hungarian economy recovered in the second half of the 1930s. The Győr Programme with its indirect military investments, mainly in the transport and telecommunication and state orders given to the heavy industry at the end of 1938 also promoted the economic boom.

During the 1930s, Hungary's foreign trade relations changed significantly. After 1933 the National Socialist leadership set out its aims by extending the sphere of influence of Nazi Germany to Central and Southeastern Europe. To alleviate the debt and foreign exchange problems of the Third Reich, bilateral clearing agreements were signed between Germany and the majority of the countries in the region. As a consequence of this process, by 1939 Hungary conducted more than half of its foreign trade with Germany. On the eve World War II Central, Eastern and Southeastern Europe, including Hungary were incorporated in the "Grossraumwirtschaft", which served to subordinate these countries to German war efforts.

REFERENCES

1. ALDCROFT, D. H. & MOREWOOD, S. (1995): Coping with Depression in Eastern Europe. In: Aldcroft, D. H. – Morewood, S., ed., 1995. Economic Change in Eastern Europe since 1918. Aldershot, Hants, England: Edward Elgar Publishing Limited. pp. 164-194.
2. ALDCROFT, D. H. & MOREWOOD, S. (1995): War and the emergence of new regimes. In: Aldcroft, D. H. – Morewood, S., ed., 1995. Economic change in Eastern Europe since 1918. Aldershot, Hants, England: Edward Elgar Publishing Limited. pp. 86-105.
3. BEREND, I. T. (2006): An Economic History of Twentieth Century Europe. Economic Regimes from Laissez-Faire to Globalization. Cambridge: Cambridge University Press.
4. BEREND, I. T. (1985) Agriculture. In: Kaser, M. C. – Radice, E. A., ed., 1985. The Economic History of Eastern Europe 1919-1975. Vol. I. Oxford: Clarendon Press. pp. 148-209.
5. BEREND, I. T. & RÁNKI, Gy. (1977): East Central Europe in the 19th and 20th centuries. Budapest: Akadémiai Kiadó.
6. BEREND I. T. & RÁNKI, Gy. (1976): Közép- és Kelet-Európa gazdasági fejlődése a 19-20. században (Economic and social development of East Central Europe in the 19th and 20th centuries). Budapest: Közgazdasági és Jogi Könykiadó.
7. BEREND, I. T. & RÁNKI, Gy. (1987): Polen, Ungarn, Rumänien, Bulgarien und Albanien 1914-1980. In: Armengaud, A. – Wolfram, F. – A. Van Houtte, J. – Kellenbenz, H., – Mieck, I., Vittinghoff, F., 1987. Europäische Wirtschafts- und Sozialgeschichte vom Ersten Weltkrieg bis zur Gegenwart Band 6. Stuttgart: Klett-Cotta. pp. 775-820.
8. CSIKÓS-NAGY B. (1996): A XX. század magyar gazdaságpolitikája. Tanulságok az ezredforduló küszöbén (Hungarian economic policy of the XXth century. Lessons at the turn of the millennium). Budapest: Akadémiai Kiadó.
9. DOMONKOS, E. (2018): Az ipari fejlődés sajátosságai a Horthy-korszakban (The pecularities of industrial development in Hungary in the Horthy era). In: Domonkos, E. – Marinovich, E. – Sáringer J. ed. Kelet-Közép-Európa politikai és gazdasági fordulatai a rövid XX. században. A Budapesti Gazdasági Egyetem és a Veritas Történetkutató Intézet közösen szervezett, 2018. április 13-i nemzetközi konferenciájának tanulmánykötete. Budapest: BGE. pp. 112-130.
10. DOMONKOS, E. (2016): Közép- és Kelet-Európa gazdaságtörténete a két világháború között. A félperiféria és a világgazdasági folyamatoktól való elzárkózás (Economic history of Central and Eastern Europe in the interwar

period. Semi periphery and seclusion from world economic tendencies). Budapest: Aposztróf Kiadó.
11. DRABEK, Z. (1986): Foreign Trade Performance and Policy. In: Kaser, M. C. – Radice, E. A. ed.: The Economic History of Eastern Europe 1919-1975. Vol. I. Oxford: Clarendon Press. pp. 379-467.
12. DRASKÓCZY, I., BUZA, J., KAPOSI, Z., KÖVÉR, Gy., & HONVÁRI, J. (1998): Magyarország gazdaságtörténete a honfoglalástól a 20. század közepéig. Harmadik részben átdolgozott kiadás (Hungary's history from the conquest to the middle of the 20th century). Budapest: Aula Kiadó.
13. GUNST, P. (1974): A mezőgazdasági termelés története Magyarországon 1920–1938 (The history of agricultural output in Hungary between 1920 and 1938). Budapest: Akadémiai Kiadó.
14. GUNST, P. (1996): Magyarország gazdaságtörténete 1914-1989 (Economic History of Hungary between 1914 and 1989). Budapest: Nemzeti Tankönyvkiadó.
15. HONVÁRI, J. (2005): Magyarország gazdaságtörténete Trianontól a rendszerváltásig (Economic History of Hungary from Trianon to the change of regime). Budapest: Aula Kiadó.
16. KAPOSI, Z. (2002): Magyarország gazdaságtörténete 1700-2000 (Economic history of Hungary, 1700-2000). Pécs-Budapest: Dialóg-Campus Kiadó.
17. LETHBRIDGE, E. (1985): National Income and Product. In: Kaser M. C. – Radice, E. A., ed., 1985. The Economic History of Eastern Europe 1919-1975. Vol. I. Oxford: Clarendon Press. pp. 532-597.
18. NÉMETH, I. (2002): Németország története (History of Germany). Budapest: Aula Kiadó.
19. ORMOS, M. (2009): Válságok és megoldások - történész szemmel (Crisis and solutions). In: Rab, V., 2009. Válságos idők tegnap és ma. Pénz, gazdaság és politika a 19-21. században (Times of Crisis yesterday and today. Money, economy and politics in the 19-21st centuries). Pécs: Pro Pannónia Kiadó. pp. 10-19.
20. PALOTÁS, E. (2003): Kelet-Európa története a 20. század első felében (History of Eastern Europe in the first half of the 20th century). Budapest: Osiris Kiadó.
21. RÁNKI, Gy. & TOMASZEWSKI, J. (1986): The Role of the State in Industry, Banking and Trade. In: Kaser, M. C. – Radice, E. A., ed., 1986. The Economic History of Eastern Europe 1919-1975. Vol. II. Oxford: Clarendon Press. pp. 3-48.
22. ROMSICS, I. (2017): A Horthy-korszak (The Horthy era). Budapest: Helikon Kiadó.
23. ROMSICS, I. (1999): Hungary in the twentieth century. Budapest: Corvina – Osiris.

24. ROMSICS, I. (2017): Magyarország története (History of Hungary). Budapest: Kossuth Kiadó.
25. SZÁVAI, F. (2009): A Horthy-korszak gazdasági élete 1920-1945 (The economic life of the Horthy era from 1920 to 1945). In: Gulyás, L., ed., 2009. A modern magyar gazdaság története. Széchenyitől a Széchenyi tervig. (The contemporary economic history of Hungary. From Széchenyi to the Széchenyi plan). Szeged: JATE Press. pp. 113-125.
26. TEICHOVA, A. (1989): East-central and south-east Europe, 1919-1939. In: Peter, M. – Pollard, S., 1989. The Cambridge Economic History of Europe. Vol VIII. Cambridge: Cambridge University Press. pp. 887-983.
27. TEICHOVA, A. (1985): Industry. In: Kaser, M. C. – Radice, E. A. ed., 1986. The Economic History of Eastern Europe 1919-1975. Vol. I. Oxford: Clarendon Press. pp. 222-333.
28. TOMKA, B. (2013) A Social History of Twentieth-Century Europe. First Edition. London: Routledge. Taylor & Francis Group. https://doi.org/10.4324/9780203375358
29. TÓTH, I. Gy. (2005): A Concise History of Hungary. The History of Hungary from the Early Middle Ages to the Present. Budapest. Corvina – Osiris.

ISSN 2630-886X