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## *Business History: Enterprises in Adaptation*

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Special Editor of the Thematic Issue

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Petr Popelka

## Business Strategies and Adaptation Mechanisms in Family Businesses during the Era of the Industrial Revolution

### The Example of the Klein Family from Moravia

Family businesses are a central topic in the history of business, especially in the early phases of the industrialization process. This case study attempts to identify the business strategies and the adaptation mechanisms used by a family business during the era of the Industrial Revolution. The main aim of the study is to explore which adaptation mechanisms and strategies were used during the Industrial Revolution by large family firms in the Lands of the Bohemian Crown. The study focuses on a model example, the Klein family, which ranked among the foremost entrepreneurial families in the Bohemian Crown Lands. The Kleins initially rose to prominence through their road construction business. They later built private and state railways and also diversified into heavy industry. I delineate the main stages in the development of the family firm, discuss a number of key microeconomic factors which influenced the Kleins' business activities, and describe the factors which ultimately led to the downfall of this once-successful firm.

Keywords: business history, family firm, Industrial Revolution, capitalism, Lands of the Bohemian Crown, business strategies, adaptation mechanisms, Gebrüder Klein, Klein von Wiesenberg

### *The Problem of Continuity and Adaptation*

In his influential study of the family, businesses and capitalism, Jürgen Kocka states that the spirit and practice of capitalism are based on non-capitalist structures and processes which have a long-term influence over capitalism. He identifies the family as one of the key elements which contributed to the formation of capitalism. Kocka writes that family structures, processes and resources encouraged the emergence of industrial capitalism and helped resolve certain problems faced by capitalist industrialization. In his view, this role was particularly evident in the early phase of industrialization.<sup>1</sup>

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1 Jürgen Kocka, "Familie, Unternehmer und Kapitalismus. An Beispielen aus der früher deutschen Industrialisierung," *Zeitschrift für Unternehmensgeschichte* 24 (1979): 99–135.

Many years have elapsed since the publication of Kocka's above-cited article, and many studies have explored the relationships between business and the family. Although scholars may differ in some of their conclusions regarding this relationship, there nevertheless exists a general consensus that the family played an exceptional role in business throughout the nineteenth century.<sup>2</sup> In the European historiography on business history, over the course of the past decade there was a marked increase in the interest in the history of family businesses; many studies of family businesses focus on the nineteenth century, the era which witnessed the formation of modern family business practices. Many phenomena have been analyzed with regard to nineteenth-century family businesses; among the most important are issues of succession within family firms, business strategies applied by family businesses, and the construction of social networks.<sup>3</sup>

The central topic of this study (and indeed this entire issue of the journal) concerns enterprises in adaptation. This topic is intricately intertwined with the question of continuity in business, a question that has not yet been fully addressed by Czech historiography with regard to nineteenth-century businesses. Existing studies suggest that the development of the entrepreneurial classes in the Bohemian Crown Lands was in fact characterized not by continuity, but rather by discontinuity. This finding has been demonstrated by historical research mainly in terms of the transition between business practices in the proto-industrial era and the industrial era. Businesses which emerged under the protectionist conditions that prevailed during the period of enlightened absolutism and the Napoleonic Wars generally found it difficult to adapt to the conditions of economic liberalism that characterized the early phase of industrialization. There were, moreover, certain specific features which affected developments

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2 Andrea Colli, *The History of Family Business 1850–2000* (Cambridge: Cambridge University Press, 2003); Toni Pierenkemper, *Unternehmensgeschichte. Eine Einführung in ihre Methoden und Ergebnisse* (Stuttgart: Franz Steiner Verlag, 2000), 112; Wieland Sachse, "Familienunternehmen in Wirtschaft und Gesellschaft bis zur Mitte des 20. Jahrhunderts. Ein historischer Überblick," *Zeitschrift für Unternehmensgeschichte* 36 (1991): 9–25; Louis Bergeron, "Familienstruktur und Industrieunternehmen in Frankreich (18. bis 20. Jahrhundert)," in *Familie zwischen Tradition und Moderne*, ed. Neithard Bulst, Joseph Goy, and Jochen Hoock (Göttingen: Vandenhoeck & Ruprecht, 1981), 225–37.

3 One finds examples of these approaches in Sandra Zeumer, *Die Nachfolge in Familienunternehmen. Drei Fallbeispiele aus dem Bergischen Land im 19. und 20. Jahrhundert* (Stuttgart: Franz Steiner Verlag, 2012); Adelheid von Saldern, *Netzwerkökonomie im frühen 19. Jahrhundert. Das Beispiel der Schoeller-Häuser* (Stuttgart: Franz Steiner Verlag, 2009); Michael Schäfer, *Familienunternehmen und Unternehmerfamilien. Zur Sozial- und Wirtschaftsgeschichte der sächsischen Unternehmer 1850–1940* (Munich: C.H. Beck Verlag, 2007); Harold James, *Family Capitalism. Wendels, Haniels, Falcks and the Continental European Model* (Cambridge–London: Belknap Press, 2006).

in individual sectors. In some sectors, the technological changes brought by the Industrial Revolution necessitated such hugely increased volumes of investment that it was practically impossible to manage a smooth transition from traditional manufacturing methods to modern mechanized production; many established businesses failed to deal with this challenge. The thesis of the discontinuity between proto-industrial and industrial business practices has been confirmed by Czech historiographical research focusing on the mining and metallurgical industries, and to some extent also by research into textile production.<sup>4</sup> Family firms involved in glassmaking or textile production based on the factor system achieved a higher level of continuity between the proto-industrial and industrial eras; in both these sectors there were some family businesses which spanned several generations. However, even in these industries not all entrepreneurs proved able to adapt to the new circumstances.<sup>5</sup>

The issue of continuity in the entrepreneurial classes of the Bohemian Crown Lands during the era of industrialization has been addressed in Czech historiography by a small number of studies that focus on specific groups of entrepreneurs who were active in particular sectors (M. Myška on metallurgy, J. Matějček on mining, J. Janák and B. Smutný on textile production, J. Janák and F. Dudek on sugar refining). These studies all reveal the dynamic changes

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4 Arnošt Klíma, “The Beginning of the Machine Building Industry in the Czech Lands in the First Half of the Nineteenth Century,” *The Journal of European Economic History* 4 (1975): 49–78; Arnošt Klíma, “Industrial Growth and Entrepreneurship in the Early Stage of Industrialization in the Czech Lands,” *The Journal of European Economic History* 6 (1977): 549–74; Milan Myška, *Rytíři průmyslové revoluce. Šest studií ke dějinám podnikatelů v českých zemích* (Ostrava: Ostravská univerzita, 1997), 30–49; Jiří Matějček, “Majetky, důchody a investiční možnosti v českých zemích v 19. století,” *Studie ke sociálním dějinám 19. století* 6 (1996): 101–240; Jan Janák, *Hospodářský rozmach Moravy 1750–1918* (Brno: Maticе moravská, 1999), 9–28; Bohumír Smutný, *Potštejnská manufaktura na česko-kladském pomezí. Studie o východočeském plátenictví v letech 1754–1761* (Hradec Králové: Vysoká škola pedagogická, 2002).

5 Bohumír Smutný, “Formování podnikatelské buržoasie ve lnářském průmyslu v Podkrkonoší,” *Lnářský průmysl* 4 (1981): 95–116; Bohumír Smutný, “Pokus o typologii lnářských podnikatelů na Trutnovsku (na příkladu podnikatelských rodin Klugů a Etrichů),” in *Podnikatelstvo jako předmět historického výzkumu*, ed. Milan Myška (Ostrava: Ostravská univerzita, 1994), 135–43; Bohumír Smutný, “Hrabata pláteníky a pláteníci barony. Společenské a sociální skupiny v čele českého a moravského plátenictví ve 2. polovině 18. století,” in *Šlechtic podnikatelem – podnikatel šlechticem. Šlechta a podnikání v českých zemích v 18.–19. století*, ed. Jiří Brňovják and Aleš Zářický (Ostrava: Ostravská univerzita, 2008), 49–61; Milan Myška, “Slezská podnikatelská rodina Grohmannů. Pokus o kolektivní biogram dvou generací podnikatelské rodiny,” *Slezský sborník* 92 (1994): 176–94.

experienced by the entrepreneurial classes during the course of the Industrial Revolution.<sup>6</sup>

Research on family businesses may well offer insights into the issue of business continuity during the era of industrialization; this remained the most widespread form of enterprise throughout the nineteenth century. Modern research has shown that, by their very nature, family businesses display a strong tendency towards continuity; this is reflected in the existence of family firms spanning three (or more) generations during the era of industrialization. Among the more recent studies describing this phenomenon is an article by Michael Schäfer that explores the situation in Saxony.<sup>7</sup> However, Czech historiography unfortunately still lacks an equivalent study drawing on broad-based collective biographical research and focusing specifically on family businesses, in spite of the fact that a number of new business encyclopedias offer an excellent information resource.<sup>8</sup> Case studies nevertheless confirm that family firms represented a significant source of business continuity during the era of industrialization in the Bohemian Crown Lands. On the other hand, these studies also suggest that only a few of these family firms managed to maintain their continuity for more than three generations. In most cases, the firms suffered either as a result of a failure to handle generational transitions successfully or as a consequence of external circumstances; this was particularly typical in the turbulent first half of the twentieth century.<sup>9</sup>

This article examines the business strategies and adaptation mechanisms adopted by family firms in the Lands of the Bohemian Crown during the era

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6 Jan Janák, “Počátky podnikatelské aktivity české buržoasie na Moravě (na příkladu cukrovarnictví),” *Časopis Matice moravské* 97 (1978): 291–332; František Dudek, *Vývoj cukrovarnického průmyslu v českých zemích do roku 1872* (Prague: Academia, 1979); Milan Myška, “Das Unternehmertum im Eisenhüttenwesen in den böhmischen Ländern während der industriellen Revolution,” *Zeitschrift für Unternehmensgeschichte* 28 (1983): 98–119; Jiří Matějček, “Majitelé a podnikatelé v uhelném hornictví na území dnešního Československa v 19. století,” in *K hospodářským a sociálním dějinám 19. a 20. století* (Opava: Slezský ústav ČSAV, 1991), 5–145; Jiří Matějček, “Poznámky k vývoji sociální skupiny průmyslových podnikatelů a vlastníků v českých zemích v 19. století,” *Studie k sociálním dějinám 19. století* 5 (1995): 83–168.

7 Michael Schäfer, *Familienunternehmen und Unternehmerfamilien*, 101–42.

8 Milan Myška et al., *Encyklopedie podnikatelů Čech, Moravy a Slezska* (Ostrava: Ostravská univerzita, 2003); *Ibid.*, vol. 2 (Ostrava: Ostravská univerzita, 2008); Bohumír Smutný, *Brněnští podnikatelé a jejich podniky (1764–1948)* (Brno: Statutární město Brno, 2012).

9 *Pivo, zbraně i tvarůžky. Podnikatelé meziválečného Československa ve věru konjunktur a krizí*, ed. Drahomír Jančík and Barbora Štolleová (Prague: Maxdorf, 2014); *Moderní podnikatelské elity. Metody a perspektivy bádání*, ed. Jiří Štaif (Prague: Dokořán, 2007); Milan Myška, “Tlach und Keil. Kapitola z historie slezské rodinné firmy éry industrializace (1809–1918),” *Hospodářské dějiny/Economic history* 26, no. 1 (2011): 68–90.



of the Industrial Revolution.<sup>10</sup> I focus on a model example, the Klein family, which ranked among the foremost entrepreneurial dynasties in the Habsburg Monarchy.<sup>11</sup> In his *Sozialgeschichte Österreichs*, Ernst Bruckmüller describes the Kleins as an Austrian example of the possibility of a quasi-American form of social advancement.<sup>12</sup> This description alludes to the fact that the Kleins represented one of the few examples of self-made men in Central Europe during the Industrial Revolution. Within the span of a single generation they managed to work their way up from relatively humble origins to the pinnacle of the entrepreneurial elite.<sup>13</sup> The present study examines the development of the Kleins' family business with a particular focus on how they responded to the challenges posed by the changing business environment.

### *The Early Years of the Klein Family Business*

Although the early history of many companies is frequently associated with some form of “founding fathers myth,” depicting the first generation of the company's owners in a heroic light and serving a purpose of legitimization, the beginnings of the Klein family firm were not auspicious.<sup>14</sup> The father of the founding generation, Johann Friedrich Klein (1756–1835), attempted to implement numerous business plans, but mostly without success. In addition to his main business as a cloth trader, he also attempted to acquire an inn, which was a traditional source of income. The family's bleak prospects after the state

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10 On the Industrial Revolution in the Bohemian Crown Lands see Milan Myška “The Industrial Revolution: Bohemia, Moravia and Silesia,” in *Industrial Revolution in National Context*, ed. Mikuláš Teich and R. M. Porter (Cambridge: Cambridge University Press, 1996), 247–67.

11 There are two monographs on the Klein family's business activities: Mojmír Krejčířik, *Kleinové. Historie moravské podnikatelské rodiny* (Brno: Archiv města Brna, 2009); Petr Popelka, *Zrod moderního podnikatelstva. Bratři Kleinové a podnikatelé v českých zemích a Rakouském císařství v éře kapitalistické industrializace* (Ostrava: Ostravská univerzita, 2011).

12 Ernst Bruckmüller, *Sozialgeschichte Österreichs* (Vienna–Munich: Herold Verlag, 2001), 235.

13 The scarcity of self-made men among German and Austrian entrepreneurs during the nineteenth century is noted by most researchers. Jürgen Kocka, *Unternehmer in der deutschen Industrialisierung* (Göttingen: Vandenhoeck & Ruprecht, 1975); Hartmut Kaelble, *Soziale Mobilität und Chancengleichheit im 19. und 20. Jahrhundert* (Göttingen: Vandenhoeck & Ruprecht, 1983); Toni Pierenkemper, “Entstehung und Wandel der deutschen Unternehmerschaft im 19. und 20. Jahrhundert,” *Prager wirtschafst- und sozialhistorische Mitteilungen* 8 (2007/2008): 79–94; Popelka, *Zrod moderního podnikatelstva*, 40–57.

14 On the myth of the founding fathers in the business sphere see Kim Christian Priemel, “Heldenepos und bürgerliches Trauerspiel. Unternehmensgeschichte im generationellen Paradigma,” in *Generation als Erzählung. Neue Perspektiven auf ein kulturelles Deutungsmuster*, ed. Björn Bohnenkamp, Till Manning, and Eva Maria Silies (Göttingen: Wallstein Verlag, 2009), 107–28.

bankruptcy in 1811 led Johann Friedrich's sons to leave home at an early age.<sup>15</sup> The first to leave, in 1812, was the eldest son Josef Engelbert (1792–1830), followed soon afterwards by the second eldest son Engelbert (1797–1830). Both worked as laborers on water management projects at the Moravian estate of Eisgrub (today Lednice, Czech Republic), where they gained their first experiences in the construction trade. In 1816, along with their younger brother Franz (1800–1855), they capitalized on their skills, winning their first contract to rebuild a short stretch of road. The contract was relatively minor, but it nevertheless gave the brothers their first experience in road construction. This was soon followed up by a number of other small-scale contracts for road rebuilding, river regulation, minor building work in towns, and similar jobs.<sup>16</sup>

In 1826, Josef Engelbert Klein won the largest contract of his life, and this launched the Kleins' long involvement in building the main road network throughout Moravia and Silesia. The family's first major transport infrastructure project was the construction of a state road in the western part of Austrian Silesia, a contract which generated tens of thousands of gulden in profits. The project was huge in its scale, so it required not only experience in road construction, but also organizational acumen and a good deal of physical strength. Josef Engelbert therefore decided, as he had in the course of previous projects, to involve his younger brothers, including the adolescent Libor Klein (1803–1848). The brothers invested the profits back into their business, but the project brought them much more than just capital; above all, they acquired essential know-how regarding the organization of labor on large-scale road construction projects. They assembled a team of skilled workers and laborers,

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15 Johann Friedrich Klein was born in the North Moravian community of Wiesenberg (today Loučná nad Desnou) to a German Catholic family. He and his wife Marie (who, like him, was of peasant origins) had a total of nine children (eight sons and one daughter), of whom six sons survived into adulthood: Josef Engelbert (1792–1830), Engelbert (1797–1830), Franz (1800–1855), Libor (1803–1848), Albert (1807–1877), and Hubert (1811–1856). All the sons subsequently became involved in business together and created the family firm Gebrüder Klein. Members of the subsequent generations who played an active role in the business were Josef Engelbert's sons Engelbert (1825–1856; he studied at the Vienna Technical University, and his uncle Franz recruited him as a construction site manager in the family firm) and Eduard (1827–1868; he was a co-owner of the family ironworks), Libor Klein's son Libor (1832–1896; he studied at the Prague Polytechnic Institute and was involved in managing the family mining business), and (most notably) the offspring of Franz Klein: Franz II. Klein (1825–1882; after technical studies and his father's death he became the closest business partner of his uncle Albert) and Franz III. Klein (1851–1930; he studied at the Vienna Technical University and managed the family firm Gebrüder Klein until it was dissolved in 1908). For more on the Klein family see Popelka, *Zrod moderního podnikatelstva*, 145–69.

16 Krejčířik, *Kleinové*, 25–73.

and they acquired the necessary tools, horses and carts. They also learned how to negotiate with the state authorities, and they gradually built up a network of influential social contacts.<sup>17</sup> This gave them a comparative advantage over competing bidders for similar public contracts. Helped by their policy of offering generous discounts and their growing reputation as reliable operators, the Kleins managed to participate in the majority of important road construction projects in Moravia and Silesia during the 1830s and 1840s.<sup>18</sup>

The Kleins' experience in road construction in the first half of the nineteenth century was an important factor that helped them win contracts in an area that proved to be much more lucrative, namely railway construction. The family firm was involved in a number of projects connected with the first steam railway built in the Habsburg Monarchy, the Emperor Ferdinand Northern Railway (Kaiser Ferdinands-Nordbahn). The projects involved earthworks and the construction of both brick and timber structures. The Kleins had many years' experience in this kind of job thanks to their road construction contracts. However, nobody in Austria had any experience in rail-laying, so this work was initially carried out by experts from abroad. From 1837 to 1856, the Kleins built around 340 km of railways for the Kaiser Ferdinands-Nordbahn, plus a number of station buildings and guard-houses.<sup>19</sup>

When the Austrian state decided to invest its own funds in the construction of a network of major rail routes, it was able to choose from a number of established contractors. In addition to the Klein brothers, other key firms operating in this sector included companies owned by the Bohemian entrepreneur Adalbert Lanna, the Italian businessman Felice Tallachini, and the Moravian Fleischmann brothers.<sup>20</sup> However, this small circle of firms gradually lost its monopoly in the 1840s. The railway construction sector became highly competitive, and some of the later state contracts were divided up among several companies. Despite the fierce competition that developed in the sector, the Kleins managed to retain a highly influential position in the following decades – helped not only

17 Petr Popelka, "Sociální začleňování špičkových měšťanských podnikatelů éry průmyslové revoluce na příkladu moravské podnikatelské rodiny Kleinů," *Slezský sborník* 108 (2010): 204–33.

18 Petr Popelka, *Zrod moderní dopravy. Modernizační dopravní infrastruktury v Rakouském Slezsku do vypuknutí první světové války* (Ostrava: Ostravská univerzita, 2013), 58–72; Petr Popelka, "Firma 'Gebrüder Klein' jako příklad rodinného velkopodnikání éry průmyslové revoluce," *Hospodářské dějiny/Economic History* 26, no. 1 (2011): 40–44.

19 Popelka, *Zrod moderního podnikatelství*, 175.

20 Paul Mechtler, "Bauunternehmer und Arbeiter in der ersten Staatsbahnperiode Österreichs (1842–1858)," *Österreich in Geschichte und Literatur* 12 (1968): 317–30.

by their know-how, but also by their skill at forming consortiums with other major building contractors, especially Adalbert Lanna, Johann Schebek, and Karl Schwarz. The smaller contractors found it very difficult to compete with these strong, established firms, and the Klein brothers continued to be involved in numerous major railway projects throughout the Habsburg Monarchy from the late 1830s to the mid-1870s. In this period, the Kleins participated in the construction of over 3,500 km of railways throughout the Habsburg Monarchy.<sup>21</sup>

The Kleins' early entrepreneurial activities bear most of the hallmarks of the business strategies that were widespread during the early phase of industrialization. During this era, businesses' strategies were rooted in close cooperation among family members, who provided a mutual support network and thus helped mitigate the initial risks associated with business ventures. The family also played a key role in the transfer of business know-how; the knowledge and skills that were put to use in many sectors were acquired empirically. Another important role of the family was in financing; the individual members of the family offered mutual financial support, and capital was generally loaned within the family or borrowed from individual creditors. Bank loans were taken out only if very large investments were necessary.<sup>22</sup> Close cooperation among the brothers enabled the Kleins to win building contracts and successfully implement large projects which would have been beyond the capabilities of individuals acting alone.

### *The Investment Strategies of the First Generation of Kleins*

During the early phases of industrialization, certain sectors were characterized by a marked lack of equality in business opportunities. This was not only an issue of starting capital; in the period leading up to 1848, business in the Austrian Empire was still heavily influenced by the existence of feudal structures. Well into the first half of the nineteenth century, ownership of a large aristocratic estate represented an important competitive advantage in many sectors of business. Among the most significant advantages were priority access to raw material resources (e.g. iron ore and coal); a monopoly on the ownership of forests, which were the primary source of fuel; the right to use water resources; and the ownership of large tracts of land. Ownership of raw materials meant that estate

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21 *Geschichte der Eisenbahnen der österreichisch-ungarischen Monarchie* (Vienna–Teschen–Leipzig, 1898).

22 Petr Popelka, "Podnikání a životní styl špičkových měšťanských podnikatelů éry průmyslové revoluce ve světle pozůstalostních spisů. Příklad moravské velkopodnikatelské rody Kleinů," *Časopis Matice moravské* 129 (2010): 45–77.

owners were not dependent on the fluctuating prices of these commodities. Estate owners could also exercise their rights vis-à-vis their subjects; in the first half of the nineteenth century, subjects were still required to perform compulsory labor duties (Fronarbeit) or carry out forced labor for inadequate wages.<sup>23</sup> Estate owners also had easier access to credit, as the estate could be pledged as collateral on loans.

At the end of the eighteenth century and during the first half of the nineteenth, many capital-rich merchants, financiers and other businessmen in the Bohemian Crown Lands invested part of their profits in the purchase of estates.<sup>24</sup> In the case of entrepreneurs during the early phases of industrialization, this did not necessarily represent a form of feudalization.<sup>25</sup> For some entrepreneurs the acquisition of estates not only represented a safe way of investing their capital for the benefit of future generations; it was also a means of supporting their business activities. This motivation is clearly evident in several case studies of entrepreneurs in the first half of the nineteenth century,<sup>26</sup> and the Kleins were no exception. Thanks to their successful road construction and (especially) railway construction business, the family was able to accumulate a huge quantity of capital in a relatively short period of time; by the 1840s, the Kleins had amassed many hundreds of thousands of gulden. This not only enabled the family members to embrace a new lifestyle, it also opened the door to new business plans.<sup>27</sup>

The Kleins' investment strategy in the 1840s and 1850s was unusual when compared with the strategies adopted by other entrepreneurs, not only in its extent, but also in the family's attempts to diversify into numerous different areas of activity. By hiring capable managers, the Kleins were able to expand

23 Milan Myška, *Proto-industriální železářství v českých zemích. Robota a jiné nucené práce v železářských manufakturách* (Ostrava: Ostravská univerzita, 1992); Milan Myška, "Šance a bariéry měšťanského podnikání v báňském a hutním průmyslu za průmyslové revoluce (na příkladu olomouckého podnikatele Josefa Zwierziny)," *Vlastivědný věstník moravský* 36 (1984): 261–76.

24 Zdeněk Pokluda, "Pronikání buržoasie do sféry deskového velkostatkářského vlastnictví na Moravě v polovině 19. století," *Vlastivědný věstník moravský* 33 (1981): 165–78.

25 On the concepts of aristocratization and feudalization see Hartmut Kaelble and Hasso Spode, "Sozialstruktur und Lebensweisen deutscher Unternehmer 1907–1927," *Scripta Mercaturae* 24 (1990): 132–78; Hans Ulrich Wehler, *Deutsche Gesellschaftsgeschichte* III. *Von der "Deutschen Doppelrevolution" bis zum Beginn des Ersten Weltkrieges 1849–1914* (Munich: C.H. Beck, 1995), 718–23.

26 Milan Myška, "Hermann Dietrich Lindheim. Kladský podnikatel a počátky moderní industrializace v habsburské monarchii," in Milan Myška, *Rytíři průmyslové revoluce, 172–210*; Myška, "Tlach und Keil," 68–90.

27 Popelka, "Podnikání a životní styl," 45–77.

their activities into sectors in which bourgeois families had not traditionally played a major role, yet which were of crucial importance in the burgeoning Industrial Revolution.

Inspired by their success in the highly lucrative railway construction sector, the Kleins decided to become involved in one of the most complex and capital-intensive industries of all: metallurgy. The decision to invest in metallurgical production forced entrepreneurs to implement adaptive changes in both the organization and financing of their businesses. The Kleins' railway projects had put them in contact with some of the leading industrial managers of the era, employed in the services of both the state and private companies. These included the renowned expert on mining and metallurgy Franz Laurenz Riepl.<sup>28</sup> In the 1830s, Riepl was appointed manager of the ironworks owned by the Austrian Chancellor Anton Friedrich Mittrowsky at the estate in Wiesenberg (today Loučná nad Desnou, Czech Republic). In 1844, with Riepl's encouragement, the Kleins purchased the Wiesenberg estate (where they had been born as subjects) and, with the assistance of Riepl as the works manager, began to modernize the local ironworks in order to produce rails and other material for railway construction. By the middle of the century, the Kleins had modernized the local engineering works so effectively that they were capable of producing all types of machines with the exception of locomotives. The family hired a number of leading experts, and the ironworks and engineering works on the Wiesenberg estate ranked among the most important factories of their kind in the Bohemian Crown Lands for two decades.<sup>29</sup>

The Kleins' involvement in metallurgical production in the 1840s and 1850s was exceptionally successful. In addition to building up a production base on their own estate, they also established new ironworks in Stefanau (today Štěpánov, near Olomouc, Czech Republic), in the close vicinity of the Kaiser Ferdinands-Nordbahn. The family made a huge investment in the Kladnoer Eisengewerkschaft at Kladno near Prague; together with Adalbert Lanna they

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28 Nikolaus Reisinger, *Franz Riepl und seine Bedeutung für die Entwicklung des österreichischen Eisenbahnwesens*, PhD diss. (Graz: Karl-Franzens-Universität Graz, 1999); Nikolaus Reisinger, "Franz Riepl und die Anfänge des österreichischen Eisenbahnwesens," in *Forschungen zur Geschichte des Alpen-Adria-Raumes*, ed. Herwig Ebner (Graz: Karl-Franzens-Universität Graz, 1997), 307–32.

29 Miloň Dohnal, "Tradice železářství na Sobotínsku a podnikatelská účast hraběte Antonína Friedricha Mitrowského a prof. F. X. Riepla na vzniku a výstavbě Sobotínských železáren," *Sborník prací Filozofické fakulty Ostravské univerzity* 208 (2003): 59–67; František Spurný, "Příspěvek k dějinám sobotínských železáren v 50. – 70. letech 19. století. Biografie Aloise Scholze," *Rozpravy Národního technického muzea* 77 (1980): 81–90.

established a modern ironworks which ultimately grew to become one of the largest such facilities in the Bohemian Crown Lands.<sup>30</sup> In the mid-1840s, inspired by their close collaborator Franz Riepl, they expanded their activities into Hungary's Temes County (today Timiș County, Romania), co-founding the Zsidowaer Eisenwerk Gewerkschaft (later the Nadrager Eisen-Industrie Gesellschaft). They satisfied momentary demand for metallurgical products by leasing and operating ironworks, particularly near Würbenthal in the western part of Austrian Silesia (today Železná, near Vrbno pod Pradědem, Czech Republic).<sup>31</sup> The Kleins' ironworks remained highly profitable for the family up until the economic crisis of the 1870s, ranking alongside their construction business as their primary source of income.

The Kleins' activities in the iron industry led them to invest in another important sector, namely coal mining. Their attempts to acquire mines in the Ostrava-Karviná coalfield in order to supply coal for their Moravian ironworks ultimately proved unsuccessful, weakening the family's position in the Moravian iron industry.<sup>32</sup> This failure was caused not by inept strategy, but rather by the serious financial problems which the family faced as a result of the bankruptcy of the Viennese merchant Demetrius Zinner in 1855, to whom they had lent a large quantity of their liquid funds.<sup>33</sup> The Kleins enjoyed greater success in the Kladno coalfield, where, in a joint venture with other bourgeois businessmen, they established the largest metallurgical conglomerate in Bohemia, including ironworks, coal mines and iron ore mines. The family also maintained a long-term presence in several mining companies operating in the Rossitz-Oslavan (today Rosice-Oslavany, Czech Republic) coalfield and the South Moravian lignite field; most of the coal was supplied to the family's own businesses. From the 1840s onwards, the Kleins also began to establish new business ventures in other economic sectors, establishing modern mills, sugar refineries and textile factories on their own estate.

Another important facet of the family's business activities was the purchase of various types of real estate, a practice they adopted even in the early years. The strategy of investing part of their available funds in real estate may have

30 Ivo Kruliš, *Sto let kladenských železáren* (Prague: Práce, 1959), 22–24.

31 Pavla Bílková, "Podnikání bratří Kleinů v Železně u Vrbna pod Pradědem (1852–1875). Neznámá kapitola z dějin severomoravské podnikatelské rodiny," *Severní Morava* 40 (1980): 10–16.

32 Milan Myška, "Ostravská epizoda v počátcích podnikatelské činnosti bratří Kleinů," *Slezský sborník* 90 (1992): 189–201.

33 Krejčířík, *Kleinové*, 336–41.

been related to their mental patterns of behavior, which were shaped by their experience of the state bankruptcy of 1811. The real estate thus acquired functioned not only as a store of value and a means of displaying the family's wealth; it was also frequently used as collateral for loans taken out to finance the family's new business ventures or to fund the family business directly. One important group of properties owned by the family consisted of the apartment blocks and building plots purchased in Vienna in the early 1870s, when the Gebrüder Klein empire was at its peak.<sup>34</sup>

### *Organizational Changes in the Family Business as an Adaptation Strategy*

Organizational changes were essential for the successful development of family business. These changes can be traced on two levels: firstly in terms of the changing legal forms of the business and secondly in terms of the professionalization of management, as companies began to appoint managers from outside the family.

The Kleins' business activities expanded rapidly during the 1840s, to the point where it was no longer possible for senior management positions in the family's companies to be occupied solely by family members. This soon led to the type of transformation that has been described by Alfred D. Chandler: personal enterprise, in which the owner holds the leading position in the company, gave way to entrepreneurial enterprise, in which the owner takes the strategic decisions but delegates control over the company's day-to-day operations to hired managers.<sup>35</sup>

This shift occurred most rapidly in the sectors in which the family members lacked the necessary experience and which required specialized knowledge in order to succeed. In such cases the Kleins recruited some of the most capable managers available. In addition to Franz Laurenz Riepl, these managers also included Alois Scholz and later Friedrich Klein in the iron industry and Anton

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34 The properties consisted of six apartment blocks and building plots at Landstrasse, two houses in Erdberg, three houses in Leopoldstadt, and two houses at Praterstrasse. The building at Praterstrasse 42 was the official head office of Gebrüder Klein from 1878. In the mid-1880s, the Kleins owned a total of 18 buildings in Vienna. In addition to their Vienna properties, the members of the family also used numerous other properties. Franz II. Klein and his family used a large house in Brno (Brünn) and the chateau in Loučná (Wiesenberg), while Albert Klein used the chateaux in Sobotín (Zöptau) and Jindřichov (Hennersdorf).

35 Alfred Dupont Chandler, *Strategy and Structure. Chapters in the History of the Industrial Enterprise* (Cambridge, MA: MIT Press, 1970); Hartmut Berghoff, *Moderne Unternehmensgeschichte. Eine themen- und theorieorientierte Einführung* (Paderborn: Ferdinand Schöningh Verlag, 2004), 63–82.



Péč in the mining industry.<sup>36</sup> Even in their construction business, which formed the basis of the family empire, the Kleins found it necessary to hire capable managers with technical qualifications. The shift from road construction to railway construction required the assembly of a stable team of technical and administrative employees, especially engineers and construction assistants. The Kleins recruited mainly talented graduates of technical colleges who already had some experience working in the construction industry, offering them considerable freedom in decision-making and ensuring their loyalty by paying better salaries than they would have earned in public-sector jobs. Many of these recruits became capable businessmen in their own right, who continued to collaborate with the Kleins even after they had left the company and set up their own firms. They included Johann Schebek (1815–1889), Karl Schwarz (1817–1898), the Theuer brothers, Osvald Životský (1832–1920) and Jan Muzika (1832–1882).<sup>37</sup> Given the diversity of the Kleins' business activities, they implemented the same policy of appointing experienced managers in most of their other companies, including the family estate and other large estates acquired at a later date.

Although the transition to professional management took place during the 1840s and 1850s, family members remained personally involved in supervising the business until the 1870s. This was the case both with the longest-lived member of the founding generation, Albert Klein (1807–1877), and with his nephew, Franz II Klein (1825–1882). The last construction project to be directly managed by a member of the family was the Buštěhrad railway near Kladno (1854–1855). Later, Albert and Franz II devoted their attentions solely to the high-level management of the family business, particularly issues of business strategy and financing. From the mid-1850s, construction contracts were generally undertaken in collaboration with other companies, with Gebrüder Klein responsible for the financial side of the project and providing the technical and administrative staff.

It is remarkable how long the Klein family business continued to exist in the form of a consortium (a loose association of individual family members rather than a distinct legal entity in its own right). The rules governing the family business were formally established in a family contract concluded in 1847; this

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36 Spurný, “Příspěvek k dějinám sobotínských železáren,” 81–90; František Spurný, “Friedrich Klein a poslední pokusy o záchranu severomoravského železářství,” *Rozpravy Národního technického muzea* 82 (1981): 131–35; Václav Štěpán, “Důlní podnikání bratří Kleinů v Ostravě a montanista Anton Péč (1822–1895),” *Ostrava. Příspěvky k dějinám a současnosti Ostravy a Ostravska* 18 (1997): 293–307.

37 Krejčířik, *Kleinové*, 208.

contract codified the existing system of mutual relationships among the brothers involved in the business. This came at a time when the founding generation had already managed to diversify the family's range of business interests significantly. The contract stipulated that the oldest adult male member of the family was to be the head of the family business and act as its authorized legal representative.<sup>38</sup> He was to exercise overall control not only of the family's jointly purchased estates, but also all their jointly conducted business activities, including the family ironworks. He was authorized to use jointly held funds in order to raise yields on the family estate and increase production at the ironworks. However, the head of the family business could be voted out of this post, and the position was not hereditary. If the head of the business died or was voted out, the new head was to become the next oldest adult male family member, i.e. the next eldest brother. The 1847 family contract effectively codified the practices that already existed within the family business, and it did not change the manner in which the business was conducted; this remained, as before, based on voluntary cooperation within a family consortium.

It was not until 1853 that the family firm was formally established. This can undoubtedly be viewed as an adaptation strategy, as the family was forced to take this step by external circumstances. A contract established the company "Gebrüder Klein," whose field of activity was defined as all types of construction work. Throughout its existence, the company had the form of a general partnership, with the family members holding the position of partners.<sup>39</sup> In the contract, the brothers undertook to run the business as a single entity, sharing both costs and profits; profits were to be distributed proportionately on the basis of the sums invested by each partner. The partners were liable to the full extent of their assets. However, the partners were not permitted to transfer to the company any liabilities in connection with their own private business activities. The head of the company was to be the eldest of the brothers. On the basis of this contract, the company was registered in Brünn (Brno), Vienna and Prague. Until 1878, the registered head office was in Brünn; in 1878 it was then relocated to Vienna.

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38 This provision was fully in line with the usual practice of family businesses at the time. Rudolf Boch, "Unternehmensnachfolge in Deutschland. Ein historischer Rückblick," *Zeitschrift für Unternehmensgeschichte* 44 (1999): 164–65.

39 The legal form of general partnerships was particularly popular among family businesses. Sachse, "Familienunternehmen in Wirtschaft und Gesellschaft," 16.

Although Gebrüder Klein was a mere general partnership and never became a joint-stock company, until the second half of the 1870s it ranked among the largest and most capital-rich construction companies in the Habsburg Monarchy. It functioned as an umbrella organization for all the family's business activities, not only its construction business, but also its activities in other sectors (the timber trade, coal mining, and the Viennese apartment blocks). This broad range of activities was reflected in the company's financial profile. When established, it already had assets running into millions of gulden, and by 1870 its total assets exceeded 10 million. Gebrüder Klein's strong capital base proved particularly essential to the development of the company's core business, railway construction.<sup>40</sup>

However, not all of the family's business activities were conducted via Gebrüder Klein. Leaving aside the numerous private business ventures of individual family members, unrelated to the family business as a whole, another important arm of the family business also remained separate from the company from the very outset: the ironworks in Zöptau (today Sobotín, Czech Republic) and Stefanau (today Štěpánov, Czech Republic). When these ironworks were at their peak (i.e. up until the early 1870s), they were the second highest producer of iron in Moravia (after the Vítkovice Ironworks) and the third largest producer of rails in the entire Habsburg Monarchy.<sup>41</sup> In 1865, the ironworks (along with the family's North Moravian iron ore mines) were reorganized in order to cope with rising production; they were removed from the control of the family estate to become the Zöptauer und Stefanauer Bergbau- und Eisenhütten Gewerkschaft. The family members remained the exclusive owners of stakes in the business, though they had no direct involvement in the day-to-day management; the ironworks, engineering works and iron ore mines were all entrusted to professional managers.

This organizational change in the family business laid the foundations for its further development. However, the firm soon had to contend with two major issues: a deep economic crisis and a generational transition.

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40 Opava Provincial Archives (=OPA), Olomouc branch, fonds "Rodinný archiv Kleinů," cart. 1, inv. no. 35; Popelka, "Firma 'Gebrüder Klein' jako příklad rodinného velkopodnikání," 54–58.

41 Krejčířík, *Kleinové*, 377.

### *The Loss of the Ability to Adapt: the Crisis of the 1870s and Its Impact*

The second half of the 1860s can be characterized as the peak of the Industrial Revolution in the Bohemian Crown Lands; this was a period of rapid economic growth. The economic boom enjoyed by the Habsburg Monarchy in 1867–1873 (the so called *Gründerzeit*) was a hugely important time in the state's development. It was accompanied by political consolidation, an increase in economic productivity, a banking boom, the formation of many joint-stock companies, and the rapid development of transport and communications infrastructure. The sectors of heavy industry that were involved in railway construction (namely mining, metallurgy, and mechanical engineering) enjoyed particular prosperity. Railway construction was the primary motor of the economy during this period.<sup>42</sup>

However, 1873 brought a turning point, which ultimately had an impact on all areas of the economy, but especially those areas that had prospered most during the preceding boom years. The railway fever which gripped the Habsburg Monarchy in the late 1860s and early 1870s came to a sudden halt in 1873. Although the railway companies soon felt the negative effects of the recession, existing railway construction projects continued under their own momentum until the 1870s. However, 1877 marked the end of this period; the railway construction projects that had already been underway when the recession began were now completed and entrepreneurs showed no interest in new projects of this type, which made significant demands on capital yet represented a high-risk proposition in the new economic climate.<sup>43</sup> Construction companies, which had profited tremendously from the railway boom of the late 1860s and early 1870s, now faced an entirely different situation. In a very short time they were forced to adapt rapidly and deal with a slump in demand for transport-related

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42 Herbert Matis, *Österreichs Wirtschaft 1848–1913* (Berlin: Duncker & Humblot, 1972), 170–98; *Dějiny hospodářství českých zemí od počátků industrializace do konce habsburské monarchie*, ed. Ivan Jakubec and Zdeněk Jindra (Prague: Karolinum, 2006), 169–72; an analysis is given in Milan Myška, “Vliv výstavby železniční sítě na rozvoj hutnictví železa v habsburské monarchii a v českých zemích (1830–1914),” *Rozprawy Národního technického muzea* 118 (1989): 104–86; Milan Myška, “Eisenbahnen – Eisenhüttenindustrie – Wirtschaftswachstum: Der Einfluss des Ausbaus des Eisenbahnnetzes auf die Entwicklung des Eisenhüttenwesens in der Habsburgermonarchie 1830–1914,” *Prager wirtschafts- und sozialhistorische Mitteilungen* 7 (2004–2005): 9–47; Milan Myška, *Die mährisch-schlesische Eisenindustrie in der industriellen Revolution* (Prague: SPN, 1970).

43 Alfred Niel, “Die österreichischen Eisenbahnen von der zweiten Staatsbahnperiode bis zum Ersten Weltkrieg,” in *Verkehrswege und Eisenbahnen*, ed. Karl Gutkas and Ernst Bruckmüller (Vienna: Institut für Österreichkunde, 1989), 87–99; Alois Czedit, *Der Weg von und zu den Österreichischen Staatsbahnen*, vol. 1 (Vienna–Teschen–Leipzig: n.p. 1913), 207–23.

projects, which had previously represented a major source of income. Most large construction firms experienced severe problems; in addition to Gebrüder Klein, other companies in the Bohemian Crown Lands which battled with an uncertain future included Adalbert Lanna, Karl Schwarz and Johann Schebek.

Throughout the boom years, Gebrüder Klein had benefited from its activities in key industrial sectors, but the company now faced a difficult situation. Until the mid-1870s the firm was still able to profit from its ongoing railway construction contracts. The last railway project in which the company is known to have been involved was the Salzkammergutbahn (1875–1877). The problem was that once the worst of the crisis was over, at the turn of the 1880s, Gebrüder Klein proved incapable of adapting to the new circumstances and reestablishing its former primacy as a railway builder. The company played no part at all in the construction of the new local railways. This inability to adapt appears to have been due to the generational transition within the company, which ushered in an entirely new situation at the turn of the 1880s.

During the economic crisis of the 1870s, large construction companies attempted to seek out new, alternative avenues for their business. The most promising areas included water management projects, infrastructure projects involving the modernization of urban areas, and trade. Adalbert Lanna's company sought to compensate for the slump through its involvement in the river regulation projects on the Vltava and Labe (Elbe),<sup>44</sup> while in 1878 Gebrüder Klein actually managed to win one of the largest contracts in the firm's history, playing the leading role in a canal construction and land reclamation project in the northern Italian province of Ferrara. On completion of the work, Gebrüder Klein established an Italian subsidiary, L'Azienda Gallare, which operated the drainage system until the turn of the twentieth century. The second main area in which both the Kleins and Lanna invested during the recession was the timber trade. In the early 1870s, in connection with the building of the Erste Siebenbürger Eisenbahn, the Kleins became aware of huge areas of forested land in Arad County (formerly Hungary, now Romania). In 1873, Albert and Franz Klein (together with the Viennese entrepreneur Johann Sepper and Baron Peter Atzél de Borosjenő) established a timber company, and in 1879 they

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44 Ivan Jakubec, "Tři generace podnikatelské rodiny Lannů: Adalbert Lanna senior, Adalbert Lanna junior, Adalbert Franz Lanna," in *Historie a cestovní ruch. Perspektivní a podnětné spojení*, ed. Jan Štemberk and Miroslava Manová (Prague: Vysoká škola obchodní, 2009), 35–47.

purchased several estates around the town of Borosjenő (today Ineu, Romania), where they remained involved in the logging trade until the mid-1880s.<sup>45</sup>

However, the Kleins' business activities in the late 1870s and 1880s represented the swansong of this once-successful company. The family proved unable to replace the lost income from railway construction and the firm's profits gradually dwindled. The company began to owe large sums to banks, and, unlike in previous years, it also issued numerous promissory notes to other businesses. Nevertheless, Gebrüder Klein's decline was a gradual process. In the early 1880s, the company still owned assets totaling around 7 million gulden, primarily real estate (coal mines, large estates, Vienna properties), securities (mainly shares in rail companies), and money owed by various debtors.<sup>46</sup>

In addition to the recession, another major problem with which the company had to contend was the generational transition, the Achilles' heel of family businesses.<sup>47</sup> This transition came at the most inconvenient time. In 1877, Albert Klein died. The last living member of the founding generation, he had built up a network of excellent social connections and he possessed an undoubted business acumen. This loss was followed four years later by the death of Albert's nephew and long-term collaborator Franz II Klein. Their sons had all the necessary qualities to take over the family business successfully: a university education, strong financial capital, and social prestige.<sup>48</sup> However, they proved incapable of implementing the necessary innovations in the business and the company failed to adapt to the changing circumstances.<sup>49</sup> This inability to adapt exacerbated two latent problems that were also present in many other family businesses besides Gebrüder Klein: the lack of new capital, and unresolved legal and property relations among the heirs.<sup>50</sup>

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45 Krejčířík, *Kleinové*, 368–69.

46 OPA, Olomouc branch, fonds "Rodinný archiv Kleinů," cart. 1, inv. no. 35; Popelka, "Podnikání a životní styl," 45–77.

47 Andreas Paulsen, "Das 'Gesetz der dritten Generation,'" *Der praktische Betriebswirt. Die aktive betriebswirtschaftliche Zeitschrift*, May 21, 1941, 271–80; Kocka, "Unternehmer in der deutschen Industrialisierung," 53.

48 Popelka, *Zrod moderního podnikatelstva*, 147–258.

49 Petr Popelka, "Sociální začleňování špičkových měšťanských podnikatelů éry průmyslové revoluce na příkladu moravské podnikatelské rodiny Kleinů," *Slezský sborník* 108 (2010): 226–29.

50 On the situation in Moravia see Aleš Zářický, "Moravskoostravští měšťanští podnikatelé na cestě od rodinných firem k nadnárodním společnostem. K problematice změn forem podnikání na konci 19. a na počátku 20. století," in *Královská a poddanská města od své geneze ke protoindustrializaci a industrializaci*, ed. Jiří Jurok (Ostrava–Nový Jičín–Příbor: Ostravská univerzita, 2002), 221–49.

During the 1880s, the remaining family members withdrew from playing an active role in the business; this was reflected in the gradual decline of the various components of the firm's assets. The Kleins even reduced their role in activities which were clearly prospering ventures. In 1887, for example, the family withdrew from the Viennese construction firm "Gebrüder Klein, A. Schmoll und E. Gaertner," which had been established in 1869 as a joint venture combining the know-how of the Viennese structural engineers Adolph Schmoll and Ernst Gaertner with the capital provided by the Kleins. The company specialized in road and railway bridges, river and canal embankments, and quays and docks. The Kleins sold their stake in the firm at a time when it was still working on contracts to build railway bridges for the Hungarian Northern Railway.<sup>51</sup>

The inability of Gebrüder Klein to respond quickly to changing circumstances was also reflected in the company's organizational structure. Especially in capital-intensive sectors, the recession led to a significant degree of economic concentration, which also brought changes in the legal forms preferred by businesses. Former family firms, which had often operated as general partnerships, began to restructure themselves into capital-based companies, usually joint-stock companies or limited partnerships, and later also limited liability companies. In some cases these companies continued to operate in the same way as the previous family firm, merely with a change of legal status. Nevertheless, Jürgen Kocka views this change of legal form as a significant step towards the loosening of the ties between business and the family.<sup>52</sup> Gebrüder Klein remained a general partnership until the firm's eventual liquidation, and the company's iron production business changed its legal form only belatedly, at the turn of the twentieth century.

The Kleins' traditional domain—iron production—was particularly severely affected by the economic crisis. The recession of the 1870s dealt the final blow to small or obsolescent ironworks which had failed to keep step with the ongoing development of modern production technologies. By the early 1870s, the Kleins' stake in the highly viable Kladno ironworks (cofounded by the Kleins in the 1850s) had been bought out by the Credit Anstalt für Handel und Gewerbe. Not even the skilled manager Friedrich Klein was able to modernize the ironworks operated by the Zöptauer und Stefanauer Bergbau- und Eisenhütten Gewerkschaft. The rapid obsolescence of these ironworks, and their increasing

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51 Popelka, "Firma 'Gebrüder Klein' jako příklad rodinného velkopodnikání," 59–65.

52 Sachse, "Familienunternehmen in Wirtschaft und Gesellschaft," 17–18.

failure to keep step with the competition, was exacerbated from the late 1870s by a combination of factors, chief among them the family members' unwillingness to invest in modern technologies and a shortage of operating capital. In the 1880s, Friedrich Klein built coking ovens at both ironworks, despite the opposition of family members, who feared that the new coal-fired ovens would cause a slump in demand for the timber from their estates. However, this partial modernization merely postponed the rapid decline in the ironworks' fortunes. The works were located at a considerable distance from coal deposits, and they suffered from high transport costs and poor-quality iron ore. This made the operation uncompetitive, though the company's inevitable failure was staved off for several years by the introduction of a new product range. In 1901, the ironworks business was transformed into a joint-stock company (the Zöptauer und Stefanauer Bergbau- und Hütten- Aktiengesellschaft) with a basic capital of 3 million Krone (krona), but not even this step could save it. In 1910, pig iron production in Zöptau ceased, followed in 1913 by iron production at the Stefanau works. Both sites subsequently focused solely on processing iron produced elsewhere.<sup>53</sup>

By the turn of the twentieth century the Kleins' once-famous firm was reduced to a mere shadow of its former self. It ceased to exist entirely at the end of 1908, when it was officially dissolved. In the run-up to World War I, the Kleins' business activities focused solely on their hereditary estates and their holdings of shares in several joint-stock companies. By this point, the Kleins were no longer members of the Austro-Hungarian business elite.<sup>54</sup>

### *Conclusion*

In the period following the Napoleonic Wars, the Bohemian Crown Lands witnessed the emergence of its first generation of modern entrepreneurs, who made a major contribution to the industrialization of the region. Some of these entrepreneurs came from prominent dynasties of merchants and bankers (e.g. the Rothschilds, Gutmanns, Herrings, Zdekauers and Lämmels), but others worked their way up from modest beginnings as small business owners (e.g. the Liebig, Lanna and Starck families). This case study, based on an analysis of

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53 František Procházka, "Vznik a zánik železáren v Sobotíně," *Sborník krajského vlastivědného muzea Olomouc* 4 (1956–1958): 209–10; Spurný, "Friedrich Klein," 131–35.

54 Peter Eigner, *Die Konzentration der Entscheidungsmacht. Die personellen Verflechtungen zwischen den Wiener Grossbanken und Industrieaktiengesellschaften 1895–1940* (PhD diss., Univ. Wien, 1997).



the Klein family business, has demonstrated the exceptionally important role played by families in entrepreneurial activities during the era of the Industrial Revolution. These structures helped mitigate the initial risks associated with business ventures, and families also played a key role in the transfer of business know-how. In the road construction industry, in which the Kleins' family firm first rose to prominence, close cooperation among family members enabled the family to win building contracts and successfully implement large projects which would have been beyond the capabilities of individuals acting alone.

Several business strategies were used by Gebrüder Klein during the course of its existence. The core business strategy during the Industrial Revolution involved the creation of social networks, which brought major benefits both socially and economically. These networks were not generally built up in a calculated way; far more frequently they simply emerged naturally in response to the company's ongoing trajectory of development. One specific business strategy used by some entrepreneurs during the era of the "old regime" was the purchase of large estates. In the Kleins' case, the family's investment in such an estate was connected with their plans to become involved in the iron industry. However, even after the abolition of the patrimonial system, entrepreneurs continued to consider the purchase of large estates a good form of investment that represented a safe and tangible store of value and a symbol of social prestige.

Before the collapse of the "old regime" in Austria, the Kleins managed to implement effective business strategies, enabling them to respond to the changing economic circumstances in this late feudal state. Above all this involved a considerable degree of diversification in the family's business activities. Even under the founding generation, the family portfolio included investments in all of the important sectors of the burgeoning Industrial Revolution. This business strategy was implemented with demonstrable success by a number of other leading bourgeois entrepreneurs in the Bohemian Crown Lands. The Kleins were also quick to invest in securities, initially in government bonds and later in company shares. Their share portfolio was highly diversified, including railway companies, textile factories, sugar refineries and insurers.<sup>55</sup>

A major adaptation strategy involved organizational changes. These changes can be traced on two levels: firstly in terms of the changing legal forms of the businesses and secondly in terms of the professionalization of management, as companies began to appoint managers from outside the family. The transition

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55 Popelka, "Firma 'Gebrüder Klein' jako příklad rodinného velkopodnikání," 37–67.

to professional management took place relatively quickly in the Kleins' various family businesses during the 1840s and 1850s, though it was not until 1853 that the family firm itself (originally run as a loose consortium) was restructured as a general partnership, with the partners directly involved in company management. However, this change in legal form was somewhat inflexible, and it did not fully reflect the transition to a system of professional management. The family's ironworks business first existed as a family firm; it was not restructured as a joint-stock company until the turn of the twentieth century, though this was not enough to save it.

The close connection between business and the family is demonstrated by the fate of the Kleins' company during the crisis years of the 1870s. The construction company Gebrüder Klein was severely impacted by the recession, like other large family firms in the Industrial Revolution era, and although it began to implement a viable adaptation strategy, this process was interrupted by the death of key family members who had played a central role in guiding the company's development during its rise to prosperity. Their heirs were unwilling to continue in business, and this led to a gradual decline in the firm's activities, accompanied by a lack of interest in new developments and trends.

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*Translated by Christopher Hopkinson*

Judit Klement

## How to Adapt to a Changing Market?

### The Budapest Flour Mill Companies at the Turn of the Nineteenth and Twentieth Centuries

The focus of this article is the steam mill enterprises in Budapest at the end of the nineteenth century, a time when these companies were no longer enjoying their most profitable years. While earlier their high-quality flour had been sold for good profits on the markets of Western Europe, they found themselves slowly pushed from the marketplace by increasingly intense price competition, which was in part a consequence of the crisis in agriculture and, quite simply, the globalization of agriculture. While they were still able to produce for the undeniably important markets within the Austro-Hungarian Monarchy and ever higher customs duties on agricultural products helped strengthen their production for these markets, the demand for expensive flour on the domestic market was significantly smaller than in Western Europe. Confronted with the changes that had occurred in the marketplace, the mills in Budapest tried to adapt in a variety of different ways. In this article, I examine these strategies, focusing in particular on the very distinctive expansion of one of the mill companies.

Keywords: steam mill, agricultural crises, Hungary, Budapest, turn of the nineteenth and twentieth centuries, lobby activity, cooperation

The milling industry was the first branch of the economy in Hungary to represent modern, mechanized, large-scale industrial production. On the basis of production and exports, the milling industry was the leading branch of industry in Hungary in the nineteenth century.<sup>1</sup> The most modern, best equipped large enterprises within this industry, the ones that were able to produce the largest quantities of flour, were found in Budapest. All of these enterprises were engaged in business on a relatively large scale. They used steam engines, which

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1 Rostow's definition of the "leading sector" does not actually fit the milling industry in Hungary, since the drawing effect it exerted on other branches of industry was much more moderate in comparison with the influence of the English textile industry or the American railway. Walt W. Rostow, *The Stages of Economic Growth. A Non-Communist Manifesto* (Cambridge: Cambridge Univ. Press, 1990), 194. At the same time, Fogel throws into question the emphasis on a single branch of industry as a generative force for economic growth. According to Fogel, the concept of a "leading sector" represented little more than "the hero theory of history applied to things rather than persons." Robert W. Fogel, *Railroads and American Economic Growth: Essays in Econometric History* (Baltimore: John Hopkins Press, 1964), 236.

were in virtually continuous operation and produced flour for sale.<sup>2</sup> Growth in the Budapest steam milling industry began in the 1850s and burgeoned in the 1860s and 1870s.<sup>3</sup> Neither the so-called small crisis of 1869 nor the crash of 1873 did much to upset the position of the mill enterprises. These crises did not result in any long-term loss of profits, nor did they compel the companies to reconsider or restructure their positions in the marketplace.<sup>4</sup> However, beginning in the 1880s, market conditions began to change significantly, and this did force the steam mill companies of Budapest to adapt to shifting circumstances. The ways in which they attempted to do this are the focus of my inquiry.

### *In the Background: The Globalization of Agriculture*

Beginning in the 1880s, there was a glut of grain on the European markets, and grains began to be imported in large quantities from the United States, Canada, Argentina, India, and Russia. As a result of this glut, the prices of agricultural products began to drop dramatically, and the governments of Europe began to adopt increasingly protectionist policies with regards to customs duties, which first and foremost meant the introduction of duties on agricultural imports, duties which gradually rose.

The falling prices affected all agricultural products, which is why the period that began in the 1880s and lasted until the mid-1890s is referred to as a time of agricultural crisis in the secondary literature.<sup>5</sup> All in all, the duties made both

2 Milling that was done for commerce, in other words production of flour sale, was characteristic of only a minority of mills at the end of the nineteenth century in Hungary. Of the steam mills, there were some enterprises that did milling for multure (i.e. for a fee), for the most part in small settlements in the countryside. In these cases, the mills would grind the raw materials in exchange for a share of the milling product. In contrast, the Budapest steam mills ground grains that they had purchased themselves, and they sold the milling product with the assistance of a network of agents.

3 For an analysis of the circumstances of the enterprises in these two decades, including costs and earnings, see Judit Klement, *Hazai vállalkozók a hőskorban. A budapesti gőzmalomipar vállalkozói a 19. század második felében* (Budapest, Eötvös Kiadó, 2012), 41–50.

4 1869 and 1873 bore witness to the fall of only a few enterprises, but in every case the mills were then kept in operation by new companies. See Judit Klement, “Válság egy húzóágazatban – a 19. századi malomipar példája,” in *Gödörből gödörbe. Mindennemű válságok Magyarhonban a 19. és 20. században*, ed. Csaba Katona (Szombathely: Mediawave Közalapítvány–Vas Megyei Levéltár, 2011), 79–90.

5 A few examples from the secondary literature: Andor Löherer, *Gazdasági válság és a búza árhamyatlása Magyarországon. Okai, eredményei és orvosszerei* (Budapest: Pátria, 1896); Pál Sándor, *A XIX. század végi agrárválság Magyarországon* (Budapest: Akadémiai Kiadó, 1958); T. W. Fletcher, “The Great Depression of English Agriculture 1873–1896,” *Economic History Review*, New Series 13, no. 3 (1961): 417–32; Kevin H. O’Rourke, “The European Grain Invasion, 1870–1913,” *The Journal of Economic History* 57, no. 4 (1997): 775–801.

the purchase of grains (the raw material) from abroad and the export of flour (the semi-finished product) more expensive, while at the same time, though the raw material could be obtained at a lower price, the prices of flour were also dropping.

While this agricultural crisis was underway, the United States began to emerge as an increasingly competitive rival to Hungarian production of flour on the world market. The entry of American flour on the European markets was another sign of the globalization of agriculture. Beginning in the 1880s, the mills in the area around Minneapolis dramatically increased their production capacities.<sup>6</sup> Economic development in the post-Civil War years provided the foundation for growth in Minneapolis. In the wake of the war, tremendous territories in the western United States were being cultivated and grains were being harvested. Train lines were under construction, which made it possible to transport the grains produced in the west and the mid-west to the east coast. In addition, steamboat travel between the United States and Europe was becoming increasingly frequent, and this further favored exports. Thanks to the efficiency of the network of train and steamboat companies in the United States, grains and flour from Northern America was less expensive on the West European markets, even with the increasingly punitive customs duties, than the grains and flour produced by Hungarian competitors.<sup>7</sup> The production of flour in the United States was almost completely automatized, which meant both continuous production and low production costs.<sup>8</sup> Both of these factors made American flour more competitive from the perspective of price. In addition, because American grains were similar from the perspective of the hardness of the individual seeds to Hungarian grain, the ground flour was also of a similar quality.<sup>9</sup> It was no coincidence that American engineers were very interested in the various innovations that were being introduced in

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6 “By 1882 Minneapolis was already producing 3 million bushels of flour annually. By 1885 the output had risen to 5 million and by 1890 over 7 million.” Alfred D. Chandler, *The Visible Hand. The Managerial Revolution in American Business* (Cambridge–London: Belknap, 2002), 253.

7 Vilmos Sándor, *Nagyipari fejlődés Magyarországon. 1867–1900* (Budapest: Szikra, 1954), 300–08; László Katus, “Magyarország gazdasági fejlődése (1890–1914),” in *Magyarország története 1890–1918*. vol. 1 of 7, ed. Péter Hanák (Magyarország története tíz kötetben) (Budapest: Akadémiai Kiadó, 1978), 293–96.

8 Charles Kuhlmann, *The Development of the Flour-Milling Industry in the United States with Special Reference to the Industry in Minneapolis* (Clifton: Augustus M. Kelley, 1973), 104–54. See also the article by Ágnes Pogány in this issue: Ágnes Pogány, “Crisis Management Strategies after World War I. The Case of the Budapest Flour Mills,” *Hungarian Historical Review* 4, no. 4 (2015): 868–99.

9 “The ‘new process’ mills, as they were known, produced high-quality flour in high volume and at low unit cost.” Chandler, *The Visible Hand*, 251.

the milling industry in Budapest, and they rapidly adopted similar measures in the United States,<sup>10</sup> which meant that Budapest began to lose its technological advantage.

As a consequence of these developments, in the 1880s Hungarian grains and, first and foremost, the various kinds of flour produced in Budapest began to find themselves crowded out of the foreign customs markets. The domestic customs market, i.e. the Austro-Hungarian Monarchy, increasingly became the most important market for grains and flour.<sup>11</sup> While in 1882, 53 percent of Hungarian flour remained in the territories of the Monarchy, by 1912 this number had grown to 87 percent (see Figure 1).

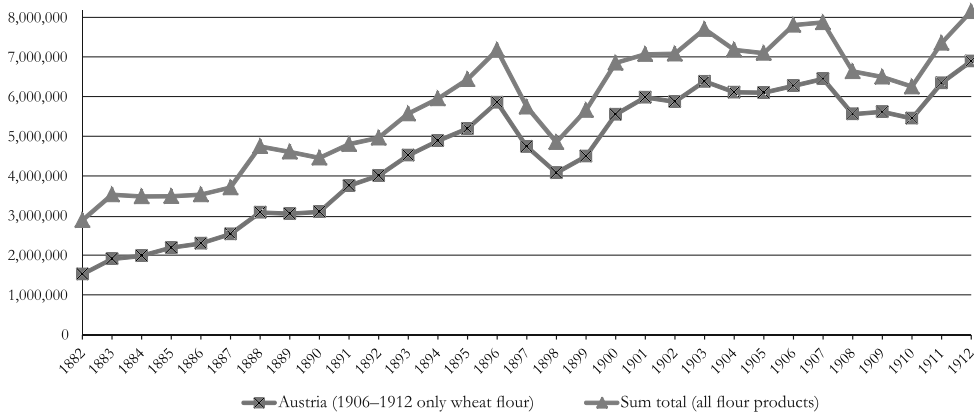


Figure 1. Hungarian flour exports to Austria and in total, between 1882 and 1912, in quintals  
Source: Annual reports of the Budapest Chamber of Commerce and Industry from 1882 to 1912.

This represented a tremendous loss of markets for the steam mill enterprises of Budapest, which had sold their finely ground flours first and foremost on the markets in Western Europe (Great Britain, Germany, Switzerland, France, Holland, and Belgium), but also on markets in comparatively distant lands, such as Brazil, the Dutch East Indies, and South Africa. The markets within the Austro-Hungarian Monarchy simply were not capable of purchasing such

10 *Report on the Production of Agriculture as Returned at the Tenth Census* (June 1, 1880), Department of the Interior, Census Office, vol. 12, (Embracing general statistics and monographs on cereal production, flour-milling, tobacco culture, manufacture and movement of tobacco, meat production) (Washington: Government Printing Office, 1883), 572.

11 Katus, "Magyarország gazdasági fejlődése (1890–1914)," 384 f.

large quantities of high-quality flour, and thus, the growth in the amount of exported flour notwithstanding (see Figure 1), for the mill companies of the Hungarian capital the market for expensive high-quality ground flours significantly shrank.

*The Positions of the Budapest Mill Enterprises at the End of the Nineteenth Century*

If one focuses exclusively on production, there were no indications that the mill companies of Budapest faced any particular problems at the end of the nineteenth century. In 1875, they produced a total of only 3,148,117 quintals. By 1910, this number risen to 7,222,229. In three individual years (1886, 1906, and 1907), they produced more than 8 million quintals. Until the mid-1890s, growth was continuous. From then on, production stagnated, moving between 6 and 8 million quintals (see Figure 2).

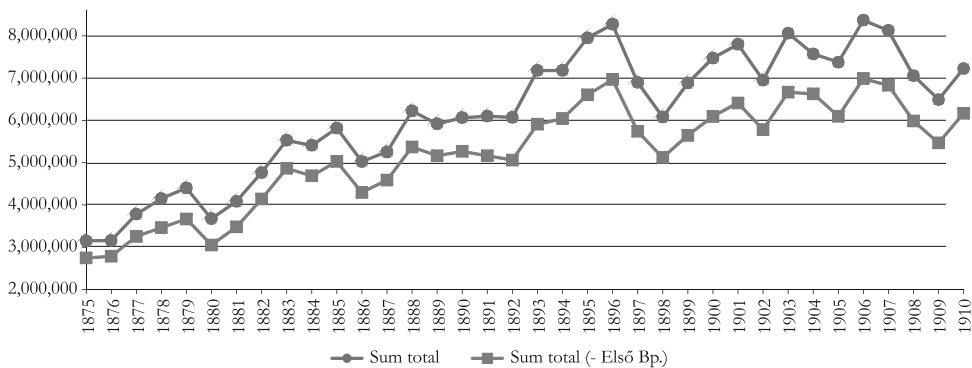


Figure 2. The sum total output of the Budapest steam mills between 1875 and 1910 (wheat, in quintals)

Source: Annual reports of the Budapest Chamber of Commerce and Industry from 1878 to 1910; Milling industry statistics, 1894.

A note on the terminology: “sum total” refers to the sum of the production data for all of the enterprises. “Sum total (- Első Bp.)” refers to the sum of the production data, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company], which produced the largest quantities in Budapest.

Thus, neither the agricultural crisis nor the shifts that were taking place in the agricultural marketplace caused a drop in production. This was due in part to a deliberate business policy which could be referred to as an attempt to “escape

by getting ahead,”<sup>12</sup> since the companies attempted to address the problems caused by dropping prices by increasing production. Growth in production was also furthered by the introduction of the processing trade by the state.<sup>13</sup>

The processing trade made it possible for the mills to import grain without having to pay customs duties if they could export a given amount of milling product before a given deadline. The processing trade was not a new institution or phenomenon. As a practice, it had existed before, and it was familiar and part of established practice abroad as well.<sup>14</sup> In Hungary, the second point of the tenth paragraph of law XVI of 1882 on the general customs and excise tariff for the customs area of the Austro-Hungarian Monarchy made it possible for this practice to be introduced again.<sup>15</sup> The implementation of the law as it applied to the milling industry was regulated by a decree issued in the same year by the Ministry of Finance.<sup>16</sup>

According to the decree, the grains that were imported were free of customs duties, or rather the duties were refunded, if, within a year of having imported 100 kilograms of wheat, a given company exported 70 kilograms of wheat flour. In the case of rye, 65 kilograms of rye meal had to be exported for every 100 kilograms imported. (It is worth noting that these proportions correspond approximately to the quantity of wheat and rye meal that can be obtained from the grinding process. Bran was thus free of customs duties according to the decree.) The companies had to register the imported grains and the exported flour at the appropriate customs house. The decree specified only that the grain products that were exported had to correspond with the kinds of grain that were imported “according to their kind.” In other words, wheat that had been

12 The expression was introduced by György Kövér, *A felhalmozás íve. Társadalom- és gazdaságtörténeti tanulmányok* (Budapest: Új Mandátum Kiadó, 2002), 306.

13 On the importance of the processing trade to the milling industry see Judit Klement, “Az őrlési forgalom jelentősége a fővárosi malomvállalatok nézőpontjából,” in *Piacok a társadalomban és a történelemben*, ed. Károly Halmos, Zsuzsanna Kiss, and Judit Klement (Rendi társadalom – polgári társadalom 26) (Budapest: Hajnal István Kör, 2014), 211–20.

14 The processing trade could also involve other milling, finishing, and repairing work. The production of threads and fabrics, for instance, was a major area of the processing trade. The institution (in German *Mahrverkehr*) had been introduced in Germany in 1881, thus the trade of duty-free goods between Germany and Austro-Hungary was subject to 1881 regulations that preceded the 1882 law of the Austro-Hungarian Monarchy.

15 Since 1850, Hungary had been part of the common customs of the Habsburg Empire, and this did not change with the Compromise of 1867. Customs duties were established collectively by both parties. This was true in the case of the 1882 law as well.

16 Minister of Finance General order number 30,974 of May 29, 1882 “on the handling of grains brought in for grinding or taken out of the customs zone.” *Rendeletek Tára* (1882): 665–68.

imported was free of customs duties if the company that imported it exported wheat flour. The decree makes no more specific mention of the raw materials or finished products, thus the companies did not actually have to demonstrate that the milling product that was exported was actually made using the grains that had been imported. By refunding customs duties, the government sought to ensure that the customs duties that were introduced in 1882 in the Monarchy did not have a negative influence on the volume of flour exported. Yet at the same time, the government also wanted to prevent duty-free grains from leading to price wars on the domestic market.

The leaders of the Budapest mill companies were unambiguous in their praise of the processing trade, and indeed they characterized it as life-saving. In their view, it helped compensate for the increased costs that had come with the introduction of customs duties on grains and flours.<sup>17</sup> The processing trade was unquestionably one of the factors behind the growth in production. This is demonstrated quite clearly by the fact that the growth in production coincided with the introduction of the processing trade. In 1896, limits were placed for the first time on the discounts that were offered by the processing trade (for 100 kilograms of wheat, a company had to export 100 kilograms of wheat flour), and in 1900 the institution was eliminated altogether. In the case of the Budapest mills, production stopped growing in the 1890s.

The processing trade was the most vigorously opposed by the alliance of Hungarian landowners (Országos Magyar Gazdasági Egyesület, OMGE), since they regarded it as the primary cause of the drops in the prices of grain on the domestic market, and they also considered it a kind of cheating that there was no way of verifying that the milling products that were exported were actually made using the grains that had been imported. The OMGE had the support of Austrian farmers and Austrian and Czech industrial interests as well. Towards the end of the 1890s, in the course of negotiations intended to lead to the next economic compromise, the Austrians were adamant about the elimination of the processing trade, and in the course of similar negotiations in 1907 they

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17 Emil Bacher, *A magyar malomipar* (Budapest: Károlyi György kő- és könyvnyomdája, 1911); Endre Bosányi, *A malomipar szerepe és jelentősége közgazdaságunkban* (Budapest: Pesti Könyvnyomda Rt., 1892); Konrád Burchard-Bélaváry, *A malomipar az ezredéves országos kiállításon* (Separate print from the eighth volume of Sándor Matlekovits's exhibition entitled "Az ezredéves kiállítás eredménye") (Budapest: Pesti Könyvnyomda Rt., 1898); Ignác Fekete, *Az őrlési forgalom* (Budapest: Pesti Könyvnyomda-Részvénytársaság, 1900).



were strongly opposed to its reintroduction. This demonstrates clearly that the question of the processing trade was not only a Hungarian issue.<sup>18</sup>

While the leaders of the milling enterprises in Budapest protested vociferously against the limitations placed on processing trade and later its elimination and, indeed, in the wake of World War I expected that it would be reintroduced, it is not immediately apparent that this would have had any significant effect on their profits. A contemporary market analyst made this contention in 1910, and my analyses support his conclusion.<sup>19</sup> However, the debate concerning the processing trade played a considerable role in the ever more active presence of lobbyists working in support not only of the interests of the Budapest milling industry, but also in the interests of Hungarian industry in general. It is hardly coincidental that the National Alliance of Industrialists, an organization devoted to the defense of industry interests, was founded in 1900, in Hungary.

Since most of the Budapest milling enterprises were joint stock companies, their balance sheets, which were public information, allow for study of the successes and failures of their business ventures. In order to provide an overview of their circumstances at the end of the nineteenth century, I offer a summary of the results of my examination, forgoing diagrams and detailed analysis in the interests of brevity and space.<sup>20</sup>

The effects of the agricultural crisis were most immediately apparent in their profitability. (Profitability is measured here by earnings as a percentage of own capital, the latter of which is the sum of invested capital, reserves and write-offs, and earnings.) As of the early 1880s, drops in profits among the joint stock mill companies of Budapest were a general trend. Earnings as a percentage of own capital remained around 5 percent from the mid-1880s up to the outbreak of World War I. This constituted a drastic decline, since earlier this proportion had

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18 Since Austria and Hungary were part of a common customs area and the question of the processing trade was one of the questions of customs duties (since the duties were refunded), the processing trade was an issue that had to be addressed collectively. This is why it ended up on the agenda of the economic compromises that were negotiated every ten years in order to address common economic questions.

19 Henrik Gärtner, "A budapesti malmok jövedelmezősége és az őrlési forgalom," *Közgazdasági Szemle* (1910): 775–95.

20 I offer a detailed presentation of the methodologies of the study of the results of the business ventures and an examination of the results themselves here: Judit Klement, "Die Agrarkrise am Ende des 19. Jahrhunderts und die Budapester Mühlenindustrie," in *Krisen/Geschichten im Mitteleuropäischen Kontext. Sozial- und Wirtschaftsgeschichtliche Studien zum 19./20. Jahrhundert*, ed. Márkus Keller, György Kövér, and Csaba Sasfi (Vienna: Institut für Ungarische Geschichtsforschung in Wien, 2015), 167–97.

been consistently above 10 percent. The companies never managed to bring in profits comparable to earnings in the mid-1870s.

Drops in profit were followed by drops in dividends. Up until the late 1870s, the Budapest mill companies had reliably paid out annual dividends of more than 10 percent. In the early 1880s, dividends were roughly 15 percent of the nominal value of the stock. This dropped to 5 percent by 1886, and while there were two years in the first half of the 1890s in which dividends again rose to roughly 10 percent,<sup>21</sup> 5 percent was much more characteristic of the decade. (At the time, in general banks paid 6 percent on deposits.) After 1906, there was one more moment of economic upswing before the outbreak of war. This can be seen in increases in production. Profits also increased marginally, and dividends crept above 5 percent, but they remained below 10 percent on average. At the same time, one should add, with regards to dividends that according to the management reports most of the mill companies strove to pay at least 5 percent, even in the worst years, even if they had to dip into reserves in order to do this. In general, the companies set aside dividend reserves for this purpose.

The prices of shares of stock in the Budapest milling enterprises suggest similar economic trends. Until the mid-1880s, the shares remained roughly around 150 percent of their nominal value on the stock market. After 1885, their value dropped a bit, but remained above the nominal value. Share prices also reflect the brief period of growth in the first half of the 1890s, when on average they exceeded 150 percent of their nominal value, only then to plummet back down to 100 percent, where they remained for another decade. Beginning in 1906, share prices again reflect the period of upswing before World War I. Shares rose to and even went above 150 percent of their nominal value. Nonetheless, from the mid-1890s on, shares in milling enterprises fell out of the club of best investments, and they never became a part of this group again.<sup>22</sup>

While share prices only began to reveal the precariousness of the positions of the milling enterprises in the mid-1890s, the credit indicators at the Pest branch of the Austro-Hungarian Bank indicated potential concerns as early as the mid-1880s. This institution played the role of central bank at the time, and the decisions regarding which enterprises were given loans and how much they

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21 This period of upswing in the early 1890s had a smaller effect on profitability. The upswing was significantly smaller.

22 For a study of the shareholdings that brought in above-average earnings see Katalin Mérő, "Részvényárfolyamok alakulása a budapesti értéktőzsdén, 1864–1943," *Statisztikai Szemle* 65, no. 12 (1987): 1239–59.

would be given reflected the market position of the given company or branch of industry. In the mid-1880s, the Austro-Hungarian Bank began to reduce the amounts of the loans that were made to the Budapest mill companies, though earlier they had regarded the credit of these businesses as particularly favorable. In 1890–91, the amounts of the loans that were given to some individual companies began to increase, though given the absence of sources, we know little about how this development progressed.<sup>23</sup> At the same time, on the basis of the balance sheets, we do have an overview of the indebtedness of the Budapest milling enterprises. In other words, we can consider this question from the perspective of the borrowers. According to the balance sheets, the proportion of foreign capital to company capital followed the trend suggested by the Austro-Hungarian Bank's credit indicators. In the 1880s and particularly in the latter half of the decade, the amount of foreign capital dropped slightly on the balance sheets. However, beginning in the 1890s, it began to grow again, and it continued to grow symptomatically until World War I.<sup>24</sup> Furthermore, in the periods in which foreign capital was lower, the enterprises demonstrated that they wanted to hold proportionally larger funds in reserve and also that they were capable of a larger degree of internal financing. From the 1870s until the early 1890s, the amounts set aside in reserves grew continuously at the Budapest milling enterprises, but even when they ceased to grow, they still remained at the levels at which they had been at the end of the 1880s. The same was true of the companies' ability to use internal sources to finance operations.

To summarize, the data that I have presented on the Budapest milling enterprises at the end of the nineteenth century illustrate clearly that the economic circumstances of these enterprises began to change dramatically beginning in the 1880s. Profits, which earlier had poured in, began to run dry, dividends and share prices dropped, and external sources of credit temporarily declined. While it is quite apparent that they were compelled to make significant strategic shifts in order to adapt to shifting market conditions, this period was not nearly as dire from the perspective of the fates of these companies and the challenges that they had to face as the post-war period, which bore witness to a fatal decline in market position.<sup>25</sup> Rather, in the period before the outbreak of

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23 For a study of the credit framework of the bank, see Kővér, *A felhalmozás éve*, 298–308.

24 Béla Tomka has also studied the gradual process of indebtedness that hit the Budapest milling companies at the end of the nineteenth century: Béla Tomka, "A magyar malomipar finanszírozása (1895–1913)," *Korall* 4, no. 14 (2003): 79–97.

25 For more on this see Ágnes Pogány, "Crisis management strategies after World War I."

World War I, on the basis of the data the milling enterprises simply seem to have been part of a branch of industry that was no longer growing.<sup>26</sup> However, the shift in their positions on the market also led to changes in the business policies and strategies of these companies.

### *Adaptation to the Market*

The continuous growth in production, which lasted until the mid-1890s, and the strengthening of the tendency to set aside funds in reserves that could even be used to pay dividends both indicate attempts on the part of the companies to adapt to shifting circumstances. But the genuinely striking shift came with efforts among the various enterprises to promote cooperation and hold onto or acquire new markets.

As the Budapest mills, far from cutting production, actually increased it, the abovementioned narrowing of their markets led to a glut. The companies attempted to address this problem by agreeing on shared production limits. Company leaders met almost every year to attempt to arrive at some consensus, and these meetings were always recorded in the annual reports of the boards of directors. However, even if an agreement were reached regarding mutual cuts in production that would last a few months, it was not at all certain that either party would actually stick to the terms of the agreement. The annual reports contain recurring complaints concerning the necessity of cutting back production, which was justified because of the accumulating stockpiles, and the failures of the negotiations to reach an agreement concerning mutual reductions of operations. Earlier, there had been hardly any examples of the milling enterprises of Budapest attempting to work together in their own shared interests.<sup>27</sup>

The failure of the companies to negotiate a meaningful form of cooperation was one of the factors that galvanized their efforts to acquire new markets. Beginning in the 1890s, the milling enterprises of the Hungarian capital strove to purchase mills in settlements in the countryside and, thereby, to obtain their markets. While the Budapest mill companies had vibrant and effective ties with

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26 To draw on Rostow's notion of stages of economic growth, the Budapest milling industry went beyond the stage of rapid growth, since "deceleration is the normal optimum path of a sector." Walt W. Rostow, *The Process of Economic Growth* (New York: W. W. Norton & Company Inc. 1962), 308.

27 Cooperation between the milling enterprises of Budapest was ineffective in another area as well. In the early 1880s, the idea came up of creating, collectively, a pension fund for the white-collar workers of the Budapest milling enterprises. However, the initiative was rapidly dropped and the companies dealt with their employees on their own, not as part of a larger cooperative effort.

enterprises and markets beyond the borders of the Austro-Hungarian Monarchy (the strength of which, however, decreased with the loss of markets in the wake of the agricultural crisis), the milling enterprises outside of Budapest enjoyed advantageous positions on the markets within the Monarchy and in Hungary. Thus, by acquiring the mills outside of Budapest, the mill companies in the capital had more opportunities to sell on the domestic market, which also meant avoiding having to pay customs duties.<sup>28</sup>

Towards the end of the nineteenth century, some of the Budapest milling enterprises began to merge, and this represented another manner of acquiring new markets. Pannónia and the Erzsébet Gőzmalom Rt. (Erzsébet Steam Mill Joint Stock Company) merged in 1896. Over the course of a decade of aggressive business moves, one of the enterprises, Első Budapesti Gőzmalom Rt. (First Budapest Steam Mill Joint Stock Company), managed to acquire four of its competitors. This “hostile maneuvering” began at the turn of the century and continued to lead to mergers in the late 1920s and the mid-1930s.

### *The Expansion of the First Budapest Steam Mill Joint Stock Company*

I have addressed the circumstances of and challenges faced by the milling enterprises of Budapest in general thus far, making no mention of the at times quite considerable differences among them. However, at the beginning of the twentieth century, two of the companies in the Hungarian capital began to get well ahead of their competitors from the perspective of business and production results, the Victoria Steam Mill Joint Stock Company and the First Budapest Steam Mill Joint Stock Company. Victoria Steam Mill had significant financial backing from abroad, primarily from England, and grew in part because of expansion into the Balkans. The First Budapest Steam Mill Company had support from domestic banks and developed a network of enterprises that for a long time was not overly conspicuous. In the rest of my study, I focus on the details of this story.<sup>29</sup>

The relationships between the companies first became noticeable because of the presence of certain individuals. Leaders of the First Budapest Steam Mill

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28 As Vilmos Thernesz observes, this was a concentration of enterprises with a de-concentration of production. Vilmos Thernesz, “Magyar malomipar helyzete a 20. század első felében,” in *Műszaki innovációk Magyarországon*, ed. Walter Endrei (Budapest: Akadémiai Kiadó, 1995), 109–33.

29 Most of the people will not be named here in the interests of brevity and space. For the details, see Judit Klement, “Vállalatok hálózatban. Vállalati kooperáció a 20. század elején a budapesti gőzmalomiparban,” *Korall* 50 (2012): 82–106.

Company all of a sudden would acquire roles on the boards of directors and the supervisory committees of other mill companies in Budapest,<sup>30</sup> specifically as of 1904 at the Pesti Molnárok és Sütők Gőzmalma Rt. (Pest Millers and Bakers' Steam Mill Joint Stock Company) and the Lujza Gőzmalom Rt. (Lujza Steam Mill Joint Stock Company) and as of 1912 at the Erzsébet Gőzmalom Rt. (Elisabeth Steam Mill Joint Stock Company). From 1904 to 1907, three of the at least five people on the board of directors of the Pest Millers and Bakers' Company came from First Budapest, and in 1907 this number rose to four. In 1905, the relationship became mutual, when the general manager of the Millers and Bakers became one of the eight people serving on the board of directors at First Budapest. In the case of the Lujza Steam Mill Company, as of 1904 First Budapest continuously had three people on the board of directors and one person on the supervisory committee, as of 1911, in the latter two.<sup>31</sup> Additionally, in 1914, a new general manager was appointed who also had a position at First Budapest. In return, the interests of Lujza Steam Mill Company were represented on the board of directors of First Budapest by two people, and from 1912 on by one member. First Budapest's relationship with Erzsébet Steam Mill remained one-sided, meaning people from First Budapest acquired positions at Erzsébet. In 1912, three of the at most ten people on the board of directors were from First Budapest, as were two of the five people on the supervisory committee.<sup>32</sup>

Earlier, these kinds of personal interconnections had been prohibited by articles of associations. Indeed for this very reason, general meetings had to be held in order to modify the articles of associations. This took place in roughly the same manner everywhere. For instance, in April of 1904, Pest Millers and Bakers made an alteration to the company's constitution in order to loosen this restriction. The relevant clause of paragraph 35 contained the following

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30 In the Hungarian companies, as was the case in Germany and Austria, the board of directors and the supervisory board or committee were two separated corps. The board of directors was responsible for the strategic leading of the company, while the supervisory board inspected whether the operation of the company was appropriate to the interests of shareholders and the law. The members of both committees were elected by a general meeting of the company for a given period and for a given remuneration. Their duties, election and benefits were regulated in the articles of association of the company.

31 After 1904, the board of directors of the Lujza Steam Mill Company numbered between seven and nine people. The supervisory committee was consistently made up of four people. Budapest Főváros Levéltára (= BFL) BFL VII.2.e. Cg. 1224/675, 676, 667, 668.

32 BFL VII.2.e. Cg. 1193/715. Articles of association of the Erzsébet Steam Mill Company following the amendment of 1912.

stipulation: “[t]he members of the board of directors cannot play roles in the leadership or management of other milling enterprises unless the board of directors gives its unanimous agreement.”<sup>33</sup> However, beyond this, nothing took place at the general meetings of these companies that would indicate that some agreement or accord had been reached or some form of cooperation or collaboration was underway with another company.

The reports of the First Budapest board of directors that survived among the writings of the company make some mention of these new relationships, though admittedly only sparing mention. The report on financial year 1903 contained the following passage regarding the relationship of the company to Pest Millers and Bakers and the Lujza Steam Mill:

The intense competition with the mills of the capital described in the first section of our report and also the difficulties that arise every time it would be important to arrive at agreements regarding the most significant questions of our industry prompted us, on the subject of drawing other milling companies into our sphere of interest, to give serious consideration *to those among the overtures that have again been made to us* that we are convinced will not only loyally defend the interests of the shareholders of these companies, but whose collaborative participation will also be advantageous from many perspectives for us and will also correspond to our business goals. And in the end we accept the offers that have been made by the Lujza Steam Mill and the Pest Millers and Bakers’ Steam Mill Companies. [The manner of implementation will be voluntary exchange of shares] in such a manner that we promise the shareholders in the Lujza Steam Mill Company *one share in our company in exchange for five shares in the Lujza company* and the shareholders in the Pest Millers and Bakers’ Company *one share in our enterprise for every three shares in the Millers and Bakers’ Company*, and all this without dividend warrants for the 1903 financial year. [...]

While it is our intention to maintain the independent organization of the two shareholder companies to be drawn into our sphere of interest, nonetheless, cooperation among three such prominent enterprises, each of which has a production capacity exceeding three-million [quintals] per year, creates numerous advantages and will definitely help us place the business of strong foundations. Furthermore, it will increase the competitiveness of Hungarian flour on the foreign market and thus will perform a useful service for Hungarian exports and, indirectly, the Hungarian economy.<sup>34</sup>

33 BFL VII.2.e. Cg. 1211/1. 712. d.

34 BFL XI.1005. 5. d. Board of directors’ report appended to the regular general meeting of February 15, 1904. (Display setting in italics is mine).

The reference to “intense competition” and the “difficulties” that arose with regards to reaching agreements on the most important questions indicate that the expansion became the new strategy of First Budapest. Since the company had been unable to arrive at lasting agreements with its competitors, it had chosen another path: “drawing” the other companies into its “sphere of interest.” The board of directors needed a detailed explanation because the proposal to “draw” other enterprises into First Budapest’s “sphere of interest,” i.e. in concrete terms the implementation of “voluntary exchange of shares,” meant that First Budapest would have to issue new shares. So the general meeting of First Budapest had to increase the capital of the company. At the assembly that was held on February 15, 1904, the general meeting voted in favor of raising the capital from 3 million crowns to 4.5 million crowns by issuing 3,000 shares with a nominal value of 500 crowns. Thus, the overlaps between the companies, which were already visible in the presence of First Budapest’s people on the board of directors and supervisory committee of other companies, also became overlaps in ownership.

While the exchange of shares of stock was voluntary, the report of the board of directors of First Budapest indicates the scale of the planned acquisition. According to the report, they offered one share of First Budapest stock in exchange for five shares of stock in Lujza Steam Mill and three shares of stock in Pest Millers and Bakers.<sup>35</sup> At the time, Lujza Steam Mill had a capital of 2,800,000 crowns and 8,750 shares of stock with a nominal value of 320 crowns. The Pest Millers and Bakers’ Steam Mill Company had a capital of 1,800,000 crowns with 4,500 shares of stock with a nominal value of 400 crowns. If the shareholders had wished to acquire all of the Lujza stock, they would have needed 1,750 shares of First Budapest stock in order to do so. Similarly, it would have needed 1,500 shares of First Budapest stock in order to acquire all of the Pest Millers and Bakers shares. All in all, this exchange, in both companies, would have required a total of 3,250 shares of First Budapest stock. Since the general meeting of First Budapest had decided to issue 3,000 new shares of stock, they cannot have assumed that the shareholders in Lujza and Pest Millers and Bakers intended to exchange all of their stock in these companies. However, they were clearly interested in securing a majority share.

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35 The Pest Millers and Bakers’ Steam Mill Company was commonly known by the name Bakers’ Mill, since the enterprise had indeed been founded by millers and bakers.



If we consider the offer from the perspective of the Lujza and Pest Millers and Bakers shareholders, the exchange of stock does in fact seem to have been a reasonable proposition. Since 1900, stock in the Lujza Steam Mill Company had been weaker with each passing year, and the value of the stock on the market had remained between 210 and 230 crowns, in other words only 65 to 70 percent of the nominal value. The nominal value of five shares of this stock was 1,600 crowns, but even at a bad market price they were worth at least 1,000 crowns, in exchange for which First Budapest was offering one share of its stock, nominally worth 500 crowns but in general fetching at least twice as much on the market. (On December 31, 1903 the market price of First Budapest stock was 1,285 crowns, and on June 30, 1904 it was 1,1000 crowns.) The Pest Millers and Bakers' Company stock had a better standing on the market than the Lujza stock. They generally closed at a price above their nominal value, and even when the price dipped, it remained around 94 percent, or 375 crowns. The nominal value of three shares of Pest Millers and Bakers stock was 1,200 crowns or, when the price dropped, 1,125 crowns. Thus, the market price of First Budapest stock was roughly equal to that of three shares of Pest Millers and Bakers stock (see Figure 3).<sup>36</sup>

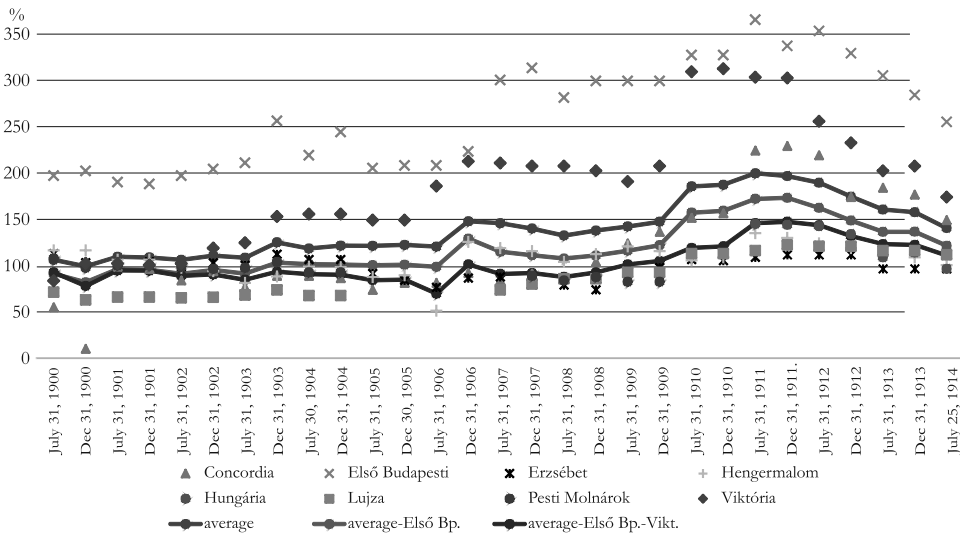


Figure 3: Market prices of shares of stock in the Budapest milling enterprises as a percentage of their nominal value.

36 *Tőzsde lap, 1900–1904.*

A note on the terminology: “average” refers to all of the enterprises; “average - Első Bp.” refers to average market value of stocks, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company]; “average - Első Bp. - Viktória” refers to average market value of stocks, not including the data for the Első Budapest Rt. [First Budapest Joint Stock Company] and for Viktória Steam Mill Joint Stock Company.

Source: *Tőzsdelap*, 1900–1914.

The documents of the companies contain no details concerning the actual implementation of the exchange of stocks, nor is it actually clear that either the Lujza Steam Mill Company or Pest Millers and Bakers actually sought to establish a relationship with First Budapest. However, the shares that were represented in the course of general meetings offer some insights into the rearrangement of the shareholdings. Since the voting power of an individual shareholder at an assembly was always proportionate to the number of shares he possessed (in compliance with the proportion of shares to votes specified in the articles of association of the company), in order to determine the number of votes for a given assembly the shareholders had to present their shares which they intended to have in votes at the general meeting. This presentation always took place before the general meeting, mainly in a bank or at the pay desk of the company. The lists of shareholders that were compiled became part of the minutes of the general meeting and thus constituted documents that had to be submitted to the registry court. If they survived among the documents of the company or the registry court, they enable us to reconstruct the circle of proprietors of a joint stock company. However, the fact that only a small fraction of shareholders actually showed up for the assemblies does significantly limit the usefulness of these lists.<sup>37</sup> Fortunately, in the case of the Lujza Steam Mill Company and the Pest Millers and Bakers’ Steam Mill Company the lists for 1904–1914 are available, with the exception of the Millers and Bakers list for 1912, thus I was able to draw on these sources.<sup>38</sup>

The First Budapest Steam Mill Company does not figure a single time on any of the lists of shareholders. In other words, the company used individuals to further its interests at the assemblies. Thus, with regards to the presence of

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37 On the uses and limitations of this kind of source see György Kövér, “A részvényesek névjegyzéke mint társadalomtörténeti forrás,” in *Kutatás – módszertan*, ed. Gyula Erdmann (Rendi társadalom – polgári társadalom 2.) (Gyula: Hajnal István Kör, 1989), 118–24. In the case of the Budapest steam mill joint stock companies, on average one-third of the shareholders attended the general meetings with their shares. For precise details see Klement, *Hazai vállalkozók a bős korban*, 163–71.

38 BFL VII.2.e. Cg. 1211/1. 712, 762, 763. d; Cg. 1224/675, 676, 667, 668.

the company as a shareholder and owner, one must consider the shares of stock held by the people that represented First Budapest.

The people who had positions at the Pest Millers and Bakers' Steam Mill as of 1904 and at the same time represented the interests of First Budapest were all present at the general meetings as shareholders. Their combined share in the company was small at first, reaching barely 1 percent, but by 1905 and 1906 it had risen to 5 percent, and as of 1907 it remained around 10 percent (see Table 1).

	1904	1905	1906	1907	1908	1909	1910	1911	1913	1914
Sándor halmi Deutsch	10			100	100	100				
Károly Haggenmacher	10	100	100	100	100	100		100	150	150
Jakab Lang	10									
Ede Langferder	10	100	100	100	100	100	100	100	150	150
Ottó Mayer				100	100	100	100	100	100	150
Henrik rátonyi Reusz	10		50			50	100	100	100	150
Jakab Schuk	10	30	60	30	30	30	30	30		
Number of shares of stock owned by them	60	230	310	430	430	480	330	430	500	600
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	1.3	5.1	6.9	9.6	9.6	10.7	7.3	9.6	11.1	13.3
Total number of shares of stock presented at the assemblies	1853	1190	1180	1280	1030	1350	1150	1290	1470	1460
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	41.2	26.4	26.2	28.4	22.9	30.0	25.6	28.7	32.7	32.4

Table 1: Shareholdings of the people who represented the First Budapest Steam Mill Company at the general meetings of the Pest Millers and Bakers' Steam Mill Company, 1904–1914

Not all of the people who represented First Budapest and had come to play important roles at Lujza from 1904 were listed as shareholders at the general meetings, but the tendency was similar. Their presence could not be detected in 1904, but by 1905–1906, they represented almost 5 percent of the shares, and as of 1907 their share ownership hovered around 10 percent (see Table 2).

	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914
Lajos Gerisch							200	200	200	200	200
Károly Haggemacher		125	125	125	125	200	200				200
Ede Langfelder		125	125	375	125	200	200	200	200	200	200
Miksa Löwy		125	125	125	125	200	200	200	200	200	200
Ottó Mayer				125	125	200	200	200	200		200
Number of shares of stock owned by them	0	375	375	750	500	800	1000	800	800	600	1000
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	0.0	4.3	4.3	8.6	5.7	9.1	11.4	9.1	9.1	6.9	11.4
Total number of shares of stock presented at the assemblies	1146	2000	1875	2375	1875	3200	2800	2800	3000	2400	3000
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	13.1	22.9	21.4	27.1	21.4	36.6	32.0	32.0	34.3	27.4	34.3

Table 2: Shareholdings of the people who represented the First Budapest Steam Mill Company at the general meetings of the Lujza Steam Mill Company, 1904–1914

One can therefore conclude, on the basis of this data, that after 1904, the First Budapest Steam Mill Company managed to acquire 10 percent of both the Lujza and the Pest Millers and Bakers’ Steam Mill companies. However, on the lists of shareholders one finds not only “representatives” delegated by First Budapest, but also other people who had positions at First Budapest, as well as representatives of other enterprises that had been drawn into the sphere of interest of First Budapest. For instance, the general manager of the Lujza Steam Mill was present as a shareholder in the Pest Millers and Bakers’ Steam Mill Company, and vice versa. If one considers all of the people among the Pest Millers and Bakers’ Steam Mill and the Lujza Steam Mill Company shareholders who were in positions at First Budapest or at other companies in the sphere of interest of First Budapest at

the same time (for the sake of simplicity I will refer to them as “network people”), their presence is even more striking. They owned almost 20 percent of the shares at these companies. And at this time a stake between 15 and 20 percent in an enterprise meant a majority share (see Tables 3 and 4).<sup>39</sup>

	1904	1905	1906	1907	1908	1909	1910	1911	1913	1914
Sándor halmi Deutsch	10			100	100	100				
Izidor Déry	10	50	50	50	50	50	100	100		
Henrik Fellner	5									
Lajos Gerisch	10	30				30	30	30	50	50
Károly Haggemacher	10	100	100	100	100	100		100	150	150
Kálmán Kovácshegyi	1									
Jakab Lang	10									
Ede Langfelder	10	100	100	100	100	100	100	100	150	150
Leó Lánczy	10									
Vilmos Leipziger	10	100	100	100		100				
Miksa Löwy	10	50	50	50		50	50	50	50	50
Ottó Mayer				100	100	100	100	100	100	150
Rezső Renschler	10	30	30			30				
Henrik rátonyi Reusz	10		50			50	100	100	100	150
Jakab Schuk	10	30	60	30	30	30	30	30		
Ferenc Waigand	10	100	100	100	100	100	100	100	100	150
Number of shares of stock owned by them	136	590	640	730	580	840	610	710	700	850
Shares of stock owned by them as a percentage of the total number of shares in the company (%)	3.0	13.1	14.2	16.2	12.9	18.7	13.6	15.8	15.6	18.9
Total number of shares of stock presented at the assemblies	1853	1190	1180	1280	1030	1350	1150	1290	1470	1460
Total shares of stock presented at the assemblies as a percentage of the total number of shares in the company (%)	41.2	26.4	26.2	28.4	22.9	30.0	25.6	28.7	32.7	32.4

Table 3: Shareholdings of the “network people” on the basis of general meetings of the Pest Millers and Bakers’ Steam Mill Company between 1904 and 1914

39 Kövér, “A részvényesek névjegyzéke mint társadalomtörténeti forrás,” 123.

	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914
Sándor halmi Deutsch		125	125	125	125	200					
Izidor Déry	377	250	125	<i>Repre- sented</i>	125	200	200	200			
Henrik Fellner				250	125	200	200		200		
Lajos Gerisch							200	200	200	200	200
Károly Hagggenmacher		125	125	125	125	200	200				200
Ede Langfelder		125	125	375	125	200	200	200	200	200	200
Leó Lánczy				<i>Repre- sented</i>							
Vilmos Leipziger		125		<i>Repre- sented</i>	125						
Miksa Löwy		125	125	125	125	200	200	200	200	200	200
Ottó Mayer				125	125	200	200	200	200		200
Henrik rátonyi Reusz		125	125	125		200	200	200	200	200	200
Ferenc Waigand				125	125	200	200	200	200		200
Number of shares of stock owned	377	1000	750	1375	1125	1800	1800	1400	1400	800	1400
Shares of stock owned as a percentage of the total number of shares in the company (%)	4.3	11.4	8.6	15.7	12.9	20.6	20.6	16.0	16.0	9.1	16.0
Total number of shares of stock owned by people present at the assemblies	1146	2000	1875	2375	1875	3200	2800	2800	3000	2400	3000
Total shares of stock owned by people present at the assemblies as a percentage of the total number of shares in the company (%)	13.1	22.9	21.4	27.1	21.4	36.6	32.0	32.0	34.3	27.4	34.3

Table 4: Shareholdings of the “network people” on the basis of general meetings of the Lujza Steam Mill Company between 1904 and 1914

A note on the terminology: “Represented” means that the given person was represented at the general meeting by another shareholder, and there isn’t any information about the number of his shares.

At the same time, one cannot merely assume that these individuals were members of an organized “network,” rather, one must demonstrate this, so it is worth taking a closer look at the names. The first distinct group that emerges consisted of the highly trained steam mill specialists who were employed at First Budapest, including the head clerk, the company director, the chief accountant, the technical and trade director, and the general manager.<sup>40</sup> One also discerns another group among the people who had ties to First Budapest, namely people who were members of the board of directors or the supervisory committee.<sup>41</sup> The third group consisted of the general managers of the two mills that had been drawn into the sphere of interest of First Budapest, Ferenc Waigand from Pest Millers and Bakers and Izidor Déry from Lujza. The fourth group was made up of bankers, and they seem to have been the “key” to this network. Leó Lánczy, who had been a member of the board of directors of First Budapest since 1895, had served as the president of the Pesti Magyar Kereskedelmi Bank Rt. (Hungarian Commerce Bank of Pest) since 1881. He was also president of the Budapest Chamber of Commerce and Industry and a member of parliament.<sup>42</sup> Henrik Fellner, who became a member of the board of directors at Lujza in 1904 and then at First Budapest in 1907, served as managing director of the Hungarian Commerce Bank of Pest between 1882 and 1911 and then became the head of Leipziger’s spirits and sugar factory.<sup>43</sup> (Vilmos Leipziger himself had a close connection to them, and it was hardly coincidental that after Lánczy’s first appearance in 1895 on the board of directors of First Budapest, Leipziger also became a member of the board, nor is it surprising that Fellner became the head of the Leipziger factory after 1911, though it is true that Leipziger himself was not a banker.)

Thus, if one considers the positions played by these individuals in the companies and the influence they exerted as shareholders, the essence of the statement made in the 1903 report issued by the First Budapest board of directors becomes clear and vivid: “*cooperation* among three such prominent enterprises, each of which has a production capacity exceeding three-million [quintals] per year.” Positions of influence and ownership of significant quantities of stock

40 By name: Lajos Gerisch, Károly Haggemacher, Kálmán Kovácshegyi, Jakab Lang, Ede Langfelder, Ottó Mayer, Rezső Renschler, Jakab Schuk.

41 By name: Sándor Deutsch, Vilmos Leipziger, Miksa Löwy, Henrik rátonyi Reusz.

42 For more on Lánczy’s life and career see Károly Halmos, “Lánczy Leó. Hagymány és nonkonformizmus egy bankvezér történetében,” in *Sokszínű kapitalizmus. Pályaképek a magyar tőkeés fejlődés aranykorából*, ed. Marcell Sebők (Budapest: KFKI Csoport – HVG Könyvek, 2004), 180–95.

43 *Zsidó lexikon*, 1929 (the entry on Fellner).

helped ensure that Pest Millers and Bakers and Lujza would come and remain under the supervision and sway of First Budapest, and in the background the Hungarian Commerce Bank of Pest could wield its influence to further its interests.

Presumably, First Budapest adopted a similar strategy when it drew the Erzsébet [Elisabeth] Steam Mill Company into its sphere of interest in 1912. The overlaps in individuals who served in positions of influence at both companies were also accompanied by the acquisition of stock, in all likelihood through the voluntary exchange of shares. The report of the First Budapest board of directors on financial year 1912 certainly suggests this.<sup>44</sup> However, none of the lists of shareholders in the Elisabeth Steam Mill Company after 1880 survives, and we do not even know what kinds of exchanges were offered to Elisabeth shareholders. The Hungarian Commerce Bank of Pest, however, definitely had a presence among the leaders of this company. In 1908, Fülöp Weisz, who had begun his career at the Commerce Bank in 1891, became a member of the board of directors of Elisabeth. By that time, he was already on the board of directors at the bank. In 1911, he became the executive director in his bank, and after the death of Lánczy in 1921 he became the president.<sup>45</sup>

### *The Expansion of the First Budapest Steam Mill Seen from Below*

Expansion of the First Budapest Steam Mill Joint Stock Company, however, went beyond drawing the Pest Millers and Bakers, Lujza, and later Erzsébet into their “spheres of interest.” In 1916, they exerted their influence on the Pesti

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44 “The increase in share capital that was agreed on during the general meeting held on November 6, 1911 has been accomplished through the issue of 2,875 new shares at a nominal value of 500 crowns each. This year, an increased share capital of 6,500,000 also appears on our balance sheets. The *acquired shares* in the Erzsébet Steam Mill Company are included in the ‘securities-receipt,’ and the earnest that came in on the 1,013 newly issued shares of stock that was issued for the old shareholders was used to cover the refund of interest and add to the reserve funds, after the costs that arose had been deducted.” (BFL XI.1005. 5. d. Display setting in italics is mine). One can only hypothesize, on the basis of this, that 1,862 new shares of First Budapest stock were used in order to obtain, through exchange the Erzsébet stock. Using the market prices as the basis for comparison, they must have asked for at least three and possibly four shares of Erzsébet stock in exchange for one share of First Budapest stock. The nominal value of one share of Erzsébet stock was 400 crowns. In December 1911, the stock closed at a price of 450 crowns. One share of First Budapest stock, with a nominal value of 500 crowns, was being traded at 1,690 crowns on the market at the same time. (*Tőzsdelep*, 1911).

45 József Radnóti, *Pesti pénzügyarchák* (Budapest: May János Nyomdai Műintézet, 1929). Chapter on Weisz.



Hengermalom Rt. (Pest Rolling Mill Joint Stock Company), which remained independent until 1928, at which point it merged with First Budapest. The case of Pest Rolling Mill differs from that of the other three corporations simply because primary sources have survived that offer insights into the moment when the corporation joined the “sphere of interest” of the First Budapest Steam Mill. In addition, the extraordinary primary sources may also further an understanding of the actual meaning of the expression “belonging to the sphere of interest,” as well as the role that was played by the Hungarian Commerce Bank of Pest.

The minutes of a meeting survive which provide written documentation of how the corporations entered into contact with each other. It is quite telling that the documents were found not in the archives of the companies themselves or the Hungarian Commerce Bank of Pest, nor were they among the office records of the registry court. Rather, they were in a family bequest.<sup>46</sup> The minutes of the meeting were taken on February 9, 1916, and six people took part in the meeting.

[R]ecorded [...] during the meeting of the representatives of the Hungarian Commerce Bank of Pest, specifically his excellency privy councillor Leó Lánczy and Henrik Fellner, members of the board of directors of the Hungarian Commerce Bank of Pest, and also the board of directors of the First Budapest Steam Mill Company, represented by members of the board of directors his excellency privy councillor Leó Lánczy, Henrik Fellner, and general manager Ede Langfelder, as well as member of the Upper House Sir Konrád Burchard-Bélaváry, Dr. Rezső Burchard-Bélaváry and Dr. Andor Burchard-Bélaváry, the three of whom are representatives of the majority of the shareholders of the Pest Rolling Mill Joint Stock Company.

Thus, Lánczy and Fellner represented both First Budapest and the Commerce Bank. The meeting was held at the home of Konrád Burchard-Bélaváry,<sup>47</sup> which means that, in addition to constituting an official record of the discussion, the minutes were also the product of an unofficial and private talk. The parties to the negotiations pledged in writing (and affirmed with their signatures) that

46 I would like to express my sincerest thanks to Konrád Reuss for this document, which remains in his possession today. The italics in the citations from the document are my emphasis.

47 For more on the Burchards and the history of the Rolling Mill, see Klement, *Hazai vállalkozók a háskorban*, 212–39. Konrád Burchard-Bélaváry was the president of the Rolling Mill Company. His sons were members of the directorate. Rezső was on the board of directors and was also the vice president of the company. Andor was on the board of directors and also served as managing director.

until February 17, “the regulations... would remain in word only.” They planned to hold the annual general assembly of First Budapest by February 17, since they needed the authorization of the general meeting in order to execute several points of their agreement. With the proper authorizations, the minutes would become a “legally binding [...] agreement.” (And this did in fact come to pass, as they had expected it would.) Lánczy was the president of the six-person “sitting.” Langfelder kept the minutes.

Leó Lánczy [...], having opened the meeting, states that he turned to the representatives of the abovementioned majority of shareholders in the First Budapest Steam Mill Company and the Pest Rolling Mill Joint Stock Company *with the idea that the Pest Rolling Mill Company join with the First Budapest Steam Mill Joint Stock Company.*

According to the minutes, First Budapest sought to establish ties with Pest Rolling Mill, and Ede Langfelder, acting on behalf of First Budapest, had already discussed the preconditions of a closer relationship between the two enterprises before the meeting was held with Rezső Burchard-Bélaváry, representing Pest Rolling Mill. The proposal made by First Budapest should seem familiar: a voluntary exchange of Rolling Mill stock for stock in First Budapest, “in a manner, however, that ensures that the Pest Rolling Mill Company will remain an independent shareholder company.” According to the concrete offer, First Budapest offered one share of its stock in exchange for four shares of stock in Pest Rolling Mill. Anyone who did not wish to take advantage of the exchange could keep their shares of Pest Rolling Mill stock or could sell it to First Budapest for 400 crowns per share in cash. This offer also seemed reasonable, since shares of stock in First Budapest, which had a nominal value of 500 crowns, were fetching 1,860 crowns on the market, while shares of stock in Pest Rolling Mill, which had a nominal value of 300 crowns, were selling for between 300 and 400 crowns on the market in the years leading up to World War I.<sup>48</sup>

The real value of the minutes, which contained fourteen points, lies in the fact that they shed light on the regulation of details of an affair that was already familiar. For instance, the minutes make clear that the preliminary negotiations touched on the question of the operational and strategic leaders of the company that was being absorbed. The minutes also make note of the stipulation that the members of the board of directors and the supervisory board of Pest Rolling

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48 *Tőzsdelap*, 1910–1916.

Mill would be allowed to keep their positions in the future, as would the managing directors and white-collar workers. Furthermore, First Budapest offered separate five-year contracts to Károly Stumpf and Andor Burchard-Bélaváry, who had served as managing directors at Rolling Mill, as well as Boldizsár Luby, a wheat buyer, alongside their salaries at the time. These three men were responsible for the everyday operational management of the company.

The fifth point of the minutes stipulates that the next Rolling Mill general meeting had to elect four board of directors' members and two supervisory committee' members from First Budapest. According to the text, "the board of directors of First Budapest will disclose the names of the men that it will choose for the board of directors and the supervisory committee of Rolling Mill *at a fit and proper time.*" As the First Budapest leaders ensured in advance their new members of the governing body, they put it in writing, and they appended the new articles of association of Rolling Mill to the minutes as well, on which the following general assembly, to be held in March, had to vote. The eleventh point of the minutes indicates that, as the parties had agreed, Rolling Mill would also send a representative, specifically Konrád Burchard-Bélaváry, to serve on the board of directors of First Budapest:<sup>49</sup> "[The] Hungarian Commerce Bank of Pest, *as the owner of the majority share of First Budapest, [...] guarantees implementation of this choice.*" In other words, the real significance of the Commerce Bank, which consistently referred to itself as a "mediator" in the case, lay in its influence as the majority shareholder of First Budapest Steam Mill Company. The agreement also specifies that Konrád Burchard-Bélaváry would remain president of Rolling Mill and Rezső Burchard-Bélaváry would remain vice president, and, furthermore, that Rezső would succeed Konrád as president and would be paid an honorarium of 10,000 crowns per year.<sup>50</sup>

The details concerning the exchange of shares are covered in several points. The "task" of the Burchards was "to support and facilitate to the best of their ability the implementation of the intended transaction" and to "pledge

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49 Were Konrád Burchard-Bélaváry to resign or die, his place on the First Budapest Board of Directors was to go to his son, Rezső. As it so happened, Konrád, the president of the Rolling Mill Company, died in June of that year of colon cancer. In other words, in February he may already have known that he was dying.

50 The presidents of joint stock companies were always members of the board of directors, and the articles of association specified their remuneration. The fact that there is mention in the document of an honorarium suggests that they had reached an agreement with Rezső Burchard-Bélaváry concerning a sum that was to be paid in addition to the payment he would receive as a member of the board, perhaps in exchange for his help in bringing the negotiations to a fruitful close.

to trade 4,040 shares of Rolling Mill stock for shares in First Budapest in the abovementioned way.” Rolling Mill had 8,000 shares of stock in circulation on the market, thus the three Burchards (Konrad, Rezso, and Andor) themselves provided the majority of the shares for the undertaking. According to the agreement, the Hungarian Commerce Bank of Pest would inform shareholders in Rolling Mill of the chance to exchange their stock, and the text of this notice was also appended to the minutes. It is worth citing the beginning of this text:

We have the pleasure to inform you that an agreement has been reached, with our intercession, among the representatives of the majority of shareholders in the Budapest firm, First Budapest Steam Mill Company, and the Pest Rolling Mill Company. This agreement has as its goal the nurturing of a *closer relationship* between the Pest Rolling Mill Company and the First Budapest Steam Mill Joint Stock Company. This agreement can only have a positive impact on the production and trade relations of both enterprises, not to mention the profitability of the stock.

The “intercession” of the Commerce Bank also meant that the bank would take possession of the Rolling Mill shares in exchange for a temporary voucher and then would deliver these shares in exchange for First Budapest shares when these First Budapest shares were issued, which would take place after the following general assembly of First Budapest had authorized an increase in the capital. The Rolling Mill shareholders would not have to pay any of the costs of this exchange of shares, as First Budapest and the Commerce Bank had agreed to cover them.<sup>51</sup>

The contract contained specific provisions concerning the fate of the First Budapest shares that were to be given in exchange for the Rolling Mill shares. The owners-to-be of the 1,010 shares of First Budapest stock that were received in exchange for the 4,040 shares of Rolling Mill stock owned by the Burchards were bound by the terms of the contract not to sell the stock without the express permission of the First Budapest board of directors “for the moment for a period of nine years, i.e. until the expiration of next mandate of the First Budapest board of directors,” i.e. until 1925. Indeed, the contract also stipulated that, “these shares should be disposable at the request of the First Budapest

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51 Every transaction involving securities had costs. For instance, when a buyer purchased registered shares of stock, the transfer of the stocks to the name of the buyer had a cost per share, which was paid by the buyer. In this case, the Commerce Bank and First Budapest agreed to cover all of these kinds of additional costs.

board of directors on the occasions of the First Budapest general meetings with the goal of having its motions passed. In the interests of this goal, these share owners should present their shares before each individual general meeting of First Budapest at a time and place specified in the articles of association.” These conditions applied, according to the minutes, to every new share of First Budapest stock that the three Burchards or “a majority group represented by them” received as part of the exchange. If they wished to sell shares, they had to give First Budapest or a company named by First Budapest the first right to buy. First Budapest wished to keep a close watch on the ownership of its shares of stock in the hands of the Burchards:

In December 1924 and every five years thereafter (1929, 1934, etc.), Misters Burchard-Bélaváry must declare in writing to the First Budapest board of directors whether they intend to maintain the block specified in these minutes on the sale of the shares of First Budapest stock in their possession for the duration of the next five-year mandate of the First Budapest board of directors.

The second-to-last point of the minutes clarifies what is meant by the phrase “belonging to the sphere of interest”: in questions pertaining to management, in the future Rolling Mill would have to cooperate continuously with First Budapest:

The drafting and finalizing of the Rolling Mill balance sheets for December 31, 1915 and the presentation of a motion to be made to the Rolling Mill general assembly on the question of how to use net profits will take place with the *cooperation of the First Budapest board of directors and with their consent.*

Undeniably, the market position of the First Budapest Steam Mill Company was continuously growing stronger in the first decade of the twentieth century. In other words, one cannot venture any conclusions concerning the contracts that were concluded between First Budapest and Pest Millers and Bakers and First Budapest and Lujza in 1904 or between First Budapest and the Elisabeth Steam Mill Company in 1912 (these contracts have not survived) simply on the basis of the strategies that were adopted by First Budapest in the acquisition of Pest Rolling Mill in 1916. Those contracts may well have been significantly different, but one can be quite sure that they devoted similar attention to detail when addressing questions of the various levels of strategy and operations, the precise implementation of the exchange of stock, the ways in which the shares

of First Budapest stock that were obtained by the leaders of the companies that were brought, as a consequence of the exchange, into the sphere of interest of First Budapest would be handled, and the future forms of cooperation between the enterprises.

The distribution of the shares of stock in Pest Millers and Bakers and Lujza and the agreement discussed above that was reached with Pest Rolling Mill clearly indicate that, as a result of the transactions, First Budapest obtained a majority share in all four enterprises. Undoubtedly, First Budapest needed the support of a bank in order to finance and arrange these acquisitions, which were provided by the Hungarian Commerce Bank of Pest. The representatives of First Budapest then occupied operational and strategic positions at the other companies. Thus, all four enterprises found themselves in a close relationship with First Budapest. However, this was not a one-directional relationship that was entirely dictated by First Budapest. Rather, as a consequence of the agreements that were reached with the companies that were drawn into its sphere of interest, the earlier leaders of these companies for the most part occupied positions on the First Budapest board of directors. They supported its operations by giving their consent, and were also present at the general assemblies of the other companies as shareholders. First Budapest was in the center of the network, and the Hungarian Commerce Bank of Pest was right behind it, but there were also ties between the companies that worked together with them.

It is a bit difficult to find a precise term with which to describe what came into being as a result of the whole process. It was not quite a merger, since the companies continued to operate individually, legally. They had their own independent stocks, which were sold on the market, and they had separate balance sheets and issued annual reports. At the same time, the form of cooperation that emerged was more than a cartel. Certainly, the joint stock mill companies that were in the network harmonized their production efforts, their market presence, and no doubt their prices, but they were bound by more than a mere cartel agreement, since they were also linked by majority ownership. This was almost a kind of national cartel<sup>52</sup> or quasi-merger.<sup>53</sup> It was, in any case, an unambiguous example of *interlocking directorates*.

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52 National cartels were not at all rare things at the time: Harm G. Schröter, “Cartelization and Decartelization in Europe, 1870–1995: Rise and Decline of an Economic Institution,” *The Journal of European Economic History* 25, no. 1 (1996): 129–53.

53 Béla Tomka uses this term to designate the relationship between Lujza and First Budapest. He examined the question from the perspective of the Hungarian Commerce Bank of Pest. Béla Tomka,

Individuals who played roles both in banking and industry were in the foreground of research on interlocking relationships. In the secondary literature, which used to cast personal ties between banks and industrial undertakings as unambiguous examples of the power and sway of banks, a consensus has gradually emerged according to which the relationships, which were motivated by and based on shared interests, were far more complex and subtle, and took a variety of forms.<sup>54</sup> In the case of First Budapest and the Hungarian Commerce Bank of Pest, one cannot speak of a relationship of domination by the bank. In other words, the bank did not control the industrial enterprise. The bank did not directly control the mills. The Pest Millers and Bakers' Company did not have even a single banker on its board of directors, and the other mill companies had only one, mostly. The bank was a majority shareholder of First Budapest,<sup>55</sup> and First Budapest and/or the Hungarian Commerce Bank of Pest became majority shareholders of the Pest Millers and Bakers' Steam Mill Company, the Lujza Steam Mill Company, the Erzsébet [Elisabeth] Steam Mill Company, and the Pest Rolling Mill Company. Business management was unquestionably handled by First Budapest. Bankers rarely "wound up" in decision-making positions. I can only suggest that the mills and the bank were in continuous agreement throughout the process of absorbing the other companies into First Budapest. The Pest Millers and Bakers' Steam Mill Company, the Erzsébet Steam Mill Company, and the Pest Rolling Mill Company continued to function as independent enterprises until 1928, and Lujza Steam Mill Company stayed in business until 1936.

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*Érdek és érdektelenség. A bank-ipar viszony a századforduló Magyarorszáján, 1892–1913* (Debrecen: Multiplex Media–DUP, 1999), 128.

54 For more on the circumstances and conditions in Hungary see Ágnes Pogány, "Bankárok és üzletfelek. A Magyar Általános Hitelbank és vállalati ügyfelei a két világháború között," *Replika* 25 (1997): 55–66; Béla Tomka, "Személyi összefonódás (interlocking directorates) bankok és iparvállalatok között a századforduló Magyarorszáján," *Replika* 25 (1997): 37–46; Tomka, *Érdek és érdektelenség*.

55 *Ibid.*, *Érdek és érdektelenség*, 179. The lists of First Budapest stock consignments only survived up until 1892.

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*Translated by Thomas Cooper*

Ágnes Pogány

## Crisis Management Strategies after World War I

### The Case of the Budapest Flour Mills\*

The history of the big Budapest flour mills reached its finale in the second half of the 1920s. By then, it had been clear to all players that the Hungarian flour mill industry could not return to the prosperity of the nineteenth century and indeed had become one of the many crisis branches of the Trianon economy. The grave problems of the branch were not without antecedents. The big mills in Hungary had begun to lose ground in the global market in the last decades of the nineteenth century. Their declining competitiveness manifested itself in reduced exports, drops in price, and increasing domestic rivalry. The big Hungarian commercial mills sought solutions to overcome their problems that were similar to the solutions adopted by other foreign companies at the time. They strove to cut production costs and increase profits by establishing economies of scale and scope with horizontal and vertical integrations. Companies used basically two means to limit competition between firms: they organized cartels or they merged with their rivals to control their economic environment. In this article, I analyze how these crisis management practices were applied to meet corporate needs in the interwar period. I investigate these questions mainly as a case study of the biggest Hungarian flour milling company, the Első Budapesti Gőzmalom Rt. (First Budapest Steam Mill Co. later: FBSM), based on its archival documents and articles that were printed in the contemporary economic press.

Keywords: crisis, flour mills, Budapest, Hungary, interwar years

“Only the concentration of forces can alleviate the unfavorable conjuncture of the firms nowadays”<sup>1</sup>

### *The Budapest Steam Mills before World War I*

The first phases of the history of the big metropolitan mills are quite well known. Many publications analyze the factors that explained the unparalleled successes thanks to which Budapest became the world’s biggest flour milling center in the 1860s and 1870s. The companies, however, proved unable to preserve their

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1 “Elvileg létrejött a vidéki malomkoncentráció,” *Pesti Tőzsde*, May 13, 1926, 19.

technological advantages and their positions as leaders in the market permanently. From the 1880s on, Hungarian flour exports were gradually forced out of the international markets. Innovative Hungarian grinding methods gained ground in other countries, and this also made it difficult for the Hungarian companies to maintain a competitive edge. Cheap flour arrived from overseas producers and former importers began to make flour using North American, Russian and Argentinean wheat, which from the perspective of quality was in no way inferior to the Hungarian products. The competitiveness of the Budapest firms gradually diminished. They were unable to compete with lower priced milling products of the overseas big firms.<sup>2</sup> This was due in part to the fact that the Hungarian companies were much less productive than their American counterparts. In the US roller milling was associated with lower labor requirements. According to Perren, in 1890 in Minneapolis one worker produced 562.5 tons of flour, whereas in Budapest production was only 136.1 tons per worker.<sup>3</sup> Hungarian statistics show similar data. Thus, thanks to highly mechanized plants and better organization, the efficiency of production in the US was roughly four times higher than in factories in Hungary. Labor productivity did not improve in the later decades either, lagging far behind the values typical in America (Table 1).

	Volume of manufactured flour (1000 tons)	Total employees (persons)	Total workers (persons)	T1	T2
1890	459.3	3420	3048	134.3	150.69
1900	578	3694	3248	156.47	177.96
1910	609.4	4144	–	147.06	–

Table 1: The Productivity of the Budapest Milling Industry (1890–1910)

T1: Production per person, tons

T2: Production per worker, tons

Source:

*Magyar Statisztikai Évkönyv*, Új Folyam I. (Budapest: Magyar. Királyi Statisztikai Hivatal, 1893), 149. Accessed September 1, 2015, [http://konyvtar.ksh.hu/inc/kb\\_statiztika/statevkonyvek/1893/htm/149.htm](http://konyvtar.ksh.hu/inc/kb_statiztika/statevkonyvek/1893/htm/149.htm).

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2 Judit Klement, *Hazai vállalkozók a bős korban. A budapesti gőzmalomipar vállalkozói a 19. század második felében* (Budapest: ELTE Eötvös Kiadó, 2012), 20–34; Judit Klement, *Gőzmalomok a Duna partján* (Budapest: Holnap Kiadó, 2010), 45–47.

3 Richard Perren, “Structural Change and Market Growth in the Food Industry: Flour Milling in Britain, Europe, and America, 1850–1914,” *Economic History Review*, 2nd ser., 43, no. 3 (1990): 427–28.

*Magyar Statisztikai Évkönyv*, Új Folyam XVIII. (Budapest: Magyar Királyi Statisztikai Hivatal, 1910), 186. Accessed September 1, 2015, [http://konyvtar.ksh.hu/inc/kb\\_statiztika/statevkonyvek/1910/htm/186.htm](http://konyvtar.ksh.hu/inc/kb_statiztika/statevkonyvek/1910/htm/186.htm).

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“A magyar szent korona országainak 1910. évi népszámlálása. Harmadik rész, A népesség foglalkozása részletesen és a vállalati statisztika,” *Magyar Statisztikai Közlemények*, Új sorozat, vol. 52 (Budapest: Magyar Királyi Központi Statisztikai Hivatal, 1914), 396–97. Accessed September 1, 2015, [http://konyvtar.ksh.hu/inc/kb\\_statiztika/Manda/MSK/MSK\\_048.pdf](http://konyvtar.ksh.hu/inc/kb_statiztika/Manda/MSK/MSK_048.pdf).

We know from the research done by Judit Klement and György Kövér that the domestic flour industry gradually lost its former leading role in Hungarian industry and its profitability declined as of the middle of the 1880s. Business conditions did not improve in the early twentieth century either. In the years leading up to World War I, price competition grew increasingly intense, as did the struggle for markets.<sup>4</sup>

### *From Crisis to Crisis – the Interwar Years*

The devastations of war, a controlled war economy, and the Romanian occupation of much of Hungary in 1919 caused serious damage to the domestic mills.<sup>5</sup> However, the provisions of the Trianon Treaty and the dismemberment of the Austro-Hungarian Monarchy constituted an almost irreparable blow. The liquidation of a stable common internal market encompassing 51 million consumers placed Hungarian flour exporters, who had sold the majority of their products in the western parts of the Monarchy before 1914, in a very difficult situation. After the war, production capacities proved oversized compared to the volume of domestic cereal production and lower internal demand, which increased production costs significantly. Austria and Czechoslovakia built their own milling industries, defended by customs walls, and they increasingly bought

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4 Klement, *Hazai vállalkozók a bős korban*, 40–55; Idem, “Die Agrarkrise am Ende des 19. Jahrhunderts und die Budapester Mühlenindustrie,” in *Krisen/Geschichten im Mitteleuropäischen Kontext. Sozial- und Wirtschaftsgeschichtliche Studien zum 19./20. Jahrhundert*, ed. Márkus Keller, György Kövér, and Csaba Sasfi (Vienna: Institut für Ungarische Geschichtsforschung in Wien, 2015), 167–97; György Kövér, “A budapesti malomipar felemelkedése – a központi bank információi tükrében,” in idem, *A felhalmozás éve. Társadalom- és gazdaságtörténeti tanulmányok* (Budapest: Új Mandátum Könyvkiadó, 2002), 298–308.

5 On the damages to the FBSM during the Romanian occupation: Budapest Főváros Levéltára (=BFL) First Budapest Steam Mill Co. XI.1005. box 5, 1918–19, January 21, 1921.

wheat instead of flour in Hungary. Therefore, Hungarian flour gradually lost its traditional markets in the interwar period (Diagram 1).<sup>6</sup>

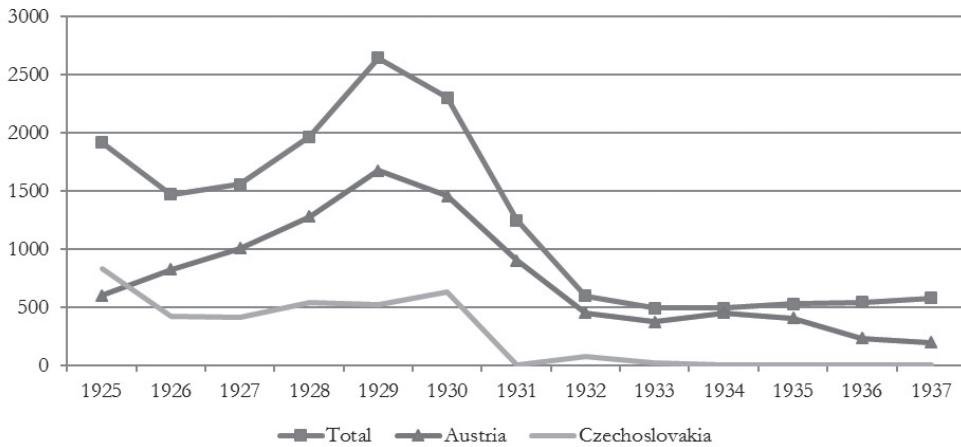


Diagram 1: Wheat flour and grits export of Hungary, 1925–1937 (1000 quintal)

Source: Hungarian Statistical Yearbooks, relevant years

The greatest stock market crisis of the stabilization period was caused by the failure of the Victoria Mill, which had been one of the most successful and largest metropolitan flour mills. In two months, shares in the company lost nearly 90 percent of their value. In December 1925, they were listed at 400 pengő, while in the end of January 1926 they were worth only 57 pengő. In the last week of January, the depreciation of the stock caused 16.8 million pengő in losses to the owners. In February 1926, Victoria was followed by the Concordia Mill, which belonged to the industrial holding of the prosperous Hatvany-Deutsch family. Both general managers, Emil Bacher and Henrik Hönich, committed suicide after the critical situation of their companies had been unveiled. The collapse of the large steam mills was caused by foreign indebtedness, failed large-scale futures transactions on the Chicago produce exchange, and the lack of export opportunities. While in Vienna the banks fell prey to the termination of the inflationary boom following financial stabilization, in Pest it was the flour mills that crumbled. The crisis proved enduring. Share prices in the milling

6 On the situation of the Budapest mills and exports difficulties: *Budapesti Kereskedelmi és Iparkamara éves jelentései*, years 1925–1932; Ernő Szűcs, “A debreceni István Gőzmalom története 1848–1944,” *A Hajdú-Bihar Megyei Levéltár Közleményei* 12 (1978): 76–77.

industry did not recover even in the following years, and they showed the worst performance among all securities in the interwar period, according to Katalin Mérő's calculations.<sup>7</sup>

These grave problems have generally been explained in the secondary literature as consequences, in large part, of changes in the foreign markets, the agricultural crisis of the late nineteenth century, the territorial provisions of the Trianon Peace Treaty, and the growing commercial protectionism of the interwar period. However, the question of how these companies reacted to the changes in their economic environment has not been given similar attention. The Hungarian flour mills were not simple sufferers of these shifts in the global markets. They had chances to develop various strategies in order to overcome the difficulties and improve their competitive positions. I analyze the alternatives that were at the disposal of the Hungarian flour milling industry and the ways in which various alternatives were applied.

### *The Emergence of Big Business in the Late Nineteenth Century*

The second half of the nineteenth century witnessed a business revolution, in which an ever-widening range of manufacturing, mining and service companies adopted modern forms of large-scale business. Global big enterprise emerged first in the United States and then spread to other continents. A growing proportion of economic transactions took place within the framework of these organizations. Technological factors prompted vertical integration and the growth of the firms on ways that improved processes allowing for increasing economies of scale. The applied new high-volume technologies resulted in unprecedented cost advantages when economies of scale and scope were sufficiently exploited. Cost advantages, however, were not automatic. The changes demanded not only huge investments in machinery, management and marketing, but also a careful rearrangement of successive processing stages, thorough planning to achieve smooth material flows and speedier throughput. Only obsessive cost control and monitoring of the complex production processes resulted in economies of scale and scope and reduced transaction costs. Only in this case could entrepreneurs exploit the potentials of large-scale business to drive out smaller competitors. Otherwise, production costs radically increased, and huge losses appeared due to

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7 Ágnes Pogány, "A Pesti Victoria Gőzmalom összeomlása," *Korall, Társadalomtörténeti folyóirat*, 14 (2003): 98–116; (K.) "A Concordia-malom titka," *Pesti Tőzsde*, April 1, 1926; Katalin Mérő, "Részvényárfolyamok alakulása a budapesti értéktőzsdén, 1864–1943," *Statisztikai Szemle* 65, no. 12 (1987): 1258.



high fixed capital costs compared to labor costs. Corporations typically increased their scales by vertical or horizontal integration, mergers and acquisitions. According to Chandler, investments in domestic and international marketing and distribution were perhaps the most important elements in establishing these big industrial firms, because they ensured that the volume of sales keep pace with the new volume of production.<sup>8</sup>

In some branches, such as oil refining, metallurgy, or food processing, continuous flow techniques and economies of speed were more easily obtained. Modern flour milling technology was especially well-suited for reorganization in this new corporate framework. It was no coincidence that large-scale industrial enterprises emerged relatively early in this branch of industry. Hungarian investors recognized these huge potentials when they established new, high-volume grinding capacities to produce homogenous, standardized output in the 1870s. However, Hungarian entrepreneurs did not imitate wholly the American or German big corporations. The Budapest flour mills had many unique features. They were smaller in size and horizontal and vertical integration and product diversification were not typical at the time.

The American model involved the mass marketing of mass produced articles in part through the establishment of sales and marketing departments within a company and frequently the development of a retail sales network. Huge advertising campaigns ensured the massive growth of sales volume. In Hungary, on the other hand, the typical practice was to use wholesaler grain-merchant firms and commercial agents for the purchase of raw materials and the sale of the produce, because firms could rely on well-established commercial services that had functioned well already before the creation of big industrial corporations. Therefore, Hungarian mills did not invest in the creation of their own marketing facilities, and they were possibly less ready to seek out new markets for their flours or promote the retail-trade of their products than their North American rivals. According to Judit Klement, Hungarian roller mills had extended networks of flour agents, and they employed brokers and consignees. They might have had some marketing campaigns abroad as well, based on surviving foreign-language posters and advertising leaflets.<sup>9</sup> Big American flour mills, on the other hand, increased sales by diversification and the development

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8 Alfred D. Chandler Jr., *Scale and Scope: the Dynamics of Industrial Capitalism* (Cambridge–London: The Belknap Press of Harvard University Press, 1996), 8–9, 21–34; C. J. Schmitz, *The Growth of Big Business in the United States and Western Europe, 1850–1939* (Cambridge: Cambridge University Press, 2002), 5–9.

9 Klement, *Gőzmalomok a Duna partján*, 71.

of many new products, such as breakfast cereals and other products in the 1920s and 1930s, which were intended for consumers with higher incomes who were more open to ready-to-eat foods than Hungarian consumers. In the US flour mills developed their own brands in the late nineteenth century. Product diversification in Hungary remained modest. Some enterprises built biscuit or horse fodder plants. Others started to bake bread during World War I in order to increase their profits. The FBSM started to make crackers, and other flour mills began to clean rice and barley, or established malt-kilns in the grave crisis at the end of the 1920s.<sup>10</sup>

Big American flour milling companies followed the path that Chandler had described. General Mills was established in 1928, following the merger of five flour mills in order to take advantage of economies of scale and scope in both production and distribution. After the merger, General Mills became one of the largest milling companies in the world. In the 1930s, the firm acquired several grocery companies using similar marketing facilities, and it expanded its animal-feed lines, all of which used similar production facilities. In the early 1900s, the Washburn Crosby Company, which later initiated the merger, spent the astronomical amount of \$650,000 on advertising its branded flour product. In the early 1920s, the company already had its own advertising department and radio station, which broadcasted radio serials like the *Betty Crocker Cooking School of the Air*, which debuted in 1924 as a means of advertising their various products. By World War II, General Mills had begun to produce toasters and other appliances, which it sold through the outlets that handled its groceries.<sup>11</sup>

This kind of business policy was also followed by many roller mills in Canada. The W. W. Ogilvie Milling Company increased its size by vertical integration and built modern mills with big production capacities. It constructed its own line of elevators through districts that produced the best milling grades of grain. In 1890, the capacity of the Winnipeg mill was 1,800 barrels (bbls) per day,<sup>12</sup> and in 1900 it was 2,500 bbls, but in 1909 the Ogilvies' largest ("Royal") mill in Montreal produced 6,000 barrels (533.4 tons) per day. In the same year, Ogilvie Milling built the "biggest mill in the British Empire" and "probably the

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10 József Szerényi and Jenő Ladányi, *A magyar ipar a világháborúban* (Budapest: Franklin társulat, 1933): 266; "A pesti nagymalmok leépítik a gabonaőrleést," *Pesti Tőzsde*, February 15, 1928.

11 Chandler, *Scale and Scope*, 165; History book of the General Mills Company, accessed September 19, 2015, <https://www.generalmills.com/en/Company/history>.

12 1 barrel wheat flour is 88.9kg, accessed September 1, 2015, [https://en.wikipedia.org/wiki/Barrel\\_\(unit\)](https://en.wikipedia.org/wiki/Barrel_(unit)).

biggest in the world” at its Point Douglas (Winnipeg) site, increasing production from 4,000 to 8,000 barrels (711.2 tons) per day. For the sake of comparison, in 1909 all plants of the FBSM, which had the biggest production capacity of the Hungarian mills, produced only 220.3 tons of flour together. In the 1920s, the Ogilvies, along with the other large milling companies in Canada, expanded into baking and other flour-related businesses, as a way of guaranteeing a market for some of its flour.<sup>13</sup>

### *The Great Wave of Mergers in the US*

Capital-intensive industries, due to the big fixed capital investments, were especially vulnerable to price warfare and competition for markets, because they caused declining sales, deteriorating throughput, overcapacity, decreasing prices and severe losses. Therefore, these industries usually attempted to stabilize their external business environment and strove to control markets, prices and competitors. Basically “three strategies were evident: predatory trade practices, cartelization, and monopolization.”<sup>14</sup> In the 1880s, a great merger wave began in the US. A sense of tremendous opportunities associated with exploiting economies of scale and scope in the American market was probably the most important driving force in promoting the merger movement. By the 1890s, the pace of industrial concentration quickened, culminating in a pronounced peak between 1895 and 1903, when an average of 300 firms were absorbed each year.<sup>15</sup> Chandler was of the opinion that this merger movement was the single most important episode in the evolution of modern industrial enterprise in the US from the 1880s to the 1940s. Not only did it set in place the structure of the new, capital-intensive industries and define their major players for much of the rest of the twentieth century, it also permitted the rationalization of American industries in a way that did not begin in Britain or in Germany until the 1920s.<sup>16</sup> The formation in 1882 of the Standard Oil Trust, the first

13 John Everitt and Roberta Kempthorne, “The Flour Milling Industry in Manitoba since 1870,” *Manitoba History*, 26 (1993): accessed August 23, 2015, [http://www.mhs.mb.ca/docs/mb\\_history/26/flourmilling.shtml](http://www.mhs.mb.ca/docs/mb_history/26/flourmilling.shtml); *Magyar Statisztikai Évkönyv*, Új Folyam 18 (1910): 186, accessed September 1, 2015, [http://konyvtar.ksh.hu/inc/kb\\_statisztika/statevkonyvek/1910/htm/186.htm](http://konyvtar.ksh.hu/inc/kb_statisztika/statevkonyvek/1910/htm/186.htm).

14 Neil Fligstein, *The Transformation of Corporate Control* (Cambridge–London: Harvard University Press, 1993), 2, 12–13.

15 John F. Wilson, *British Business History, 1720–1994* (Manchester–New York: Manchester University Press, 1995), 65.

16 Chandler, *Scale and Scope*, 79–80.

consolidation of forty smaller and bigger petroleum companies into a single giant firm, stimulated many imitations in other industries with the incentives to gain effective control of output, price and market.<sup>17</sup> Among turn-of-the-century mergers, the predominant process was horizontal consolidation, the simultaneous merger of many or all competitors in an industry into a single, giant enterprise.

The simultaneous rapid expansion of many capital-intensive industries in the early 1890s, followed by the deep depression of 1893, gave rise to abnormally serious price wars. Lamoreaux explains the 1895–1904 merger wave in the United States primarily as an attempt to escape the severe price competition that developed during the depression of the 1890s by firms in capital-intensive, mass-production industries, which had expanded rapidly and therefore increased their debt burden on the eve of the 1893 panic. The merger movement came partly because of continuing antitrust legislation and activities by the states and partly because of the increasing difficulties of enforcing contractual agreements by trade associations during the depression of the mid-1890s.<sup>18</sup>

Similar processes took place in Great Britain and Germany. From the 1890s until the late 1920s, large oligopolies came into existence by means of horizontal and vertical integrations to exploit economies of scale and scope. In Germany, cartelization did, however, inhibit horizontal merger activity as a means of concentrating production, largely because the security afforded by cartels provided little incentive to acquire competitors. On the other hand, mergers associated with vertical integration and diversifications were common. By 1907, only 5 of the 100 leading German industrial corporations remained undiversified, while 88 had indulged in some form of vertical integration (forward into sales and distribution, or backward into securing supplies of raw materials). Merger activity had contributed significantly to fashioning this integrated structure.<sup>19</sup>

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17 David S. Landes, “A Rockefellerek – Szerencse, erényesség és vallásosság,” in idem, *Dinasztiák, családi vagyonok és vagyonos családok* (Budapest: Partvonal Kiadó, 2007), 245–75.

18 Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (Cambridge: Cambridge University Press, 1988); Chandler, *Scale and Scope*, 75, 79–80; Schmitz, *The Growth of Big Business*, 59–60.

19 Wilson, *British Business History*, 72–73; Schmitz, *The Growth of Big Business*, 59–60; Ulrich Wengenroth, “Germany: Competition Abroad – Cooperation at Home, 1870–1990,” in *Big Business and the Wealth of Nations*, ed. Alfred D. Chandler Jr. et al. (Cambridge: Cambridge University Press, 1997), 139–75; 152–53.

*Crisis Management Strategies of the Hungarian Flour Milling Industry*

What follows from all this for the big Budapest steam mills? My argument is that they faced difficulties similar to those faced by large corporations abroad at the turn of the century. The pioneering entrepreneurs made investments in facilities and personnel that were large enough to drive out the smaller, higher-cost firms, but with increasing overseas competition Hungarian flour mills became plagued by overcapacity, declining throughput, and rising costs as a consequence. Increasing output and capacity only intensified competition and drove down prices even more. On both continents the standard response by manufacturers to intensified competition and the resulting price decline was first to reach informal agreements as to price and output and then to make more formal agreements (enforced by cartels or trade associations) to reduce output, set prices and allocate regional markets. When all of these strategies proved unsuccessful, then they often resorted to mergers.<sup>20</sup> Similarly, in Hungary, flour mills developed various concepts to solve the crisis and restore market dominance in the middle of the 1920s. In the following, I analyze these crisis-management attempts in the case of the First Budapest Steam Mill Company (FBSM).

*Cartel or Merger?*

Before World War I, several forms of looser cooperation had emerged among the metropolitan commercial flour mills. According to Vilmos Sándor, the first agreement on the use of sacks came into being in November 1869. In the 1870s, manufacturers came to an understanding on the conditions of flour shipment, credit granting and the borrowing of sacks. These agreements proved very short-lived, however.<sup>21</sup> The big Budapest mills concluded an agreement on the purchase of wheat before 1873, and by 1882 they formed a cartel to reduce the volume of output when needed. The cartel was renewed from time to time according to Kirsch. In 1887, another agreement was reached on the terms of flour sale, number and quality of flour types, forms of packing, and the repurchase of sacks.<sup>22</sup> Although in 1912, the contemporary economist and social democrat

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20 Chandler, *Scale and Scope*, 71–72.

21 Vilmos Sándor, “A budapesti nagymalomipar kialakulása (1839–1880),” in *Tanulmányok Budapest múltjából*, vol. 13 (Budapest: BTM, 1959), 383.

22 János Kirsch, “Malomipar,” in *A magyar élelmiszeripar története*, ed. idem et al. (Budapest: Mezőgazdasági Kiadó, 1986), 106.

Jenő Varga wrote explicitly about a flour milling cartel that had reduced output to prevent the fall of flour prices from time to time,<sup>23</sup> Judit Klement denies the existence of a broader milling cartel before 1914. According to her, one can find precedents only for occasional cooperation, but not all metropolitan flour mills joined these associations. They were not able to reach a permanent agreement even on a temporary reduction of output for a couple of months in the year.<sup>24</sup>

World War I had brought about significant changes. The organization of a centralized war economy represented a kind of forced cartelization which reduced the autonomy of the flour milling companies considerably.<sup>25</sup> After the war, many elements of the war economy, such as public provision of flour for the public employees or state control of exports, had remained in effect until financial stabilization and the shortage of wheat and coal made stronger cooperation also reasonable. Following the fall of the Soviet Republic in 1919, the metropolitan flour mills concluded an agreement with the government. It was decided that, of the 13 Budapest flour mills, 7 were to be closed down. The government was ready to cover the costs not only of those mills that were kept in operation, but also of those which were shut down, and this was particularly favorable for the firms.

This period was the time of daily lengthy talks with the existing government, and it was next to impossible to imagine that it would have been possible to protect the common interests without common administration.<sup>26</sup>

In these early post-war years, a so called milling concentration had been formed, which was renewed yearly until the summer of 1925. The functioning mills operated on a common profit or loss basis, on common account. The millers' fee and the working conditions were set by a contract made between the mills and the Futura Trade Corporation of Hungarian Cooperative Centers (*Futura, Magyar Szövetkezeti Központok Áruforgalmi Rt.*), which was the successor of the war-time economic organization War Produce Co. (*Hadi Termény Rt.*). The flour

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23 Jenő Varga, "A magyar kartellek," in idem, *A proletárdiktatúra gazdaságpolitikája. Válogatott írások, 1912–1922* (Budapest: Kossuth Könyvkiadó, 1976), 78.

24 Klement, *Gőzmalmok a Duna partján*, 46–47; Judit Klement, "Vállalatok hálózatban, Vállalati kooperáció a 20. század elején a budapesti gőzmalomiparban," *Korall* 50 (2012): 82–106.

25 Sándor Farkasfalvy, "Malomstatisztika," *Magyar Statisztikai Szemle* 4 (1926): 83–88.

26 Magyar Nemzeti Levéltár Országos Levéltára (=MNL OL) Z40 Pesti Magyar Kereskedelmi Bank, Projektumok, 2009/2. batch 52, item 949. *Egyes magyarországi nagyobb malomsoportok és nagyobb malmok egyesüléséről*, January 18, 1926; Kirsch, "Malomipar," 118.

mills established a common office for the control and settlement of common receipts and expenses, which functioned successfully according to the director of the FBSM.<sup>27</sup> The many difficulties after the war brought the firms closer to one another; the business federations the Hungarian Metropolitan Milling Association (*Magyar Fővárosi Malomegyesület*) and the National Association of the Provincial Milling Industrialists (*Vidéki Malomiparosok Országos Egyesülete*) therefore formed a common steering committee to help foster closer cooperation.<sup>28</sup> In the early 1920s, the managers of the Budapest mills still looked optimistically to the future, and they believed in the return of the better export opportunities of the prewar years. This optimism did not last long, however. It evaporated soon after the end of the inflationary boom.

### *Raising the Milling Concentration from the Dead*

During the process of financial stabilization following hyperinflation, the government liquidated the last elements of the war economy; discontinued the public provision of flour, and liberated flour exports. These measures terminated the principal reasons to sustain the milling concentration, so it was closed on July 15, 1925.<sup>29</sup> A ruthless life-or-death war for markets began among the corporations as a consequence.<sup>30</sup> In spite of the competitive struggle, many milling companies wanted to return to forms of cooperation. The leadership of the FBSM was also assured that “the concentration was absolutely necessary, considering the low utilization of the grinding capacities.”<sup>31</sup>

A draft to revitalize the terminated milling concentration was made by the general manager of the FBSM Sándor Stux who wanted to invite even the representatives of the Austrian and provincial mills to the talks on the new cartel. The negotiations had been carried on for several months in early 1925,

27 BFL XI.1005. box 5, EBG, General Assembly of the year 1918–1919, January 21, 1921., 7; Kirsch, “Malomipar,” 115; BFL XI.1005. box 10, Társulás és üzemösszevonás szüksége a magyar malomiparban és annak módozatai.

28 BFL XI.1005. box 5. Report of the board of directors on the business year 1918–1919, January 21, 1921, 7.

29 MNL OL Z40 2009/2. 52. item 949, *Egyes magyarországi nagyobb malomcsoportok és nagyobb malmok egyesüléséről*, January 18, 1926.

30 Henrik Hönich, “A magyar malomipar megmentése,” *Pesti Tőzsde*, August 20, 1925, 1–2; Ármin Láng, “Malomiparunk helyzete,” *Pesti Tőzsde*, February 21, 1926.

31 BFL XI.1005. Secretariat, documents, box 2. General Assembly, documents and minutes. General Assembly of the year 1924, May 11, 1925, report of the board of directors.

but they ended with a fiasco.<sup>32</sup> The always well-informed economic weekly *Pesti Tőzsde*<sup>33</sup> had reason to believe that the milling concentration was prevented by Emil Bacher, since he did not want to join the cartel with the provincial flour mills of the Victoria Mill.<sup>34</sup> The only matter the Budapest mills were able to agree on was the reestablishment of the milling agreement which had been in force before the war. It concerned albeit only questions of minor importance, such as the uniform payment and shipment terms of flour sales and had started from August 1925 on. The provincial firms joined later as well.<sup>35</sup>

In the springtime of 1926, before the ensuing grinding season, plans for the creation of a milling cartel came up again. This time, the provincial mills initiated the negotiations, sending out a special commission to solve the problems. Originally, they planned a cartel for the provincial flour mills which was to grow to nationwide proportions later on. The government strongly supported the agreement; they attributed the collapse of the Concordia and Victoria and the crash of many smaller flour mills to the absence of the milling cartel in the first place.<sup>36</sup> The press reported in May that an agreement among the provincial mills had been reached. About twenty to twenty-five country mills joined the arrangement, which was developed on the basis of a proposal made by Lipót Schrecker, general manager of the Borsod-Miskolci Steam Mill, which belonged to the Hatvany-Deutsch milling group. The participants agreed on the basic principles, but the final compromise was not yet reached. The cartel was to assume joint control of procurement and sales through a central administration.

The concentration should begin in early July and work on common profit. The brand names of the provincial mills are to remain in use, but purchases and sales will be carried out according to the instructions of the central administration.

Unfortunately, not everyone agreed on these terms. Géza Aczél, general manager of the Back Mill which had plants in Győr and Szeged, opposed the Schrecker-plan. Instead, he proposed an output reduction in the country mills by fixing and dividing weekly or monthly quotas. Nevertheless, the majority accepted the

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32 Hönich, "A magyar malomipar megmentése," 1–2.

33 *Pesti Tőzsde* (Pest Exchange) was an economic weekly that appeared every Thursday. It was edited by János Kallós, who also published the business yearbook *Kallós-féle Compass*.

34 "A Victoria malomnál minden rendben, de Bacher megosztja hatalmát," *Pesti Tőzsde*, January 21, 1926, 3; (K.) "A Concordia-malom titka," *Pesti Tőzsde*, April 1, 1926.

35 "Augusztus 1-től feltámad a malomegyezmény," *Pesti Tőzsde*, July 9, 1925, 13.

36 "A kormány sürgeti a malomkoncentrációt," *Pesti Tőzsde*, March 4, 1926, 5.



first proposal during the negotiations. The organizers of the cartel did not want to omit the major Budapest mills from the agreement, inasmuch as most owned significant provincial plants. *Pesti Tőzsde* was informed that Emil Bacher was not hostile to the cartel this time. On the contrary, he wished to join it with his flour mills.<sup>37</sup> Baron Károly Hatvany and Lipót Schrecker had to convince Sándor Stux, the head of FBSM, the biggest flour mill in Hungary. His words were of especially great importance, since in the summer of 1926 he was elected to the position of cochairman of the Hungarian Metropolitan Milling Association and he had become a councilor on the Stock Exchange a few weeks earlier.<sup>38</sup>

### *The Big Mill Merger*

Nevertheless, it became clear by the end of May that FBSM did not support the Schrecker-plan and had other ideas concerning inter-firm cooperation instead; they planned a much more radical organizational transformation. According to the journalist writing in *Pesti Tőzsde*, the idea of the big merger appeared as early as the last months of 1925. Not only Sándor Stux supported the plan, so did the head of the Concordia Mill, Henrik Hönich.

[The essence of the project was] to merge all Budapest and four or five leading provincial mills into a single corporation and in doing so to create a new joint stock company with huge capital, the shares of which would be listed on the stock exchange, and the securities of all participating firms would be exchanged for shares in the new trust company.<sup>39</sup>

The talks concerning the big merger fell through again because of the resistance of the provincial mills, and the concept was struck from the agenda after the outbreak of the milling crisis at the turn of 1925–1926.<sup>40</sup>

Although several plans were drawn up to relieve the grave crisis, it soon became obvious that the companies were unable to agree and accept any of them, albeit the government pressed vehemently for the bargain, principally with regards to exports. The minister of commerce, Lajos Walko, who had to face an increasingly deteriorating balance of payments after the financial stabilization,

37 “Elvileg létrejött a vidéki malomkoncentráció,” *Pesti Tőzsde*, May 13, 1926, 19.

38 “Stux Sándor a Malomegyesület feladatairól és a malomkoncentrációról,” *Pesti Tőzsde*, July 8, 1926, 5.

39 “Koncentráció vagy tröszt a malomiparban,” *Pesti Tőzsde*, May 27, 1926, 9.

40 *Ibid.*, 9.

summoned the heads of the big Budapest mills to a consultation in the summer of 1926.<sup>41</sup> At the meeting, Stux also explained that he regarded the cartel plans as useless and did not support them because it would have been impossible to convince 3,000 flour mills to comply with the rules of the cartel, but even the 350 commercial mills would have been too many for a cartel. Administration would also have been too expensive.<sup>42</sup> His reasoning was hardly a surprise; the most recent research had also proved that the majority of the cartels were especially vulnerable and short-lived. It was extremely difficult and costly to frame such controlling mechanisms that could force the cartel members to keep the agreement, since the temptation to cheat was too great. It seemed profitable to offer products below the prices fixed by the cartel or to fail to meet other terms of the agreement.<sup>43</sup> Consequently, the FBSM sought a solution in horizontal integration, which promised much higher cost savings than a simple cartel. Stux was convinced that “only a merger is expedient from the point of view of the rationalization of technology and personnel.”<sup>44</sup> According to the correspondent writing for the *Pesti Tőzsde*, FBSM wanted to merge with four big flour mills in the summer of 1926. The Gizella, the Schmidt and Császár, the Hungária Mills and the Borsod–Miskolci concern were considered acceptable partners. Stux wanted to exchange the securities of the merging mills for the shares of the FBSM. Nevertheless, neither his plan nor the cartel plan of 120 provincial mills was realized in the end.<sup>45</sup>

Contemporary newspapers are not the only sources on the Stux project. He himself put his ideas concerning the big merger down on paper for the FBSM and its principal shareholder, the Hungarian Commercial Bank of Pest (*Pesti Magyar Kereskedelmi Bank*) twice in 1926.<sup>46</sup> In these memoranda Stux, stressed that

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41 “Százhusz malom 10 éves koncentrációra kész,” *Pesti Tőzsde*, July 1, 1926, 5.

42 BFL XI. 1005. box 10, Társulás és üzemmösszevonás szüksége a magyar malomiparban és annak módozatai. One can find the same 15 page-long type-written draft among the documents of the Commercial Bank. The author was in all probability Stux: Z40 Projektumok, 52. 949. Proj. 2009/1. Társulás és összevonás szüksége a magyar malomiparban és annak módozatai (without date).

43 Jeffrey Fear, “Cartels,” in *The Oxford Handbook of Business History*, ed. Geoffrey Jones et al. (Oxford: Oxford University Press, 2010), Oxford Handbooks Online, accessed December 8, 2015, [www.oxfordhandbooks.com](http://www.oxfordhandbooks.com).

44 “Lesz-e fúzió a malomiparban?,” *Pesti Tőzsde*, December 15, 1927, 7.

45 “Százhusz malom 10 éves koncentrációra kész,” 5.

46 MNL OL Z40 Projektumok, 52, 949, 2009/1. Társulás és összevonás szüksége a magyar malomiparban és annak módozatai. Z40 Projektumok, 2009/2. 52, 949. Egyes magyarországi nagyobb malomcsoportok és nagyobb malmok egyesüléséről, 1926. január 18. The author’s name is not mentioned in the texts, but it is clear from the contexts that it was Sándor Stux.

he did not consider cartel a good solution, and he deemed mergers necessary because of the high production costs. He urged radical cuts in costs and the rationalization of the plants and the staff. His merger plans met with strong resistance however; the owners of the plants sentenced to be shut down insisted vehemently on keeping their mills working, although their mills would have continued to operate with high production costs and losses. The negotiations again failed to produce meaningful results.

News on the merger appeared again in the press by the end of 1927. *Pesti Tőzsde* wrote about a merger of FBSM, Borsod–Miskolci Mill, and Első Békéscsaba Steam Mill, which belonged to the sphere of influence of the latter. Stux confirmed that there had been some consultations between himself and general manager Schrecker.<sup>47</sup> However, again they failed to resolve their differences. Borsod–Miskolci did not want to merge its profitable foreign mills. FBSM, on the other hand, was not inclined to the merger if this condition was not met.<sup>48</sup> Rumors about the establishment of a “new huge milling trust” gained ground in May 1928 once more. This time FBSM, Borsod–Miskolci, Gizella and all of Victoria’s mills in Budapest and the rest of Hungary were to be amalgamated. According to the news, there were intense daily negotiations in Stux’s office that had the support of the government.

The new company is to take over all plants of the big Budapest mills in return for shares, and it will grind only in those mills where it is the most rational in order to guarantee the best utilization of capacities and lower flour prices. The absorbed companies would share in the profit in form of dividends. The new corporation would merge the provincial plants of the merged mills as well and thus control a significant part of the domestic milling industry.<sup>49</sup>

However, it became soon obvious that there were serious conflicts among the negotiating partners. One of them was that they were unable to agree on questions of leadership. FBSM reserved the leading role for itself, given that it owned more than 50 percent of the production capacities to be amalgamated. The others did not accept this and wanted to participate in the controlling positions, claiming that on the basis of assets their positions were not so ill-

47 “Lesz-e fúzió a malomiparban?” 7.

48 “Miért hiúsult meg az Első Budapesti Gőzmalom és a Borsod-Miskolci fúziója?” *Pesti Tőzsde*, December 22, 1927.

49 “Óriási malomtröszt alakul,” *Pesti Tőzsde*, May 10, 1928, 7.

proportioned.<sup>50</sup> Personal issues proved to be the final impediment to the merger. Of the four heads of the milling firms, only one could have become general manager of the new company. In order to further thrift and rationalization, the number of high-ranking employees and other staff would have had to have been decreased by 75 percent at least as well. Another problem arose because the Hungária Mill was not inclined to join the talks, although the government insisted on this and made its support and the granting of various privileges conditional on the participation of all big flour mills in the merger.<sup>51</sup>

Accordingly, the huge milling trust was not created in 1928 either. The horizontal integration of the biggest companies of the branch failed to come about. The press reported on the complete cessation of negotiations as early as November. The big merger lost its actuality and expedience. Agricultural producers suffering from the grave consequences of grain overproduction on world markets also vehemently opposed the formation of a huge milling oligopoly, as they were afraid of a further decline in prices.<sup>52</sup> All this meant that none of the projects elaborated in order to reestablish inter firm cooperation was realized in the second half of the 1920s. The beginning of the Great Depression put an end to autonomous crisis management strategies from the 1930s on.

### *Individual Strategies – Building a Concern*

Managers of the flour mill companies were presumably not astonished when they faced the difficulties of making a cartel since they had not managed to set up a permanent agreement before World War I either. The repeated failure of cooperative strategies therefore made it necessary for individual corporations to develop their own crisis management strategies as well in order to improve their positions. Consequently, as early as the turn of the century, the FBSM aimed to form its own flour milling group by acquiring several plants. This policy was justified in the management's report of the year 1903 by the cutthroat war of the flour mills and the failure to establish mechanisms for controlling inter-firm competition. There were no hostile take-overs, however, since the milling

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50 "Nehezen születik meg az új malomholding," *Pesti Tőzsde*, May 24, 1928, 6.

51 "Malomholding helyett a régi malomkoncentráció feltámasztásáról tárgyalnak," *Pesti Tőzsde*, May 31, 1928, 6.

52 "Stux Sándor az Első Budapesti Gőzmalom vezérigazgatója a malomipar kilátásairól, a malomrészvények árcsökkenéséről, a koncentrációról, amely nem jöhet létre," *Pesti Tőzsde*, November 8, 1928, 5.

enterprises wanted themselves to join the FBSM, which accepted only the offers that were considered the most favorable. First, FBSM made a bargain with the shareholders of two well-reputed and long-standing companies, the Lujza Steam Mill (*Lujza Gőzmalom*) and the Pest Mill of Millers and Bakers (*Pesti Molnárók és Sütők Malma*) in 1903.<sup>53</sup> There was an uncompelled mutual exchange of shares by raising the share capitals of the participating companies. The management expected the deal to lead to an improvement in the company's competitiveness.<sup>54</sup> FBSM acquired share ownership in the Erzsébet Steam Mill in 1911.<sup>55</sup>

The building of the holding had accelerated during the years of World War I. FBSM obtained shares of many Budapest and provincial flour mills. It bought plants in Karcag, Mezőtúr and Gyoma in 1915 and formed the joint stock company Tisza-County Roller Mill and Warehouse Co. (*Tiszavidéki Hengermalom és Tárház Rt.*) out of them. It also got hold of other firms in Vác, Zombor, Galac and Pancsova.<sup>56</sup> In 1916, FBSM concluded an agreement with the owners of the Pest Roller Mill Company (*Pesti Hengermalom Társaság*) to exchange their securities for shares of the FBSM, four Roller Mill shares being equal to one share in First Budapest. Those who did not like the bargain could sell or even keep their Roller Mill shares. FBSM financed the extension of its sphere of interest by raising the share capital by one million crown, to 7.5 million crown. Thus, the daily grinding capacities of the whole group had increased to 2,670 tons.<sup>57</sup> In 1916, they acquired the majority ownership of the Zenta Roller Mill (*Zentai Hengermalom Heszler és Társai Rt.*) and bought a plant in Versec with a daily grinding capacity of 40 tons, to be enlarged later on. Out of the two latter mills the Southern Milling Industry Co. (*Délvidéki Malomipar Rt.*) was established. It was a new joint stock company with a 500,000-crown share capital. The business report of 1916 explained that the new acquisitions made possible the control

53 BFL XI.1005. box 5. Report of the board of directors on the business year 1903, minutes of the general assembly, February 15, 1904; Klement, "Vállalatok hálózatban," 91.

54 BFL XI.1005. box 5. Report of the board of directors on the business year 1903, minutes of the general assembly, February 15, 1904.

55 Klement, *Gőzmalomok a Duna partján*, 123; Klement, "Vállalatok hálózatban," 87–88. On these acquisitions see also the article of Judit Klement in this issue: Judit Klement, "How to Adapt to a Changing Market? The Budapest Flour Mill Companies at the Turn of the Nineteenth and Twentieth Centuries," *Hungarian Historical Review* 4, no. 4 (2015).

56 BFL XI.1005. box 5. Report of the board of directors on the business year 1915.

57 BFL XI.1005. box 5. General Assembly of the year 1915. I would like to thank Judit Klement for having put the minutes concerning the agreement with the Pest Roller Mill Co. at my disposal. See also: Klement, "Vállalatok hálózatban," 98–102; idem, "Apák és fiúk gazdasági stratégiái: egy magyar család a 19. és 20. században," *Aetas* 1–2 (2005): 69–92.

of the firms that had been bought up.<sup>58</sup> In 1917, a new flour mill, the First Székesfehérvár Steam Mill Co. (*Első Székesfehérvári Gőzmalmi Rt.*), was built.<sup>59</sup> The Károly Mill in Nagykikinda, which was bought up that autumn, was transformed into a joint stock company with one million-crown share capital, and its daily capacities were enlarged to 60 tons. The Tisza-County Roller Mill and Warehouse was completed with a mill in Szarvas and a storehouse in Dévaványa.<sup>60</sup> During the war years there were many new investments. Capacities were increased in the hopes of a better business atmosphere in the peacetime to come. A completely new plant was built on the site of the Erzsébet Mill, which was burnt down in 1914. According to the report of the management, it was furnished with the most up-to-date equipment and became one of the biggest mills on the continent.<sup>61</sup> The holding grew much more slowly in the inflationary period. The shares of the József Lowland Steam Mill and Sawmill Co. (*József Alföldi Gőzmalom és Fűrészmalom Rt.*) in Hódmezővásárhely and the Körös-County Industrial and Trade Company (*Körösvidéki Ipari és Árusforgalmi Rt.*) were obtained in 1922.<sup>62</sup> In the following year, Júlia Mill in Nyíregyháza got involved in the business group in order to get a satisfactory position in a significant rye-producing province.<sup>63</sup>

Although FBSM acquired several Budapest and provincial flour mills during the first decades of the twentieth century, these new acquisitions continued to operate separately, under their own former names and with their own accounts and profits. This meant that no effective merger was undertaken. Only grinding capacities were enlarged, but new, more effective organizational solutions to help further rationalization and economies of scale and scope were not implemented. An effort to get the biggest output quota in a future milling cartel might explain this policy of acquisitions by the FBSM. It would also add to the picture that many mills that joined the concern had belonged to the sphere of interest of the Pest Hungarian Commercial Bank (PMKB) before. The Bank had a majority share ownership in several of these flour mills. The Commercial Bank owned

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58 BFL XI.1005. box 5. Report of the board of directors on the business year 1916.

59 BFL XI.1005. box 5. Report of the board of directors, the supervisory board and annual accounts of the business year 1917, March 27, 1918.

60 BFL XI.1005. box 5. Report of the board of directors on the business year 1918–1919, January 21, 1921.

61 BFL XI.1005. box 5. Report of the board of directors on the business year 1916.

62 BFL XI.1005. box 2. General assembly of the year 1922, June 18, 1923. Report of the board of directors.

63 BFL XI.1005. box 2. General assembly of the year 1923, June 23, 1924. Report of the board of directors.

nearly 100 percent of the Zombor, Vác, Pancsova and Zenta steam mills already in 1913. The Bank owned a significant share of the First Budapest Steam Mill as well. According to the data presented by Béla Tomka, it had nearly 30 percent of the shares in the end of 1913.<sup>64</sup> The bank might have obtained an even larger parcel of shares later on based on the number of securities that were deposited at the general assemblies held in the late 1920s and early 1930s (Table 2).

	1928	1929	1931
Number of shares deposited by the Hungarian Commercial Bank of Pest	75,000	95,000	65,568
Number of all deposited shares at the general assembly	85,205	10,4675	116,507
Shares deposited by the Hungarian Commercial Bank, in percent of all deposited shares	88.02%	90.76%	56.28%
Total number of FBSM shares	165,000	165,000	165,000
Shares deposited by the Hungarian Commercial Bank, as a percent of total number of FBSM shares	45.45%	57.58%	39.74%

Table 2: Shares deposited at the general assembly of the FBSM, 1928–1931

Source: BFL XI.1005. box 2. General assembly of 1927, February 24, 1928. General assembly of 1928, February 14, 1929; Minutes taken at the 63<sup>rd</sup> ordinary general assembly of the First Budapest Seam Mill Co. on February 21, 1931.

The Commercial Bank showed great interest in the flour mills. In 1913 the biggest part (27.2 percent) of the bank's industrial shareholdings belonged to the milling industry. Tomka has shown that this was not a result of a deliberate business policy, since the profitability of the flour milling industry was low by that time. Current share prices frequently remained below face value. The purpose of industrial shareholdings was often to obtain discount and deposit business, but illiquid companies could pay off their debts with their own shares as well, which might have remained in the portfolio of the creditor for years considering the low market value of these securities. The profitability of the smaller provincial flour mills was particularly low. They were frequently highly indebted with the bank; their debts were significantly higher than their share capital (Table 3).<sup>65</sup>

64 Béla Tomka, *Érdek és érdekeltenség. A bank-ípar viszony a századforduló Magyarországon 1892–1913* (Debrecen: Multiplex Média–Debrecen U. P., 1999), 126–29, 179.

65 Ibid.

Flour Mills	Share holding of the bank (percent)	Share capital	Credits granted by the bank	Syndicate quota	Members on board of directors and supervisory board representing the bank (person)
First Budapest Steam Mill	29.65	6500	-	-	2
Erzsébet Steam Mill	0.7	2700	1870.0	91.3	2
King Mill Hedrich and Strausz	33.9	4000	6530.5	-	1
Zombori Roller Mill	97	1000	2897.3	-	2
Vác Roller Mill	95.1	750	1287.2	-	2
Pancsova Steam Mill	100.0	400	1515.2	-	2
Zenta Roller Mill	-	600	903.2	-	2
Lujza Steam Mill	-	2800	-	-	1
István Steam Mill of Debrecen	-	5200	-	490.7	-
Gizella Steam Mill	-	3200	-	-	1
First Békéscsaba Steam Mill	-	2000	200.0	-	-

Table 3: The flour milling holding of the Hungarian Commercial Bank of Pest, 1913.

Source: Tomka, *Érdek és érdektelenség*, 179.

The Commercial Bank took an active part in building the milling group around the First Budapest Steam Mill, mediated the exchange of shares between the Lujza Mill and the FBSM, transformed the King Mill (*Királymalom*) into a joint stock company, and bought up several smaller provincial mills before World War I. The aim was probably to increase the efficiency of the companies. At least, calculations made in 1914 suggest this. The bank had estimated the economic efficiency of the big commercial mills in Budapest, taking into account their grinding capacities and financial positions, and guessed the effects of a possible merger on their productivity.<sup>66</sup> According to the calculation, the profit of the bank's milling group had only slightly exceeded the discount rate of the central bank (Table 4). According to Tomka, the profitability of other industries was significantly higher. In 1913, profitability in banking was 14.3, and in the iron and steel industry it was 18.4 percent (profit as a percentage of share capital).<sup>67</sup>

66 Ibid., Béla Tomka, "A magyar malomipar finanszírozása (1895–1913)," *Korall* 14 (2003): 79–97.

67 Ibid., 94.



Flour Mill	Average investment (1000 crowns)		Profitability (percent)	
	1912	1913	1912	1913
Pancsova Steam Mill	1378	1457	6.72	7.65
Vác Roller Mill	1291	1250	6.65	7.54
Zombor Roller Mill	2183	2536	6.76	7.74
Zenta Roller Mill	753	765	8.18	8.75
Discount rate of the Austro-Hungarian Bank	-	-	5.15	5.9

Table 4: Profitability of the flour milling holding  
of the Hungarian Commercial Bank of Pest, 1912–1913

The data contain the incomes from interests and commissions.

Source: MNL OL Z40 Projektumok, 52. item 984 Malmainknál való kihelyezéseink 1912. és 1913. évi jövedelmezősége [Profitability of our Investments in our Flour Mills in the Years 1912 and 1913]. Budapest, January 28, 1914.

Thus, the new members of the milling concern of the FBSM were not very lucrative and their financial positions were also not favorable. In spite of this, no direct measures were taken to reduce costs by concentrating grinding in the most effective plants or rationalizing production and administration until 1926. Managers viewing future business potentials as bright renewed the mills and enlarged grinding capacities during the period of post-war inflation.<sup>68</sup>

Chandler has pointed out that acquisitions alone did not ensure market dominance and cost reduction. Mergers increased organizational capabilities and productivity only if a single, centralized administrative control was quickly established over the merged or acquired companies and the facilities and personnel were then rationalized to exploit more fully the economies of scale and scope. But if the companies acquired or those coming into the merger were not administratively centralized and rationalized but instead continued to operate autonomously, much as they had before the change, the enlarged enterprise remained little more than a federation of firms. The resulting cost advantages were minimal.<sup>69</sup> These conclusions were drawn relatively late in Budapest. Only the grave milling crisis in 1925–1926 and the repeated failure of collective collusive policies forced the management of the FBSM to develop a new corporate strategy and fundamentally reorganize the company structure. By the springtime of 1926, it had been settled that the merger of the plants acquired earlier would be completed.

68 BFL XI.1005. box 5. General assembly of the year 1918–1919, January 21, 1921.

69 Chandler, *Scale and Scope*, 37, 71, 78, 229.

*Merger and Rationalization*

At the extraordinary general assembly of the FBSM held on April 22, 1926, the merger of three Budapest (Pest Roller Mill Company, Pest Steam Mill of Millers and Bakers, Erzsébet Steam Mill) and five mills outside the city (Vác Roller Mill, First Székesfehérvári Steam Mill, Tisza-County Roller Mill and Warehouse, Karcag, József Lowland Steam Mill and Sawmill, Hódmezővásárhely, Júlia Steam Mill, Nyíregyháza) was decided. From then on, the merged mills operated as plants of the First Budapest Steam Mill. The merger took place on the same day in the same board room of the FBSM in the case of all participating firms. New FBSM shares were emitted and exchanged against the securities of the fused companies and then these exchanged shares were destroyed. The majority of the newly issued shares ended up in the portfolio of the FBSM because it had owned the shares of the merged companies even before the merger (Table 5). The other shares to be exchanged were bought from their owners. Two plants were left out of the merger. Lujza Mill continued to function as a separate warehouse and the Körös-County Industrial and Trade Co. was maintained as an independent entity for various commercial transactions.<sup>70</sup>

	External shareholding	Shareholding of the FBSM	Total shares	FBSM ownership (%)
	pieces			
Luiza Steam Mill	49.000	61,201.000	61,250.000	99.920
Pest Mill of Millers and Bakers	238.040	31,261.960	31,500.000	99.240
Erzsébet Mill	129.330	47,120.670	47,250.000	99.730
Pest Roller Mill	509.864	55,490.136	56,000.000	99.089
Tisza-County Roller Mill and Warehouse Co.	0.000	393,750.000	393,750.000	100.000
Körös-County Industrial and Trade Co.	0.000	210,000.000	210,000.000	100.000
Vác Roller Mill	22,319.000	677,681.000	700,000.000	96.811
József Lowland Steam Mill and Sawmill Co.	252,100.000	797,900.000	1,050,000.000	75.990
First Székesfehérvár Steam Mill	0.000	1,050,000.000	1,050,000.000	100.000
Júlia Mill	112.000	1319.000	1431.000	92.173

Table 5: The flour milling group of the First Budapest Steam Mill before the merger of 1926  
Source: BFL XI. 1005. Első Budapesti Gőzmalom Részvénytársaság, Okmánytár, Fúziókra vonatkozó iratok [FBSM, Record Office, Documents concerning fusions] box 73. 36.

70 BFL XI.1005. Record office, box 73. file 36. Preparatory documents concerning the fusion of 1926. BFL XI. 1005. box 2. General assembly of the year 1925, April 30, 1926.

In order to maximize savings, smaller plants which were deemed superfluous were closed down following the merger.

We concentrated our plants in such a way that from among our Budapest mills only the most economical one on Pozsonyi Street was kept continuously in operation. We put in operation our best equipped roller mill only in the autumn months when it was most needed.

There were dismissals as well, both of workers and administrative staff.<sup>71</sup> The equipment and building sites of the factories that had been closed down were sold. The revenues increased available working capital, so the company did not have to borrow as much in these years. In spite of this, the index of external financing deteriorated in the second half of the 1920s (Diagram 2). The layoffs had not brought savings for years either, because severances and pension payments represented a large financial burden in the first years.<sup>72</sup>

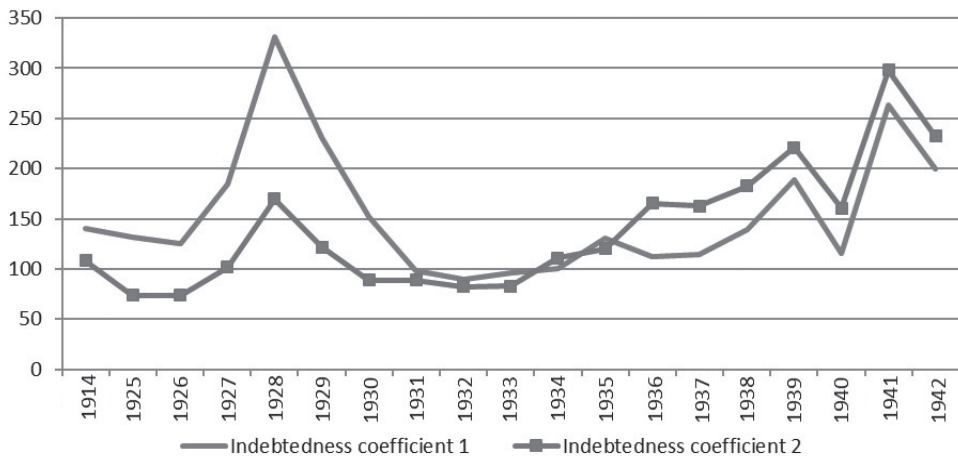


Diagram 2: Financial position of the First Budapest Steam Mill (1914–1942)

Indebtedness coefficient 1: Proportion of creditors to capital assets

Indebtedness coefficient 2: Proportion of external capital to own capital

External capital: Liabilities less own capital

Own capital: Share capital plus reserves

Creditors: Acceptances in circulation plus not redeemed dividend-warrants

Source: Balance sheets of the FBSM, 1914–1942. On the index numbers: Béla Tomka, “A magyar malomipar finanszírozása,” 79–97.

71 BFL XI.1005. box 2. General assembly of the year 1926, May 23, 1927.

72 BFL XI.1005. box 2. General assembly of the year 1927, February 24, 1928.

Consequently, the merger did not bring about the expected results. The company's financial situation and competitiveness did not improve. Flour exports had diminished further, and revenues and profits kept declining. During the Great Depression, the market interventions of the government, such as the boletta system, the subsidies to domestic grain producers, the introduction of the foreign exchange control and the overvalued exchange rate of the pengő currency also damaged the competitiveness of the Hungarian flour mills abroad. The profitability of the company declined dramatically in the years following the merger. Except for the years 1927–1928, profits declined year by year. After 1932, there was hardly a year which did not bring losses (Diagram 3).

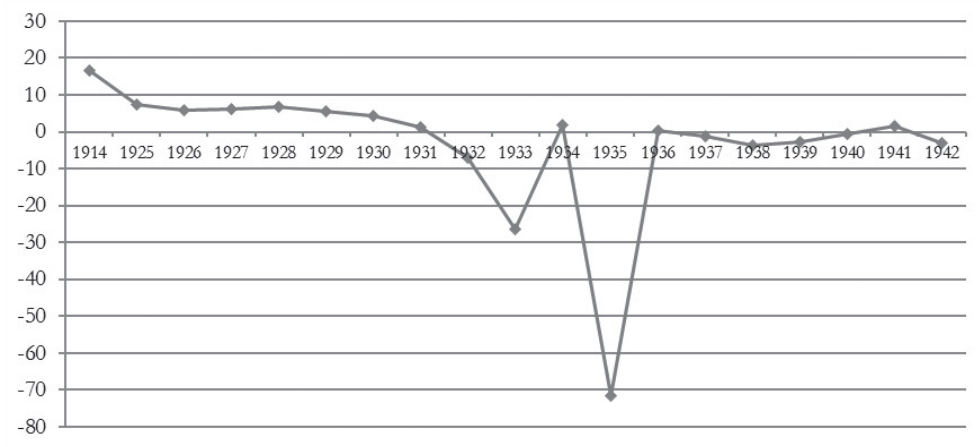


Diagram 3: Profitability of the First Budapest Steam Mill, 1914–1942 (percent)  
Proportion of profits to share capital

Source: Balance sheets of the FBSM, 1914–1942

Reserves kept shrinking as well. As of late 1927, the shares prices quoted on the Budapest Stock Exchange declined steadily and never exceeded face value, by the end of 1930 they were worth only a third of their nominal value (Diagram 4). Therefore it was decided at the general assembly held on February 21, 1931 to reduce the share capital of the company by one third, from 8.4 million to 5.6 million pengős.<sup>73</sup>

73 BFL XI.1005. box 2. Ordinary general assembly of the year 1930, February 21, 1931.

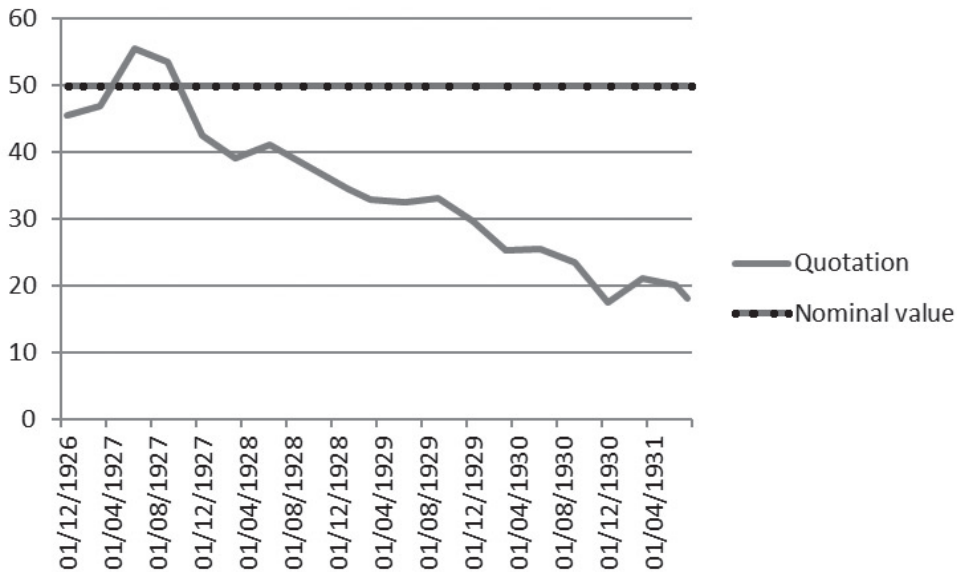


Diagram 4: Share prices of the First Budapest Steam Mill Co., 1926–1931 (pengő)

Source: Quotations, *Pesti Tőzsde*, 1926–1931.

The public balance for 1933 showed a loss of 1.5 million pengő and for 1935 4 million pengő, which was caused partly by the deficits of the current business year and partly by the writing-down of the value of the closed and demolished mills from the balance sheet. The serious losses and business recession forced the management to dismantle many flour mills and sell demolished materials and machinery. The real properties were sold as building plots after having been parceled out. The flour mill in Vác was also closed down, and dismissals and pensioning continued. Demolition of the Pest Steam Mill of Millers and Bakers on the Soroksári Street began in 1933.<sup>74</sup> The Lujza Steam Mill had also shown losses for many years. Incomes did not cover the expenditures, so Lujza was merged into the FBSM by January 1, 1936. FBSM took over the Lujza's warehouse business and the issue of the warehouse warrants, which was continued on the Óbuda site of the Erzsébet Mill. The buildings in Újlak, which had not been in operation for many years, was also demolished and the building parcels on

<sup>74</sup> BFL XI.1005. box 61, letter of the Hungarian Minister of Commerce, 29.367/VI. a.sz./1933. May 15, 1933.

Kolosa Square and Lajos Street were sold.<sup>75</sup> This was followed in 1939 by the dismantling of the industrial and residential buildings of the Erzsébet Mill.<sup>76</sup>

### *Conclusions*

On the basis of contemporary sources we can conclude that the big Budapest commercial mills had a fairly accurate assessment of their situation. They were well aware of the main causes of the serious crisis. They also knew the alternatives that could have alleviated their problems. In my paper, I showed that Hungarian flour mills developed various strategies to improve their competitiveness in the middle of the 1920s. First they attempted to create a looser form of cooperation; a plan of establishing a milling cartel involving a large number of flour mills was made. Then the concept of horizontal integration was tried by merging the biggest flour milling firms. Personal conflicts, inability to accept the compromises necessary for cooperation, and distrust hindered horizontal integration of the biggest players. Crisis management strategies also failed, possibly because there were too many firms in Hungary. It was nearly impossible to conclude an agreement due to conflicting interests of the many flour mills.

Although the FBSM, as the biggest company of the branch of industry, tried to play a leading role in transforming the Hungarian milling industry, it proved unable to assert leadership over others. As a consequence, neither project was implemented in the 1920s, which might explain why the domestic flour milling industry proved unable to overcome its problems and remained permanently a crisis-ridden branch, which gradually liquidated itself in the 1930s. In parallel with these attempts, some bigger companies formed concerns by drawing smaller flour mills into their spheres of influence in order to reduce price wars and competition and also to gain new markets. These mergers, however, did not lead to higher profits or better utilization of capacities, even when business administration got centralized and production processes rationalized.

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75 MNL OL Pesti Magyar Kereskedelmi Bank Z 36. item 91. Industry Department, 113d/91. t. Lujza Steam Mill, minutes of the ordinary general assembly held in the boardroom of the First Budapest Steam Mill on May 12, 1936; BFL XI. 1005. Record Office, box 75, Documents on the merger of the Luiza Steam Mill into the First Budapest Steam Mill; BFL XI.1005. Record Office, box 75. Letter of the Luiza Steam Mill Company to the Royal Hungarian Tax Office of Budapest, IIIrd district, Budapest, March 19, 1936, BFL XI.1005. box 75. Letter of the Luiza Steam Mill Company to the mayor of Budapest capital town Dr. Károly Szendy, September 30, 1935.

76 BFL XI.1005. Technical documents, box 126, file 20. Papers concerning the demolition of the Erzsébet Steam Mill.

Acquisitions did not prove effective and did not lead to the restoration of former market positions. Insufficient product diversification and shrinking internal and exports markets might have contributed to the failure as well.

Finally, in the changing atmosphere of the 1930s, direct state intervention was applied in order to mitigate the crisis. Neither the failed cartels nor the mergers, nor even government assistance was enough to stabilize the financial positions of the branch, however, which led to the self-liquidation of the Hungarian flour milling industry. By the 1930s, flour mills which had once been the great pride of Hungarian industry were being shut down and dismantled.

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András Schlett

## The Socialist-Type Process of Innovation

Lessons of Hungarian Agrarian Modernization  
between 1960 and 1990\*

This article analyses the role and the possibilities of innovations in agriculture during the socialist era in Hungary between 1960 and 1990. The introduction of the established industrial-type production systems ushered in significant changes in Hungarian agriculture in the 1960s. The most spectacular changes were increasing outputs and improvements in the food supply. The spreading of high-yield stocks and the adoption of intensive technological procedures helped improve production.

The first part of the paper uses J. A. Schumpeter's basic definitions of innovation as a guideline to examine the particularities and limitations of socialist innovations as illustrated by the example of the introduction of industrial-type production systems. It highlights and analyzes the factors that exerted a particularly decisive influence on the launch and progress of a new and distinctive form of organizing production. Since the innovation had been institutionalized because of political resolve through central control based on the planned economy, I analyze the features of the relationships between politics and the economy, which were shaped by the politicians and the innovators.

Finally, I examine how political resolve and the inability to revise policies created a kind of path dependence in the 1970s in the socialist countries, while economic and technological development showed much more flexibility within the capitalist countries during the economic crisis.

Keywords: Hungarian agriculture, innovation, industrial-like agriculture, path dependence, New Economic Mechanism

There is a comprehensive consensus in the secondary economics literature according to which capitalism has a strong tendency toward innovation, whereas socialism makes innovations impossible and this is a specific feature of the system. The main value of capitalism is the eager encouragement for entrepreneurial inventiveness and innovative processes, and the best prerequisites are competition, decentralized initiatives and huge rewards for success. In contrast, the socialist economic system did not inspire innovations because of

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a lack of competition, low rewards and centralized policies dictated by political factors. This limited the number of innovations and rendered the socialist countries incapable of adopting and adapting innovations without significant delays in a wide range of areas.<sup>1</sup>

Handbooks describing the socialist system lay emphasis on the fact that it was unviable because it made innovation impossible. The system did not inspire innovation during an era of crucial technological advancements. Since there were risks involved and they had unpredictable outcomes, the production units persuaded themselves not to embark on such enterprises, or they were advised by higher levels of administration against any kind of risky business. Given the absence of innovation, the only source of growth remained savings, which were forced by budgetary considerations, and the investment of these savings into production. Later the system was sustained with foreign loans, but eventually planned economies collapsed under the weight of debts. Another option was to reach a positive balance of trade by adopting the “Ceaușescu way,” which essentially meant exporting anything of value on the foreign markets, but this went hand in hand with pauperization, which ultimately undermines the legitimacy of the system.

Thus, the failure of the system is directly linked to its paternalism and the soft budget constraint syndrome. The meaning of paternalism is the following according to János Kornai: “If certain areas of the economy have financial difficulties, then the state will assist them and the government budget will take over the liabilities.”<sup>2</sup> Thus, it creates a soft budget constraint, and this budget constraint helps the public companies survive despite sustained losses, because the state comes to their rescue again and again. Moreover, the system primarily benefited underachieving companies and sectors, because they got the most support from the state through the redistribution between various companies. Therefore, a built-in tendency towards counter-selection prevailed, in which efforts were primarily aimed at state allotments and not maximizing profits.<sup>3</sup>

While it is worth taking risks and accepting research costs to develop innovations in a market economy (which, if successful, significantly increase the market value of the company), the budget in a socialist system immediately swallows any excess profit. Eventually, the executives and employees of a socialist

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1 János Kornai, “Innováció és dinamizmus. Kölcsönhatás a rendszerek és a technikai haladás között,” *Közgazdasági Szemle* 1 (2010): 13–15.

2 János Kornai, *A hiány* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980), 578.

3 *Ibid.*, 581.

company are better off without innovation, because they achieve the same results (the same wages and development opportunities) with less investment. At the same time, not only are the low level of socialist innovation and the lack of expeditious introduction of new technologies explained by an array of factors, but these factors are interconnected in a complicated, hierarchical way.<sup>4</sup>

By examining the history and processes of socialist agrarian modernization, I seek to study the efforts that were made within the sector to address the system's dysfunctional features and the extent to which these efforts contributed to the success of an endeavor or the creation of the necessary prerequisites for success. In the early 1960s, a technological shift based on West German standards and the creation of the material and technical foundations for industrial-like agriculture raised Hungarian agriculture to the highest level in the world.<sup>5</sup> The most spectacular changes were illustrated by growth in outputs and improvements in the food supply. The spread of high-yield stocks and the adoption of intensive technological procedures helped increase production. The potential of Hungarian agricultural production was significant even in international comparison. The average yield of wheat and corn matched the French, Danish, American or Canadian results, and meat production was also among the best in the world.<sup>6</sup>

In the early 1920s Ludwig von Mises pointed out that instead, while Marx had predicted the emergence of global socialism and the creation of a socialist commonwealth, in fact socialist countries found themselves compelled to copy the production methods, products and technologies of capitalist countries.<sup>7</sup> Hungarian innovation meant first and foremost copying or adopting technologies during this period, and of course the socialist agrarian innovation could not have been implemented without capitalism, more precisely without the revolution in agrarian technology that was taking place in Western countries.

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4 János Kornai, Eric Maskin, and Gérard Roland, "A puha költségvetési korlát," *Közgazdasági Szemle* 9 (2004): 777.

5 Zsuzsanna Varga, "Conflicts and Compromises between the Hungarian Socialist State and the Peasantry: Contextualising the "Hungarian Agricultural Miracle" in *Integration through Subordination. The Politics of Agricultural Modernisation in Industrial Europe*, ed. Peter Moser and Tony Varley (Turnhout: Brepols, 2013), 203–22.

6 Józsefné Németh, *A magyar mezőgazdaság európai összehasonlításban* (Budapest: Központi Statisztikai Hivatal, 1985), 20–23.

7 Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (Auburn, Ala.: The Ludwig von Mises Institute, [1920] 1990).

In my examination of the particularities and limitations of socialist agrarian modernization, J. A. Schumpeter's following basic cases of innovation serve as a guideline:

- a) The introduction of a new and in that particular sector practically unknown production procedure, by no means based on new scientific findings, which can be a new commercial process in connection with some kind of goods.
- b) The production of new—that is, for consumers as yet unknown—goods or production of certain goods in new qualities.
- c) New settlement opportunities or the opening up of a market, in which that particular branch of industry of this country had not been present earlier, regardless of the incidental previous existence of the market.
- d) New sources of supply of raw materials or semi-finished goods: it is irrelevant, again, whether the source of supply already existed but was ignored, was not considered appropriate, or had to be created.<sup>8</sup>

Innovation was institutionalized because of political resolve through central control based on the planned economy. The innovative ability unfolded in economic sectors, which from some point of view had been chosen by economic planning. The socialist system had some very distinguished features, different from other systems, and these features showed an interior unity. The elements of the system were interlocked, but at the same time they were preconditions for one another. Some traits were considered more fundamental than others, and they were unquestionable elements, such as state ownership or the autocracy of the communist party, and this determined other, less fundamental, so-called “derivative” features, for example paternalism and pathways chosen by the political elite. These factors had a destructive effect on the mesospheres and microspheres of the economy and society such as empty generalities, superficial terms, obscured responsibilities, scapegoating and equivocation, buck-passing and obfuscation. On a theoretical level, the logic of socialist innovation raises a few questions based on the above:

– Did the new or redesigned product have any strategically important feature that made it a military product rather than a civil one?

– Could the product play any special role in the procurement of oil, which was essential?

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<sup>8</sup> Joseph A. Schumpeter, *A gazdasági fejlődés elmélete* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980), 111.

– How to make an innovator interested in undertaking a costly and risky innovation in an egalitarian socialist system, in which any extra profit of the companies would be drained by the state itself?

– What kind of political power did an innovator need in order to pursue plans for innovation?

The study illustrates the system-specific features of socialist agrarian modernization and the obstacles to the introduction of innovative production. It also presents the efforts made to eliminate these hindrances. It is also important to see what the roles of the system's basic and "derivative" features were, as well as the importance of the introduction of market elements (which were alien to the system) in the success of the so-called "role-model companies,"<sup>9</sup> which were prominent in the field of production innovation.

### *Basic Cases of Innovation in Hungarian Agriculture between 1960 and 1990 Agrarian Technical Revolution*

In the 1950s, significant changes took place in the agriculture production techniques of the Western world. The transformation, referred to as the "green revolution," increased productivity in many fields. Industrial-type production systems made agriculture dependent on external material input and resources. At the same time, artificial systems were created in order to make processes independent of environmental factors.<sup>10</sup> With the industrial, energy-intensive agrarian system, which utilized a significant amount of artificial material and energy of industrial origin, the logic of industry (closed spaces under human control, processes based on functional connections etc.) emerged in agriculture as an ideal. This resulted in independence, artificial control, and the gradual replacement of natural resources by artificial resources as the basic aspirations of the new vision of agriculture.

Agricultural technical development is a perpetual, complex, consequential and purposeful form of innovation, which has an effect on the elements of agricultural production (arable land, manpower, capital goods) because it causes qualitative and quantitative changes and it results in more efficient agricultural production of higher quality.

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9 The two most renowned role-model companies on the Hungarian agriculture scene between 1960 and 1990 were the Bábolna State Farm and the Nádudvar Red Star Cooperative.

10 Robert E. Evenson and Douglas Gollin, "Assessing the Impact of the Green Revolution, 1960 to 2000," *Science* 2 (2003): 758–62.



The general basic features of industrial agriculture are the following:

– It focuses exclusively on production tasks in accordance with the principles of achieving independence and at the expense of other roles of space (biosphere and social habitat); solutions and technological procedures are selected on the basis of their productivity, effectiveness and economic efficiency.

– To this end, it aspires to concentration and centralization, increases the (factory, field and machine) scale, strives to create as large and “homogeneous” areas as possible, and seeks with these methods to make “central control and manipulatedness” and “process control” more effective.

– Its basic method is to transform the environment according to the demands of the specified tasks and activities; that is, it shapes the space to the task, without attempting to adjust activities to the environmental attributes.

All the above result in a greater extent of intensive artificial resource expenditure.<sup>11</sup>

In Hungarian agriculture a true technical, technological revolution took place beginning in the early 1960s. The primary goal was to reconcile political adequacy and economic rationale. During this period, attempts were made to introduce Western systems of production organization without deviating from *socialist* ideological approaches.

The successful adaptation of new technologies was a pressing necessity, because agricultural output had been considerably decreased as a result of collectivization, which led to a disinterest among the participants involved in cultivating land and a lack of machines and experienced managers. Frequently, soldiers and students were sent to harvest the crops during the busiest periods, but even so Hungary had to import a significant amount of wheat and corn between 1960 and 1962, which had a significantly adverse effect on the balance of trade. Asset requirements of agriculture were increased markedly by the reorganization. Nearly nine-tenths of the agricultural investments had to cover the replacement of lost small-scale agricultural production power between 1958 and 1968. At the same time, the higher operational costs of the newly created large-scale works had to be covered as well.

Reform efforts in agriculture began earlier than the adoption of the New Economic Mechanism, which was introduced in 1968.<sup>12</sup> The farm machinery

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11 József Ángyán, *Az európai agrármodell, a magyar útkeresés és a környezetgazdálkodás* (Budapest: Agroinform Kiadóház, 2001), 106–07.

12 Zsuzsanna Varga, ‘The ‘Modernizing’ Role of Agriculture in the Hungarian Economic Reforms,’ in *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR*

pools of the state began to close their gates in 1964, and all of the machines had made part of the cooperatives by the end of the decade. The conditions in the cooperatives and the state farms steadily improved, and the individual plants started to become independent due to the decentralization of the central planning. The total volume of investments in the agricultural sector was increased and producer prices were raised (by 10 percent in 1966 and again by 10 percent in 1968).<sup>13</sup> Skilled workers had been trained in large numbers, and high-level engineering schools were organized. Institutions of higher education that had been closed were reopened (e.g. in Debrecen, Keszthely, Óvár). 1967 bore witness to important institutional reforms. Four countrywide high authorities were merged into a single coordinating body, which was called the Department of Agriculture and Food, and a representative body for agriculture was created, the National Council of Cooperatives.

From this time on, the new organization replaced the fragmented control system and was able to represent the interests of agriculture more effectively.<sup>14</sup>

The results of these changes included improvements in the food supply and the radical transformation of the work conditions and living conditions of agricultural workers.

The spread of high-yield stocks and the adoption of intensive technological procedures resulted in a spectacular improvement in the yield of certain products.<sup>15</sup>

### *Product Restructuring and Economies of Scale*

#### *Two Successful Branches: Poultry and Corn*

The socialist ideology forced a change in production proportions, encouraging segments with higher efficiency and rapidly raising agricultural output. Hungarian agriculture made outstanding achievements in two areas between 1960 and 1990: poultry and egg output and corn production.

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*und Jugoslawien im Vergleich*, ed. Christoph Boyer (Frankfurt am Main: Max-Planck-Institut für Europäische Rechtsgeschichte, 2007), 201–18.

13 Zsuzsanna Varga, “Agriculture and the New Economic Mechanism,” *Hungarologische Beiträge* 14 (2002): 205–06.

14 Pál Romány, “Az Agrárpolitikai Tézisektől a Nemzeti Agrárprogramig” in *A magyar agrártársadalom a jobbágyság felszabadításától napjainkig*, ed. Péter Gunst (Budapest: Napvilág Kiadó, 1998), 390.

15 István Orosz, “A modernizációs kísérletek főbb szakaszai a magyar mezőgazdaságban a XIX–XX. században,” *Múltunk* 48, no. 2 (2003): 249–53.

Poultry provided a good basis for qualitative production in livestock-breeding. The poultry branch had experienced a significant technological revolution during the 1950s. This sector was the first to consequentially apply industrial solutions, and these solutions raised poultry stock-farming to a high production-value level. State allotments established the conditions for economical production. From the perspectives of forage valorization, manpower and investment payoff, making poultry products is a very economical process. As a consequence of the great prolificacy of poultry and generational rotation, the production cycle is also quick, making it possible to produce large amounts of meat every year. The remarkable ability of poultry to adapt makes it stable on every level of industrial production. This sector provided meat production in the largest amounts in stable qualities at the lowest prices during the shortest time. With large-scale organization of poultry meat and egg production, the economic and political profiles became compatible with each other. Creating and expanding the complex breeding and farming technology required a comprehensive international and domestic division of labor, ample room for maneuver and a free rein in many respects. Even the opening of Hungarian agriculture towards foreign countries was in fact connected to this sector.

The theoretical and practical foundations of industrial poultry farming were built on Western and in particular German models, resulting in the establishment of the first systematically organized agricultural sector in Hungary. Egg production started with Lohmann-type poultries imported from West Germany. This was followed by the organization of the construction of new poultry stables appropriate for the emerging closed-production system. By cutting off or artificially rationing the elements of the natural environment, it became possible to measure continuously and regulate every production factor.

Until the end of the period under examination, poultry breeding played the largest role in Hungarian large-scale livestock farming, coming closest to matching levels of quality in leading countries. Thanks to poultry farming, Hungary became an important player in agricultural innovation. This sector was the most successful in catching up with the accelerated pace of production. As a consequence of the significant domestic supply and relatively low prices, domestic poultry meat and egg consumption skyrocketed.<sup>16</sup>

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16 András Schlett, *Sziget a szárazföldön. A Bábolnai Állami Gazdaság története 1960 és 1990 között* (Budapest: Szent István Társulat, 2007), 64–65.

Significant changes were made in crop production as well. While a group of arable crops, namely the more mechanized and high yielding varieties, expanded their acreage, the size of regions assigned to other species shows a significant reduction beginning in the 1960s. The total area devoted to the production of wheat, corn, lucerne and sunflower was two and half times larger than the other species' area of production between 1961 and 1970. This rate was increased to 4.3 times by 1972, causing a substantial simplification in the sowing structure.<sup>17</sup>

Although the closed system of professional commodity production was first developed in poultry product turnout, hybridization as one of the main incentives was taken over by poultry farmers from corn production. As early as the 1960s, corn attracted the attention of experts examining the potentials of intensive industrial production, since the success of large-scale livestock breeding was significantly influenced by forage maize. Among the cereals, this plant has the greatest productivity and contains the most energy in a functional unit. Because of these two attributes, it was the most appropriate for the realization of the aims of the corn and meat program announced by the political leadership. Successful examples of effective production within large-scale frameworks were found in the USA and Yugoslavia, so focus was placed on the adoption of procedures that had been used in these countries. The Garst Farm in Iowa participated directly in the creation of the Hungarian system and transported hybrid seed-corns, but later Yugoslavian and Hungarian intensive varieties of seed-corns were cultivated in large areas as well.<sup>18</sup>

In Hungary corn became the primary plant for the imported production systems in the cultivation of arable crops. The main attribute that made it appropriate for this was its high tolerance for monoculture. The average yield increased by 25 percent per hectare from 1970 to 1980.<sup>19</sup> Experience, however, showed that within a relatively short time monoculture resulted in various problems, the neutralization of which required considerable financial sacrifices.

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17 KSH, "Fontosabb gabonafélék vetésterülete 1921–2014. Agrárcenzusok – Hosszú idősorok – Táblázatok," accessed November 27, 2015, [https://www.ksh.hu/docs/hun/agraar/html/tabl1\\_4\\_1\\_5.html](https://www.ksh.hu/docs/hun/agraar/html/tabl1_4_1_5.html); Albert Kiss, "A mezőgazdasági termelés struktúrája és anyagi-műszaki megalapozottsága," in *A mezőgazdaság fejlődésének szocialista útja. A legutóbbi két évtized mezőgazdasági tapasztalatai tükrében*, ed. Károly Girus and Péter Simon (Budapest: ELTE BTK, 1982), 27–29.

18 Józsefné Németh, *A magyar mezőgazdaság európai összehasonlításban* (Budapest: Központi Statisztikai Hivatal, 1985), 108–09.

19 KSH, "Fontosabb ipari növények termésmennyisége, 1921–2013 Agrárcenzusok – Hosszú idősorok – Táblázatok," accessed November 27, 2015, [https://www.ksh.hu/docs/hun/agraar/html/tabl1\\_4\\_2\\_3.html](https://www.ksh.hu/docs/hun/agraar/html/tabl1_4_2_3.html).

They included the unfavorable physical-chemical and biological alterations of the soil. The rapid spread of certain resistant weeds connected with monocultures (e.g. Canary grass) and the accumulation of chemical residue caused several problems. The shortening of optimal time meant further disadvantages in production during the cultivation and harvest time.

As was true in the case of livestock breeding, the emerging production systems' main feature was the full scale organization of production. This involved the whole process, from habitat selection, soil testing, and growing trials to production technologies based on the latest scientific knowledge and corn for the markets. This purpose was served by mechanization, which called into being the notion of production units, making them widespread in production systems. Creating such blocks within mechanization made processes more transparent and therefore made the organization of work easier.

It is important to mention that there were attempts to introduce industrial production in other areas, too, but most of them failed. For example, the principal mistake in the introduction of industrial pork production was the mechanical imitation of the poultry farming program. Thus, the initial phase—farrowing, early selection (28 days)—took place at the system center, which is the most crucial part in pig farming. It turned out that not every aspect of poultry farming was suitable to pork production, since although the most difficult part of the process, the incubation period, could be managed extremely well in the case of poultry, this period generated numerous further problems in the case of swine.

The industrialization of sheep farming ended in spectacular failure, as it was less compatible with the biological capacities of the animals. The industrialization of production meant that the animals were kept on closed stepping grids that caused foot problems and lameness within a short time, so sheep were later fattened under traditional circumstances but with intensive fodder supplement. Both failures were illustrated by the experiments of the leading agricultural enterprise, the role-model Bábolna farm, in the early 1970s.<sup>20</sup>

### *External Relations*

The Kádár regime decided to make a significant change in its economic policy in the early 1960s after the 21<sup>st</sup> Congress of the Communist Party of the Soviet Union (January 27, 1959–February 5, 1959). They thought it was necessary to

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20 Schlett, *Sziget a szárazföldön*, 66–71.

loosen the one-sided economic dependency and set the economy right.<sup>21</sup> For this purpose, the relevant public authorities sent experts to various West European countries, commencing preparations for the adoption of advanced West European technology. The process was sped up by the political détente at the time, which especially facilitated the East–West economic relationship within Europe.

The business policy of agriculture in socialist Hungary was built on three main markets. External trade relations with the other socialist countries, especially the Soviet Union, Czechoslovakia, the German Democratic Republic (GDR) and Poland, had gradually extended over the years. Cooperative endeavors were undertaken with companies from European capitalist countries to improve exports to Western countries and create independent livestock breeding. The dynamically developing Middle Eastern countries became more significant export markets in terms of currency volume. For example, almost 30 percent of the Hungarian poultry export headed to the Middle East.<sup>22</sup>

Technological innovation was connected primarily to purchases of Western licenses and know-how, which were then further “developed.” Relations with western companies had an important role. The procurement and utilization of advanced Western technology also helped further changes in production structure and quality improvement.

Along with machine purchases, the selected companies (the so-called model farms) also strived to foster cooperation with the more advanced Western firms (e.g. in the area of joint developments). Company managements became more ambitious as they got acquainted with the level of Western technology. Their relationships facilitated the adoption of modern organizational and management principles. The joint ventures helped create close relationships with Western firms.

The accumulated knowledge, methods, breeding and growing procedures generated by various external market relations contributed greatly to the development of industrial-like production systems. The know-how was achieved primarily through the everyday practice of commercial cooperation with foreign partners during the various stages of livestock breeding and the production of goods. Several cooperative endeavors were established with advanced Western companies and joint ventures were also founded. They served as bases of information in exploring the fields of breeding, technological development, and

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21 Zsuzsanna Varga, “Nyugati nyitás a magyar agrárpolitikában az 1960-as években,” in *A történettudomány szolgálatában. Tanulmányok a 70 éves Gecsényi Lajos tiszteletére*, ed. Magdolna Baráth and Antal Molnár (Budapest–Győr: Magyar Országos Levéltár, 2012), 863–71.

22 Géza Gajdos and András Éliás, *Az agrár-külpiac megítélése* (Budapest: AKI, 1978), 5–12.

changes in the market. Similarly, they had an invaluable role in the acquisition and testing of the latest tools, procedures, and breeds and in the training of experts from Bábolna. Joint ventures made integration into Western market conditions easier, and these ventures thus supported self-maintenance during the early critical phase. It is important to note the critical pressure of international commercial competition, which gradually brought a qualitative agricultural perspective into prominence. Target areas, volumes and time sequences of export were varied by types of goods.

The distinctive feature of the poultry product group in the 1970s was that roughly 80 percent of its export went to *non-ruble*-based markets. This significant rate of export to non-ruble-based markets was also strengthened by the Soviet Union itself, which as the largest consumer in the 1970s often purchased for dollars. By and large, in the second half of the 1970s, about 40 percent of slaughtered poultry was exported to the Soviet Union, 21 percent to the Middle East and 17 percent to the countries of the Common Market. In 1983, these rates changed to 57.2 percent, 4.3 percent and 13.5 percent, respectively.<sup>23</sup>

In terms of export volume, the following countries had significant roles: socialist countries (the Soviet Union, Czechoslovakia, the GDR and Poland) and the developing Northern African and sub-Saharan African countries, as well as the Middle East (Iraq, Algeria, Libya, Egypt, Angola, Lebanon and Iran). In the case of European advanced capitalist countries (e.g. Austria, West Germany, France, Switzerland and Italy), the main goals were market presence, understanding of the value judgement of markets with the highest standards, and remaining up-to date and well-informed. Western import was aimed at the permanent maintenance of a part of domestic propagation and variety selection, commercial and professional contact, and in some cases cooperation with the best breeder companies in the world.<sup>24</sup>

The process outlined above strengthened the openness of Hungary's foreign trade structure, although at the time it balanced the proportions of COMECON relations (Council for Mutual Economic Assistance, 1949–1991) with the so-called hard currency relations in foreign trade traffic. Hungary became a transit country for advanced technology towards COMECON countries. The Western part of Europe extended its outlets towards the East. Hungary, on the other

23 *Mezőgazdasági Statisztikai Évkönyv 1986* (Budapest: Központi Statisztikai Hivatal, 1987), 27.

24 András Schlett, "Zátonyra futott mezőgazdaság. A magyar agrárium külpiaci helyzetének alakulása az olajárrobbanás után," in *Regionális földrajzi tanulmányok. Közép-európai monográfiák*, vol. 7, ed. Lajos Veres (Szeged: Egyesület Közép-Európa Kutatására, 2013), 121–23.

hand, was able to import advanced technology and modern consumer goods in exchange for export based on the use of (at the time) cheap energy imported from COMECON countries.

### *Organizational Changes and New Organizations*

After the 1956 Revolution, there were two goals in the agrarian sphere: on the one hand policies were designed with the intention of improving living standards and making production more effective. On the other, the same policies were also intended to prove the legitimacy and advanced state of large scale production, and the two goals were intricately intertwined.<sup>25</sup> However, in the early 1960s, forced collectivization reduced agricultural production by 10 percent. It became obvious that full scale technological reconstruction was needed for any significant advancement that might help ensure proper supplies of foodstuffs and raise living standards under the new conditions.

The fundamental changes in the structure of estates, which essentially meant concentration and centralization, resulted in a drastic decline of diversification and variegation. While in the developed capitalist states the average farm size in agriculture decreased due to the technical revolution, Hungary was characterized by an increase in farm size that at times was abnormal. In the 1970s, huge company unifications took place in agriculture. Between 1970 and 1979, the number of state farms dropped from 184 to 131. The average area of a state farm, however, increased from 5,548 hectares to 7,598 hectares.<sup>26</sup> In Hungary, great agricultural entities evolved that had never been seen before. Their production value matched industrial corporations. Within the state farms vast sectors evolved and industrial and accessory activities also strengthened agricultural production. Almost one-third of the activities of every big farm were not closely linked to agricultural production. The agricultural entities and the first combinations evolved in the early 1970s in Bábolna, Agárd, Bóly and Mezőhegyes. “The bigger the better” principle also had the support of technocrats, but they only optimized the operating hours of the machines and the volume of the cultivated areas, not the production costs.

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25 Zsuzsanna Varga, “The Impact of 1956 on the Relationship between the Kádár Regime and the Peasantry, 1956–66,” *Hungarian Studies Review* 34, no. 1–2 (2007): 155–76.

26 Ernő Csizmadia, “Folytonosság és változások agrárfejlődésünkben a nyolcvanas évek elején,” *Agrártudományi Közlemények* 40 (1981): 108–19.



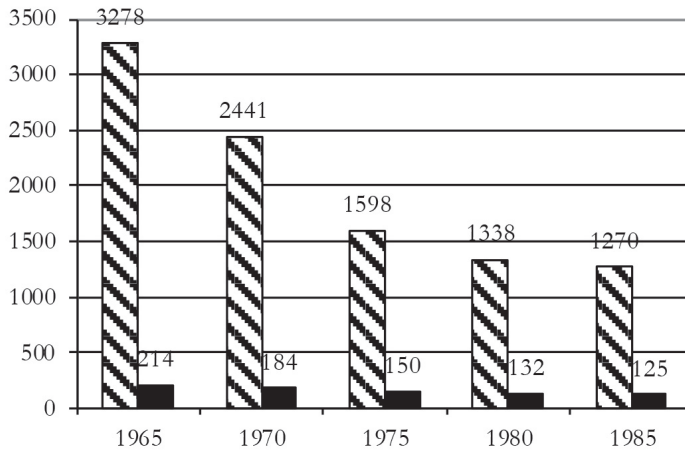


Figure 1. Changes in the number of cooperatives (striped) and state farms (black)

Source: László Csete, *A termelőszövetkezetek és az állami gazdaságok fejlődése* (Budapest: AKI, 1985), 9–10.

In cases of combinations, the main profile activities were not confined to single sections of agricultural production. They comprised the formerly separated sections of output, such as production of capital goods, production of agricultural raw materials, and processing and sale of stock, and they validated them in the same enterprise domain. The company organization that was established had to undertake complex development in its field of activity as well. This could be attained with development work using wider-range research and academic achievements, intense concentration of production and partner relationships.<sup>27</sup>

In agriculture, in addition to the centralization process, the integrating activity of big farms became a characteristic developmental trend. The increase in company size was replaced gradually by horizontal and vertical relations. Higher level types of organizations (systems, integrated associations) were formed. New types of cooperative forms were created and the process of production concentration and specialization was given new content. In agriculture, enterprise systems came into being with many functions and rich profiles.

The existence of production innovation assumed changes in factory organization, and it was accompanied by a spread of different association forms

<sup>27</sup> András Klenczner, "Új vonások az állami gazdaságok gazdálkodásában," *Gazdálkodás* 11 (1982): 123.

in agriculture. These had significant tasks in the development of technical and technological innovation. The role of the system center as a center of innovation was based on the complex genetic, technical-technological and farming system, in which research development played an increasingly important role. The most characteristic feature of the cooperative process was that certain previous company functions were often separated from the framework of companies and found another niche on another organizational level of integration. The production systems represented technological and organizational innovation, and most of them operated as an organization spreading innovation.

The combinations and state farms integrated more and more lands, giving rise to enormous production volumes, while they further developed agriculture and food industry and different industrial activities. They played significant roles in the evolution of productive systems. They helped further the spread on a wide scale of up-to-date techniques and technologies through the emerging production systems.

In the 1960s, the production systems became one of the pillars of the Hungarian agrarian model. The selected state farms cooperated with research institutes and companies that produced and sold agricultural means of production, as well as processing plants, and they developed a complex production technology for a specific branch (for example maize) within the framework of this distinctive form of production organization. The farms could join the production systems, and they got the necessary technologies, machines, chemicals, seeds, consultancy and training based on the up-to-date research achievements in exchange for a fee and surplus yields. The main task of the members of the system was securing production, and they were guided by an administrator. The members did not do research and did not make experiments, but they helped further the research of the system center by sharing their production experiences. The system center worked like a supply organization, and the supply activities generated income. The industrial-like poultry meat and egg production system of Bábolna demonstrates the size of the system. It contained 195 member farms in 1987, and they produced 162,000 tons of poultry meat and 1,650 million eggs. The Industrial-Like Maize Producing System's 264 member farms produced maize on 220,000 hectares and wheat and other cultivated plants on 349,000 hectares.<sup>28</sup>

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28 Schlett, *Sziget a szárazföldön*, 148.

*Loyalty and Competence: the Managerial Revolution and Pressures of Innovation*

The overdetermined role of the political regime dominated the planned economic system in terms of the social subsystems. The political power determined all movement and evolution within the social spheres and thus hindered any attempt to develop specific laws or arrive at rational approaches to internal questions. Socialist redistribution replaced market-based decisions with central, official and administrative decisions, thus creating a monolithic, society-wide and predominantly bureaucratic organization as a network of the abovementioned decisions. The bureaucratic political elite decided on the relevant economic and power-related issues. The division of power, which was almost a constitutional principle in the market economics, ceased to exist, as did any division of the economic, political and cultural power.

The steady increasing in levels of consumption became the main political priority in the Kádár regime after the 1956 Revolution in general, but especially following the forced collectivization efforts. It became important to raise production in an ever-increasing way in the interest of improving the domestic food supply, improving the ratio of exports over imports for foodstuffs and increasing the balance of foreign exchange, especially when it came to convertible currency. The value of the products that were necessary in order to ensure the “satisfaction” of the population had been improved, as had the value of the so-called “hard” products in external trade, which were considered competitive goods in the non-ruble-based markets.<sup>29</sup> The executives of companies could negotiate for more resources and more favorable figures in the plans when they supplied the political goods, or “political products,” as they were called in agriculture.<sup>30</sup>

The post-Stalinist regime abolished its political monopoly and made some concessions, especially for the benefit of technocratic intellectuals. Gradually the key decisions came to be made by the managers instead of the redistributors, because the managers controlled the most favorable combinations of economic, cultural and social capital during the post-Stalinist era of socialism. They possessed more favorable combinations than the politocracy, which perhaps had more cultural and social capital, but significantly less economic potential. And the technocratic intellectuals possessed more favorable conditions than the

29 See in detail Katalin Botos, Mihály Patai, and István Szalkai, *Pénzügyek és nemzetközi gazdasági kapcsolataink* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980).

30 László Bruszt, *A centralizáció csapdája* (Szombathely: Savaria University Press, 1995), 183–84.

intellectuals and far more favorable conditions than possessed by the class of the internally differentiated and weak small entrepreneurs.

Managers and technocrats of the companies selected as the vanguard of modernization became citizens with a kind of dual nationality.<sup>31</sup> If the political atmosphere became more tense and the ideology exerted an influence on professional circles, then these managers would put more emphasis on their political role, but if there was any detente or the managers were related to professional circles or visited foreign countries, they would stress their professional skills.<sup>32</sup>

The economy and society of the Kádár regime was characterized by comprehensive and secret negotiations. The elites developed in the settings of these secret negotiations and thereby seized power. They had to rely on a system of bureaucratic secret deals, whether they liked it or not, if they wanted to advance. Informal negotiating became a kind of ability, but it lost power when considerations of market orientation came into play. Informal connections and negotiations remained important tools in the attainment of goals throughout the period. The subsidies and benefits of state in their various forms were obtained most frequently by companies with representatives who were at the same time members of higher governing bodies.

However the support of the highest levels of government did not mean a permanent advantage. The opportunities enjoyed by companies underwent significant changes when the political climate changed. In the early 1970s, the agrarian sector found itself in a crossfire after its assessment was transformed

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31 Róbert Burgert, the head of the Bábolna State Farm, was a member of the Central Committee as of 1966, István Szabó, the president of the Nádudvar Red Star Agricultural Cooperative was an alternate member of the CC as of 1962. Burgert's career was similar to that of Szabó: both received the medal "For Socialist Hungary." Szabó was given the award in 1976, Burgert was given it in 1978. The Presidency of Committee for State and Kossuth Prizes nominated Burgert for the State Prize in 1980. They justified this decision with the following explanation: "For his excellent work in the field of creating and introducing intensive economic means in the last two decades." The Division of Industry, Agriculture and Transportation suggested the Prize be shared with István Szabó. They claimed both of the men had achieved excellent results when they created large-scale production economic systems and inter-economic integrative relationships. The Political Committee discussed the proposals during its session on February 19, 1980, and they proposed the award of two State Prizes, one to Burgert and the other to Szabó (MNL M-KS 288. fond 5/793. MSZMP Politikai Bizottság ülésének jegyzőkönyve). For Burgert's political career see in detail: Schlett, *Szűzget a szárazföldön*, 117–26). For István Szabó's biography see Ignác Romsics, ed., *Szabó István életútja Nádudvartól Nádudvarig* (Budapest, Osiris Kiadó 2012).

32 György Konrád and Iván Szelényi, *Az értelmiség útja az osztálybatalomhoz* (Budapest: Gondolat, 1989), 151–52.

within the circle of economic reform.<sup>33</sup> The orthodox among the elites launched a counter-offensive against the reform. The economic mechanism stopped in its tracks and the increasingly fierce debates between the highest-ranking leaders of the party resulted in great tension. János Kádár visited Moscow between February 11 and 14, 1972. Brezhnev expressed his disappointment about Hungarian growth rates, which lagged behind the COMECON rates, and he made it clear that he was not a supporter of the economic governance system initiated under Kádár in 1968. In addition, he wanted to foster closer connections between the Hungarian and the Soviet economies.<sup>34</sup> The Magyar Szocialista Munkáspárt (MSZMP) Központi Bizottsága [Central Committee of the Hungarian Socialist Worker's Party] decided against reforms on November 14 and 15, 1972. The recentralization process had been begun and the National Planning Committee was created to strengthen the central leadership.<sup>35</sup>

In the aftermath of the changes, the main representatives of the agrarian reformers, including Lajos Fehér,<sup>36</sup> and their most important economic political ally, the reformer Rezső Nyers,<sup>37</sup> were removed from the leadership.<sup>38</sup> In addition, the prominent companies became the main targets of the anti-reform forces, because these enterprises had been the pioneers in the implementation of the economic mechanism.<sup>39</sup> The reform politicians of the Central Committee had

33 Varga, Zsuzsanna. *Az agrárlobbi tündöklése és bukása az államszocializmus időszakában* (Budapest: Gondolat Kiadó, 2013), 185–92.

34 Magyar Nemzeti Levéltár Országos Levéltára (=MNL OL) M-KS-288.f 47/812.

35 MNL OL M-KS-288.f.4/119-120. 1972. Session on November 14 and 15; Tibor Huszár, *Kádár János politikai életrajza 2.* (Budapest: Szabad Tér Kiadó–Kossuth Kiadó, 2003), 246–56.

36 Lajos Fehér was a member of the Political Committee and the Central Committee as of 1957. He played a prominent role in the formation of the contemporary agrarian policy as the head of the Agricultural Division of the CC and then as president of the Cooperatives Policy Panel between 1966 and 1974. He was the Deputy Prime Minister between 1962 and 1974. Fehér was a member of the lobby within the government, which supported the New Economical Mechanism and the market based reforms.

37 Rezső Nyers was finance minister between 1960 and 1962. He was an alternate member of the Political Committee between 1962 and 1966 and then a full member until 1974. Nyers was the secretary of economic policy in the Central Committee as of 1962. He was actively involved in developing and implementing the “New Economic Mechanism.” He became the president of the Consultative Committee of Economic Control within the government. He was marginalized along with other supporters of reforms, including György Aczél, Lajos Fehér, and Jenő Fock. He resigned as the secretary of the CC and then was removed from the Political Committee of the Hungarian Socialist Worker's Party in 1975.

38 Huszár, *Kádár János*, 246–56.

39 A lot of legal proceedings had been launched against the agrarian lobby's local representatives, mostly enterprising leaders of collective farms, who were open to novelty, based on economic indictments. Zsuzsanna Varga's research showed that more than one thousand legal proceedings were initiated against leaders of collective farms in the first half of the 1970s. This represented 10-15 percent of management.

committed a lot of acts that were regarded as “irregularities” by the anti-reform faction, and the opponents of the reform tried to annihilate them as the “seeds of capitalism.” Numerous inquiries were initiated against the new model farms, and they focused with particularly rigorous scrutiny on their relationships with institutions in the West. Economic development played a vital role for Kádár against the conservative forces, which launched a persistent campaign to imperil his position in the eyes of Brezhnev. So in Kádár’s “game of compromise,” the companies that had played prominent roles in production innovation became more valuable assets, as did their economic “creative forces” and the important role of their production. The abovementioned events provided an example for the dependency of the farms on political power. The advantages they enjoyed did not last forever, and when the upper layer of the political leadership was transformed and emphasis shifted, everything within the supported or “tolerated” category suddenly was pilloried as seeds of capitalism as the conservative forces gained strength. As the prominent enterprise of the era, Bábolna was always in the limelight, sometimes as a socialist model farm, sometimes as a forward bastion of capitalism.<sup>40</sup>

The sociological content of these attacks meant that the retrograde forces wanted to weaken the alliance of reform communists and technocracy by series of attacks against technocracy. The adoption of technocratic methods of systems of economic governance bestowed the political power with the ability to avoid the most obvious errors of economic policy. Thus, the political power could ward off the economic crisis for a while. It could provide gradually rising living standards, it could create a relative balance between the commodities and demand, and it could avoid the political earthquakes that are caused by economic disappointment. The system centers became necessities within Hungarian agriculture in the 1970s, and their leaders exerted a significant influence on political life. The prominent companies enjoyed monopolies in several areas, and their managers had the necessary technical and cultural capital to maintain control over the key factors of production, which was a powerful lobbying tool.

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These legal proceedings exaggerated some established activities, which were not aligned with the concept of domineering conservative force. They were then pilloried. An example was made of them and their cases served as a means of intimidating others. Varga, *Az agrárlobbi tíndöklése és bukása*, 193–208.

40 Schlett, *Sziget a szárazföldön*, 123–25.

## *Crisis and Path Dependence*

Significant transformations were taking place in the global economy in the 1970s, and the conditions of global economy changed adversely in terms of agriculture. The development of Hungarian agriculture in the second half of the twentieth century faced a rapid rise of direct (fuel) and indirect (chemical fertilizer, pesticide, machine etc.) energy input.<sup>41</sup> The proportion of the materials with industrial origins in the total material resources of agriculture was very small in the early 1960s, but by the middle of the 1980s it had risen to almost 60 percent.<sup>42</sup>

While the conditions of development in the 1960s were characterized by abundance and an accumulation of factors of production at a relatively low price, the broadening international relations and their aftermath, the expanding markets, and the changes in the global economy in the 1970s and 1980s revealed the vulnerabilities of the agricultural production systems.<sup>43</sup> The boom in energy and fuel prices radically changed the price conditions of Hungarian foreign trade. Changes in prices on the world market appeared, if with some delay, in trade that was done in rubles because of a switch to a five-year crawling price basis.<sup>44</sup> So in 1975 the price level of import in this relation increased more than 25 percent, while that of energy sources doubled.<sup>45</sup> This significantly affected the cost claims of energy-intensive agricultural systems.

After 1973, global economic processes and the significant decline in Hungarian foreign trade made clear with tremendous force the extent to which the Hungarian economy depended on its involvement in the international division of labor and the benefits of this involvement.

The conditions of sales became more adverse, since the global market faced a crisis of overproduction in agriculture. The prices of food significantly dropped in the terms of export toward capitalist countries, and foodstuffs were relatively devalued. Agricultural and food products, which had attracted considerable

41 Zoltán Kaposi, "A magyarországi energiapolitika változásai a tervgazdasági rendszer időszakában," in *1956: Fordulópont a gazdaságpolitikában*, ed. Katalin Botos (Szeged: SZTE Gazdaságtudományi Kar, 2007), 117–18.

42 Zsuzsanna Varga, *Modelltranszferok keletről és nyugatról: mezőgazdasági termelészövetkezetek Magyarországon 1949–1989* (Dissertation for the Hungarian Academy of Sciences, 2014), 16.

43 Zsuzsa Bekker, *Rendszerváltság. Alkalmazkodási folyamatok a kelet-európai országokban 1970–1990 között* (Budapest: Aula, 1995), 147.

44 Mária Barát, *A magyar gazdaság vargabetűje* (Budapest: Aula, 1994), 157.

45 Ferenc Vági, "Vállalatiság és gazdaságirányítás," *Gazdálkodás* 4 (1986): 32–33.

sums in convertible currencies, had lost a great deal of their strength, and their strategic role was questioned. Foreign trade with market economies gradually became an Achilles' heel of the Hungarian economy. Development was required to import goods, but in turn development called for export. However, trade with the West had nurtured an acceptance of Western measures (with regards to the market). The deficit of foreign trade reflected a continuous drop in effectiveness, which caused a dramatic increase in government debt.

While Hungary's import in the field of raw materials and energy sources was inflexible, the demand for Hungarian agricultural products had plummeted in terms of prices of export.<sup>46</sup>

In the 1970s, economic and technological development showed signs of discontinuity in the capitalist countries. Hungarian agriculture had to adapt and change its formations or transform them comprehensively and qualitatively as a reaction to the crisis, but these responses were not implemented. The system of economic planning, which was introduced in 1968, had a basic fault from the outset: it did not create a real market. It did not develop a market that could have had an impact on the economy and thus economic effectiveness had never possessed the necessary selective power for development and then for the assignation and implementation of these developments. Although the reform promised a new price system that would offer some guidance regarding how to change the composition of production and define the limits of return in terms of the products' costs (in short, it would transfer the impulses of the market to the companies), none of these promises was kept. The guiding power of prices was not implemented, because the prices were adapted to levels and increase of costs according to the "needs of autarchic development."

Moreover, the economic governance tried to eliminate the effects of inflation and did not introduce the changing price ratios of the global economy into the domestic price system. It predominantly tried to prevent the spillover effects of inflation by using budgetary instruments. Thus, the importing companies could not feel the real price ratios and price levels, and this prompted them to use imports in a less rational way. The companies did not have much interest in introducing modern technologies: their production plans were adapted to the existing machines and any changes in the production system meant that they would not produce the required amount of products.

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46 Katalin Botos, Mihály Patai, and István Szalkai, *Pénzügyek és nemzetközi gazdasági kapcsolataink* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980), 10.



The extreme energy dependent structure of the agriculture remained unchanged. The existing production objects and technological procedures, which made a solid base for industrial methods, could only operate at a high cost. Agricultural companies were created and consolidated for great developments and production goals, but they did not have to deal with cost sensitivity, so they did not develop the necessary skills, nor were they able to identify potential opportunities to reduce costs.

This all illustrates the fact that the market orientation of agricultural estates never became a living and responsive force. Since prices did not impose limits on cost recovery, they also did not impose any requirements in the terms of efficiency. In addition, the same was true of competitiveness. The producer prices of agricultural products were fully isolated from the selling prices of foreign markets. The Kádár regime paid close attention to ensure that the modest living standards that had been achieved were not affected by external shocks.

In the wake of changing prices on the global market, the role of agriculture was fatefully linked to the status of a country trapped in a debt crisis. Agricultural export was necessary in order to keep the relative capitalist balance of payments in spite of the radically reduced prices on the global market, because this export could not be replaced by other products and branches. The need for subsidies in the area of export was increased, but this meant only qualitative support at the same time and it preserved the existing structure, because it brought the economic assessment of the lowest quality and the best products closer together.<sup>47</sup> In the middle of the 1980s, more than half of the support provided for the food economy consisted of export subsidies.

By this time about 20 percent of the products of the food economy were exported, which was a higher proportion in relation to national production, and one third of the export went to the markets with convertible currencies. So the food economy produced an export surplus of 50–60 billion HUF, including its 30 billion export surplus in the area of convertible currencies, and contributed to maintaining the delicate stability of the Hungarian national economy.

Although a series of government and state party decisions emphasized that the agricultural development was based on a proven agrarian policy, the efficiency of investments became more and more unbeneficial with respect to increased agricultural production. Economic policy measures still did not contain

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47 Gyula Varga, "Az agrártermelés növekedésének és strukturális átalakulásának változatai," *Gazdálkodás* 23, no. 4 (1989): 3.

any requirements for greater efficiency. The growing debt crisis prevented the implementation of the necessary steps for the transformation of structure, and only a few regulations, which it was assumed were compatible with the market, started the more favorable processes toward the future transformation of the structure. However, restrained imports overshadowed these measures, as did the constraint that forced the production of goods that could have been sold for convertible currencies, independently of the economical nature of production and its effects on structure. This was also true of agricultural products.<sup>48</sup> Because of the changing external conditions and the inadequate responses, agricultural growth and its roles in economic growth increasingly became a subject of debates.

### *Conclusions*

Returning to the questions I raised in the beginning of this paper, the islands of innovation produced familiar agriculture products of a higher quality than the usual domestic ones. In addition, they managed to create domestic varieties and breeds in certain areas due to the achievements of Western agricultural revolution. For example, the closed system of industrial-like poultry production (and then maize growing) was a new kind of production procedure in Hungary at that time. The meat was considered a partly civil, partly security (strategic and military) product in the domain of foodstuffs. It could be traded for oil within the COMECON. The sale of agrarian products to the Soviet market for dollars was a relatively new phenomenon, and the imported Western breeding animals provided good quality livestock. The organizational system purposefully adapted capitalist pragmatism to the socialist setting. The selected companies had a significant role in the introduction of the innovations, and the origins of this prominent role lay in the unique possibilities and exemptions, such as the limited profile exemption and the independent right to export. The political leadership created opportunities for these farms, and they could generate significant income as foundations for innovation and system organizers.<sup>49</sup>

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48 Imre Fertő, Pál Juhász, and Kálmán Mohácsi, *Az agrárrendszer válsága és a kibontakozás lehetőségei* (Budapest: Pénzügykutató Rt. 1991), 14.

49 For example, Bábolna as the system center of the Corn Product System provided servicing and organizing activities (such as advising, maintaining, repairing, buying artificial fertilizers and seed-corns) for revenue.

As I have shown, these features created very special conditions: not every product can be a strategic product; not every manager can be a member of the Central Committee; not every company can oppose the bureaucratic governance, but only a few of them can get specific status. Thus, it is clear that innovation under socialism cannot be a rule, just an exception.

As I have shown, the key to the secret was precisely this island-like feature and the fact that the success stories did not become general models because they had to maintain their island-like nature in order to be successful. The ever growing islands had to integrate the cooperating and the non-cooperating units under their control, because the setting was unsuitable for cooperation.

A dual struggle was fought between integrating and non-integrating forces of the system between 1960 and 1990 in the areas of economy, structure, politics and society. Although the struggles of selected companies and model farms could be described as an almost heroic battle against dysfunction at micro and meso-levels, only the leading technocrats who had become part of the political power system were allowed to participate in this fighting and apply some elements of market policy. However, they had to accept the limits set by the dominant power for the benefits (monopolies, subsidies). Actually, these companies behaved like supporting pillars of the regime. Their real interests did not bring them closer to competition and the market, despite the introduction of some elements of market compatibles. Their interests actually led to less efficient over-allocation by keeping the (dysfunctional) monopoly rights and remaining caught between politics and companies.

While the energy crisis imposed a lot of changes and innovation on every area of production in the West, socialist modernization controlled by higher levels resulted in a specific path dependence. The system prevented the changes from being realized on company levels and it also made the “selected companies” oppose any kind of disadvantageous changes, even in the short term. Thus the system could only get rid of the minor dysfunctional features, while preserving its basic traits.

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Zsuzsanna Varga

## Opportunities and Limitations for Enterprise in the Socialist Economy

### The Case of the Budapest Agricultural Cooperatives

To this day, there is widespread consensus in the secondary literature on agriculture in the socialist countries of the Soviet sphere according to which the “Termelőszövetkezet” (agricultural cooperative) in Hungary represented a unique path of development that diverged significantly from the Stalin kolkhoz model. In this article, I examine this process, focusing on the example of Budapest, the Hungarian capital. The natural features of the city (poor soil quality, land divided into small plots) did not really favor agricultural production. Furthermore, in the 1950s, the factories of the city offered higher wages, thus luring workers away from agriculture. The market pressures of the labor force set in motion a process of adaptation in agriculture. In comparison with the rest of Hungary, in Budapest the expansion of the sphere of non-agricultural activity of the agricultural cooperatives began earlier, and cooperative members were paid in cash instead of according to a Soviet-style model of remuneration based on work units. In response to the consumer demands of the population of Budapest, several innovative forms of vertical and horizontal integration emerged. I emphasize in my article that, in the case of the agricultural cooperatives, the important elements of entrepreneurial management took form before the introduction of the so-called New Economic Mechanism, for the most part as consequences of initiatives coming from below. Since these innovations were implemented before the relevant changes to the law had been made, a great deal depended on how the superior organs of government handled the lacuna between law and practice. In the 1960s, the agrarian lobby managed to exert sufficient influence on the government to prompt lawmakers to adjust the laws to conform, retroactively, to practice. In the 1970s, when the brakes were being put on the economic reforms, this phase displacement became a vulnerable point. Economic and administrative measures and even steps involving criminal prosecution were taken to limit the entrepreneurial independence of the agricultural cooperatives.

Keywords: collectivization of agriculture, communist regime in Hungary, divergence from the kolkhoz model, cooperatives, New Economic Mechanism

To this day, there is widespread consensus in the secondary literature on agriculture in the socialist countries of the Soviet sphere according to which the agricultural



cooperatives in Hungary represented a unique path of development.<sup>1</sup> In the course of my research, which has focused on the primary phases and the dynamics of the shift away from the kolkhoz model, I have noticed that there were significant local differences in this process. As I examined the regional particularities of this process, I began to study the agricultural cooperatives that came into being in Budapest more closely.<sup>2</sup> The conditions were somewhat unusual. The quality of the soil and the plots was below average for the country. The arable land was divided into many parcels. If one also takes into consideration the fact that the vast majority of their members initially not only did not bring any lands to the agricultural cooperatives but also did not really have an understanding of agriculture, it becomes quite clear that there was little rational reason for creating the cooperatives. It is hardly coincidental that for years they operated at a loss, and during this period the membership was continuously changing. This tendency began to change in the mid-1960s, and by the mid-1970s the Budapest agricultural cooperatives were among the “wealthiest” in Hungary.<sup>3</sup> Agriculture became an increasingly marginal part of their operations. They were active in food preparation and processing, as well as the engineering industry, chemical engineering, light industry, and an array of services. They created joint ventures with other agricultural cooperatives and collaborated with state enterprises. They had partnerships with numerous Western countries. As I studied this interesting process of adaptation, I became increasingly preoccupied with the question of what actually took place in these cooperatives. What internal and external factors might help us better understand this distinctive socialist “success story”?

In order to understand the history of the Budapest cooperatives, one must know a bit about the Stalinist model, which was the model for the leadership of the Hungarian Communist Party when it came to the transformation of agriculture

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1 One finds a clear example of this in an essay included in a recently published comparative collection on the subject, in which Nigel Swain identifies four different types of collectivization in the Soviet-dominated countries of Central and Eastern Europe: abandoned in Poland and Yugoslavia; Stalinist in Romania and Albania; Neo-Stalinist in Czechoslovakia, the GDR, and Bulgaria; and Hungarian, which constitutes a case of its own. Nigel Swain, “Eastern European Collectivization Campaigns Compared, 1945–1962,” in *The Collectivization of Agriculture in Communist Eastern Europe. Comparison and Entanglements*, ed. Constantin Iordachi and Arnd Bauerkämper (Budapest–New York: CEU Press, 2014), 499–502.

2 My research on Budapest cooperatives was supported by the Political History Institute.

3 Their net revenues, calculated according to units of land, were more than ten times the national average. The incomes that they were able to ensure for their members and staff were 33 percent higher than the national averages for cooperatives. *Budapest Statisztikai Évkönyve* (Budapest: KSH, 1977), 172; *Mezőgazdasági Statisztikai Zsebkönyv* (Budapest: KSH, 1976), 139.

in Hungary.<sup>4</sup> In order to understand the Stalinist system of Soviet agriculture, one must go back to the late 1920s, at which time the Soviet Communist Party's leadership decided to espouse a concept of economic development in which fast-paced development of heavy industry and military industry was a priority. Since the Soviet Union was unable to use foreign credit in order to implement this model, it turned to domestic resources. The income made from agriculture represented the most important internal resource.<sup>5</sup> The compulsory delivery system and policy of price control ensured that the producer (the farmer) kept none of the profits made from his product. At the same time, the producer had to pay asymmetrically high prices for industrial products, and the gap between the prices of agricultural products and industrial products widened dramatically. Thus, agriculture became a kind of “inner colony.”

As a consequence of collectivization, a system came into being that ensured concentrated diversion of income from agriculture, as well as supervision and control over and discriminatory treatment of agricultural producers. The *sovkhoz*, or state farm (a contraction based on the Russian words, transliterated, *sovetskoye khozyaystvo*, or state ownership), was regarded as the most developed operational model. The other form of collective agriculture, the *artyl* (which became known as the *kolkhoz*, a contraction based on the Russian words *kollektivnoye khozyaystvo*, or collective ownership), was considered an inferior form of ownership, since it was based on group ownership by its members.<sup>6</sup> Because of the different forms of ownership, workers belonging to the state *sovkhozes* were categorized as workers and therefore had a guaranteed monthly salary. In contrast, the incomes of members of the *kolkhozes* depended on the success (or failure) of cooperative farm. The success of a *kolkhoz* only became clear after it had fulfilled its obligations to the state (made obligatory deliveries, paid taxes, and made payments on loans) and set aside reserves for the upcoming year. The members of a *kolkhoz* received payment once a year. At the end of an economic year, whatever remained after obligations to the state had been met

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4 The name of the communist party in Hungary changed several times. Between 1945 and 1948, it was the Hungarian Communist Party (MKP). Between 1948 and 1956, it was the Hungarian Workers' Party (MDP). After 1956 and until its fall in 1989, it was the Hungarian Socialist Workers' Party (MSZMP).

5 Stephan Merl, “The role of agriculture in Soviet industrialization,” in *Communist Agriculture. Farming in the Soviet Union and Eastern Europe*, ed. Karl-Eugen Wädekin (London–New York: Routledge, 1990), 3–22.

6 Lynne Viola, “Collectivization in the Soviet Union: Specificities and Modalities,” in Iordachi and Bauerkämper, *The Collectivization of Agriculture*, 49–78.

was divided among the members (for the most part in the form of produce).<sup>7</sup> The 1935 kolkhoz model charter made this all compulsory.

The fact that the large agricultural estates (the kolkhozes and the sovkhoses) fulfilled their obligations to the state by delivering produce (in part through the system of compulsory deliveries and in part as a way of paying the machine and tractor stations for the work that was done with machines) also served to eliminate any ties between money and goods in this sector of the economy. The authorities also used payments in kind as a means of eliminating the role of money. The resources that were needed in order to ensure continuous production were distributed as allocations and remittances, like the investments of capital between the economic organizations.

Drawing an analogy with the material relationships between parents and children, János Kornai characterizes this degree of paternalism using the pair of terms “in kind allocation / passive acceptance” and “in kind allocation / active demand.”<sup>8</sup> He links the qualitative change that took place in the relationship between the state and the micro-organization to the New Economic Mechanism.<sup>9</sup> The Hungarian economic reform, which was introduced on January 1, 1968, was part of a wave of reforms in the socialist bloc that began gathering strength in the mid-1960s.<sup>10</sup> The New Economic Mechanism constituted the end of an important stage in the history of the agricultural cooperatives. My research suggests that in their case, there was an important turning point in the previous era as well, specifically 1956, because of the abolition of the system of compulsory deliveries. For this reason, in this essay as in some of my other writings, I regard this as a significant milestone in the history of the agricultural cooperatives and

7 Thus, only subsequently did it become clear how much what had been bought in over the course of the year was worth. The system was given the name remainder principle precisely for this reason. Robert William Davies, *The Soviet Collective Farm, 1929–1930* (Cambridge, Mass.: Harvard University Press, 1980), 131–70.

8 For a detailed discussion of this see János Kornai, *A hiány* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1980), 575–78.

9 János Kornai, *A szocialista rendszer. Kritikai politikai gazdaságtan* (Budapest: HVG, 1993), 496–532.

10 In the middle of the 1960s, economic reforms were introduced in many of the countries of the socialist bloc in order to address the failings of the planned economy. In 1965, the so-called Kosygin reform was launched in the Soviet Union. In Hungary, the New Economic Mechanism significantly curtailed the role of central planners and gave enterprises a greater degree of independence. The reforms in Hungary, which created a blend of planned economy and market economy, represented the most radical shift in economic management in the bloc. For more on this, see Christoph Boyer, ed., *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich* (Frankfurt am Main: Max-Planck-Institut für Europäische Rechtsgeschichte, 2007); Paul G. Hare, Hugo K. Radice, and Nigel Swain, ed., *Hungary: A Decade of Economic Reform* (London: Allen and Unwin, 1981).

divide this history into sections accordingly. In the first part of my inquiry I examine the characteristic features of the agricultural cooperatives of Budapest before 1956. In the second part, I consider the developments that took place after 1956. In the third, I examine the period following the introduction of the economic reforms.

*Caught betwixt the Plan Targets and the Obligatory Regulations  
of the Kolkhoz Model Charter*

In 1948/49, agricultural cooperatives began to be organized in Budapest and the rest of Hungary.<sup>11</sup> The creation of the cooperatives in Budapest was justified with the contention that they would significantly improve food supplies for the industrial work force, which was becoming increasingly concentrated in the urban center. Three types of agricultural cooperative were permitted (types I, II, and III). Initially, all three functioned within the legal framework as farming cooperatives. The difference between these three types of cooperative groups lay in the amount of communal production and the manner in which the yield was shared.

The first agricultural cooperatives to be established in Budapest were of the third type, which most closely resembled the kolkhoz and which was regarded as the most developed.<sup>12</sup> However, this did not mean that the founding members were so “ideologically advanced” in their thinking that they abandoned private farming and immediately decided in favor of the highest level of joint ownership or cooperation. Rather, in general workers in agriculture who had little or no land (and who often had come to the capital from rural parts of the country) came together in the hopes that, as beneficiaries of state support and lower taxes, they would have a better life, even if they would be obliged to make compulsory deliveries to the state. They were also thus able to get access to the state reserve lands, which was an important consideration. The market gardeners, milkmaids, and fruit-growing farmers who brought their

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11 József Ö. Kovács, “The Forced Collectivization of Agriculture in Hungary, 1948–1961,” in *The Collectivization of Agriculture in Communist Eastern Europe*, ed. Constantin Iordachi and Arnd Bauerkämper (Budapest–New York: CEU Press, 2014), 211–21.

12 Budapest Főváros Levéltára (=BFL) XXIII.110. 1.d. Agricultural Cooperative Affairs, 1950–51. Summary report on the data of the agricultural cooperatives and agricultural cooperative groups. 1950. July.

produce to the Budapest markets showed no interest whatsoever in joining the cooperatives.<sup>13</sup>

After Greater Budapest was created in 1950 (which meant the administrative addition of 16 villages and 7 towns to the city and hence a dramatic increase in the size of the arable lands belonging to the capital), it seemed even more reasonable to put these lands to large-scale use. Farming was only done on a significant scale in the outer districts of the city.<sup>14</sup> During the April 24, 1951 sitting of the Budapest Party Committee of the Hungarian Workers' Party, the results of the collectivization campaign were summarized as follows:

An acceleration of our socialist development in the field of agriculture also took place in the capital in the first quarter of the year. In addition to the 11 agricultural cooperatives, with the assistance of the party committee the district councils helped the working peasantry of Greater Budapest form another 14 agricultural cooperatives.<sup>15</sup>

In the spring of 1951, of the 25 agricultural cooperatives in operation in Budapest, 13 were type I cooperatives. 986 families were living on them, and they had a total of 1,181 members and 5,873 cadastral yokes (one cadastral yoke equaled 0.57 hectares) of land, some 80 percent of which (4,665 cadastral yokes) was cultivated.<sup>16</sup> These cooperatives constituted a very loose form of association, in which the members performed only the ploughing and sowing of the soil communally. The other tasks involved with husbanding the land were done individually. Every member had a claim to the harvest. They had to make contributions to cover the common costs of the cooperative and to ensure adequate reserves.<sup>17</sup> Only one type II agricultural cooperative was formed, a so-

13 Marietta Boross, "Bolgár és bolgár rendszerű kertészetek Magyarországon 1870–1945," *Ethnographia* 84, no. 1–2 (1973): 29–52; Judit Hirkó, "A piacozó rákospalotaiak a 19–20. században (1850–1945)," *Első Század* 8, no. 2 (2009): 61–85.

14 Miklós Horváth, *Budapest története a forradalmak korától a felszabadulásig* (Budapest: Akadémiai Kiadó, 1980); István Nyékes, *Budapest mezőgazdasága* (Budapest: Magyar Mezőgazdasági Múzeum, 1959), 27–31.

15 BFL XXXV.95.a.ő.e. 34. Official report of the April 24, 1951 sitting of the Budapest Executive Committee of the Hungarian Workers' Party (until June 15, 1954, the Budapest Party Committee).

16 BFL XV.20. 74. Vol. 25. Official reports of the sittings of the Executive Committee of the Budapest Council, April 3, 1951. Report on the development of the Budapest agricultural cooperatives and the state of the harvest.

17 14 000/1948. (XII. 18) government decree on the organization and operational regulation of the agricultural cooperatives. *Magyar Közlöny* no. 278 (1948).

called average distribution cooperative. It consisted of 10 members and lands totaling 100 cadastral yokes, 62 of which were cultivated.<sup>18</sup>

There were 11 type III agricultural cooperatives in Budapest, the so-called communal cooperatives, which were regarded as the most developed organizational form. 8 had been in operation since 1949. 3 were created as a result of a campaign in the autumn of 1950. They were home to a total of 486 families and had 603 members and a total area of 2,759 cadastral yokes, of which 82.7 percent (2,281 cadastral yokes) was cultivated. In the spring of 1951, the shared livestock consisted of 246 cattle, 76 horses, 687 swine, and 556 fowls. This alone indicates that the vast majority of the members had come from poor peasant backgrounds.<sup>19</sup>

It is worth examining in some detail the system of rules that governed the type III agricultural cooperatives, because this system exerted a decisive influence in the course of later developments, when the cooperatives became independent. The system was based on the kolkhoz regulations adopted in the Soviet Union in 1935, which remained in effect until 1969. According to these regulations, the members of the group turned the lands under their cultivation over for cultivation by the cooperative, whether the lands in question were in their possession or merely rented. They were given ground-rents in exchange. An individual family was permitted to maintain ownership of a household plot not more than one and a half cadastral yokes in size, though this included the area of the garden around the house. A household was also permitted to have a specified number of livestock.<sup>20</sup> Beasts of burden, however, had to be turned over to the cooperative, as did farming implements, such as carts, sowing machines, plows, harrows, etc. The cooperative was obliged to pay a sum equivalent to the value of these things. Work groups and brigades of 6 to 10 people were created

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18 Plowing and sowing were done collectively when they involved plants with which the work could be done using machines. The work that was done tending to the plants over the course of the year could be done by each individual worker on his or her own field, but the executive committee of the group checked to be sure that the work had been completed. Harvesting was done both in groups and individually. Threshing was done as a communal task. The costs that arose were borne by the members of the cooperative in proportion to their sowing areas, and members were apportioned a share of the net income according to this system. 14 000/1948. (XII. 18) Government decree on the organization and operational regulation of the agricultural cooperatives. *Magyar Közlöny* no. 278 (1948).

19 BFL XXIII.110. 2. d. Agricultural Cooperative Affairs, 1950–51. Report on the livestock of the groups of type III. agricultural cooperatives. March 1951.

20 A member of a cooperative was allowed to keep as part of his household livestock one cow, one calf, five sheep or goats, one or two swine (depending on the size of the family), and an unlimited number of fowl, bees, and rabbits.

to perform the labor, and they worked together throughout the year under the supervision of a work group or brigade leader, whose instructions had to be followed. The members of the group were given a “work unit” in exchange for their labor, as was the Soviet model. A detailed table was issued in order to simplify the calculation of the “work unit,” though that time no one was obliged to take it into consideration.

The work unit served not only as a means of quantifying labor, it also was the foundation on which work was assessed as well.<sup>21</sup> The brigade leaders would keep written record in the work unit book of how many work units a member had earned for work done in the course of the year. At the end of the economic year, the member would be given a share of the cooperative’s income on the basis of this written record. To be more precise, wages were only divided among the members of the cooperative after the cooperative had met its obligations to the state. As I have noted, the state acted as a proprietor, although the cooperative was not technically in its possession.<sup>22</sup> The division of income on the basis of the remainder principle (i.e. on the basis of what remained after obligations to the state had been met), a system that was based on the Stalinist model, made it possible for the state to enforce its claims. But the cooperative was left to deal with the consequences. It is hardly coincidental that I often heard from members and leaders of cooperatives statements the essential gist of which was, “indeed the cooperative was a stepchild in comparison with the state farms.”

Among the consequences of this situation, the most serious for the members of the cooperatives was simply the fact that their income was unpredictable and constantly changing. Most of them responded by doing the minimum amount of work required in the cooperative to be entitled to the right to maintain a household agricultural plot. They provided for their families by cultivating their household plots and they were able to search for other occasional work in the area.<sup>23</sup>

In Budapest, where the members of a cooperative had significantly more costs on a monthly basis (transportation, utilities, etc.), the household plot was a less effective solution, especially for those who joined cooperatives with their

21 For a detailed discussion of the problems and failings of the work unit system, see Nigel Swain, *Collective Farms Which Work* (Cambridge: Cambridge University Press, 1985), 42–44.

22 Karl-Eugen Wädekin, “The Soviet Kolkhoz: Vehicle of Cooperative Farming or of Control and Transfer of Resources,” in *Cooperative and Commune*, ed. Peter Dorner (Madison: The University of Wisconsin Press, 1977), 95–116.

23 Magyar Nemzeti Levéltár Országos Levéltára (=MNL OL) M-KS-276.f. 74/10. ő.e. Report for András Hegedűs on the problems of work discipline in the agricultural cooperatives. May 1952.

own land, but not as gardeners. They needed cash. Furthermore, if a member of an agricultural cooperative in Budapest was not content with his income, he could get on a tram or bus and, within the space of a few stops, find work that would provide a regular monthly wage. Because of the forced industrial development of the first five year plan, there was a serious dearth of workers.<sup>24</sup> Thus, no matter how strenuously the architects of the planned economy strove to eliminate market forces, the labor market continued to exert a strong influence, particularly in Budapest. This soon created serious problems. A report of the agricultural division of the Executive Committee of the Budapest Council issued in 1951 contained the following observation:

When closed, the accounts showed a deficit everywhere. This was because we were not able to ensure employment for the members in the wintertime, since the agricultural cooperative neither set aside money for this period nor had other forms of income, many of the members left the cooperative and found employment in factories.<sup>25</sup>

The Ministry of Agriculture reacted to the fluctuations in the cooperatives by increasing the severity of the regulations according to which they functioned. In 1951, they introduced a regulation according to which one could only leave a cooperative three years after having joined.<sup>26</sup> In 1952, a resolution of the Council of Ministers raised the number of obligatory work units to 120 in general and to 80 for a woman with a small child. In the section of the resolution that dealt with work discipline one finds statements like the following:

Members must go to work regularly. [...] For every day missed, 1-2 work units must be deducted from the work units of members who, in spite having been warned, do not go to work regularly. [...] As of May 1, 1952, members of the agricultural cooperative can only undertake

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24 Mark Pittaway, *The Workers' State: Industrial Labor and the Making of Socialist Hungary 1944–1958* (Pittsburgh, University of Pittsburgh Press, 2012), 144–73.

25 BFL XV.20. 74. Vol. 25. Official reports of the sittings of the Executive Committee of the Budapest Council, April 3, 1951. Report on the development of the Budapest agricultural cooperatives and the state of the harvest.

26 18.010/1951. (I. 20.) decree of the Ministry of Agriculture on the promulgation of the regulations of the independent agricultural cooperative and the operational regulations of the agricultural cooperative groups in a unified system. *Törvények és Rendeletek Hivatalos Gyűjteménye* (1951): 619–28.



work outside of the cooperative with the written permission of the president or the director of the cooperative.<sup>27</sup>

The roots of the labor force problems lay in the fact that, because of the restrictive regulations, the cooperative had no say over how the products it created or the income from the sale of those products were used. Furthermore, the agricultural cooperative had no independence with regards not only to the division of income, but also in fundamental questions of production and cultivation. The instructions that were given by the Agricultural Cooperative Main Division of the Ministry of Agriculture concerning what the cooperatives should produce (and how much) were passed on by the Agricultural Department of the Budapest Council to the farms. The central crop plans also specified when the cooperatives should begin the work related to the various stages of cultivation. Given this, it is perhaps not surprising that in the 1950s cotton was included in the cooperatives' obligatory crop plans, alongside wheat.<sup>28</sup> As a perfectly logical corollary of the state's paternalism, the cooperatives were not permitted to own their own machines. The Budapest machine and tractor station did the machine work for the cooperatives. This put the cooperatives in a very dependent, vulnerable position, since the machine and tractor station was not able to address the various problems that arose, often at the same time, on the two-dozen or so farms, and delays could cause considerable losses for the cooperatives.<sup>29</sup>

Every important question in the lives of the agricultural cooperatives was determined from above and outside. The cooperative was not even able to decide on simple matters, such as how many rubber boots the members would need for the autumn and winter months. Important questions, for instance who would serve as the president of a cooperative, were also not entrusted to the members. Leaders were usually assigned from above. The party center or the authorities in

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27 1.009/1952. (IV. 24.) decree of the Council of Ministers on the economic stabilization of the agricultural cooperatives and the strengthening of work discipline. *Törvények és Rendeletek Hivatalos Gyűjteménye*, vol. 1 (1952): 231–34.

28 BFL XV.20. 74. Vol. 16. Official reports of the sittings of the Executive Committee of the Budapest Council, January 17, 1951. Approval of the detail of the 1951 operational plan of the agricultural cooperatives under the supervision of the Budapest Municipal Council.

29 János Honvári, *A gépállomások története, 1947–1964. A gépállomások és a magyar mezőgazdaság gépesítésének története 1947–1964* (Győr: Távtan, 2003), 375–401.

the ministry decided which member of the trusted cadre would be placed at the head of a given cooperative.<sup>30</sup>

In 1952, following a summer drought, these restrictions created a situation of crisis. The compulsory deliveries were also dramatically increased, as were the taxes that had to be paid by the cooperatives, and this also played a role.<sup>31</sup> It was also significant that, at the time, it was not only so-called kulaks who were offering their lands to the state, smallholders and petty landowners were also trying to rid themselves of their plots. Faced with this situation, the state sought to procure produce from the agricultural cooperatives in order to compensate for the decline that had been brought about by the drop in productivity by individual farmers. In this context I would again mention the analogy drawn frequently by the subjects of my interviews, who likened the agricultural cooperatives to a stepchild. The state treated the cooperatives as if it were the owner and were able to dispose as it sought fit of a given cooperative's produce and income. The state farms also enjoyed the advantages of state paternalism, since the state helped them when they were faced with financial difficulties and were unable to pay workers their minimum wages. In contrast, the agricultural cooperatives were left on their own by the state to deal with such problems, problems which in fact were caused by the multifold intervention of the state, for instance, a production structure that was not suitable to particularities of a given cooperative, the division of income on the basis of the remainder principle, or the insufficient knowledge of the leaders who had been "parachuted" into their positions from above.

Faced with these pressures, the agricultural cooperatives saw a potential solution in the expansion of their sphere of non-agricultural activities. By creating so-called ancillary enterprises, they hoped to provide work and income for their members that would complement earnings from agricultural production, which was obviously very seasonal.<sup>32</sup> This was not easy, however,

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30 Interview with József Pál, June 8, 2011. At the beginning of the 1950s, Mr. Pál had overseen the Budapest agricultural cooperatives as an official at the Agricultural Cooperative Main Division of the Ministry of Agriculture.

31 Until 1950/51, the compulsory deliveries required of the agricultural cooperatives were smaller than the compulsory deliveries required of poor peasants. However, as of 1951/52 they began to grow rapidly. For more on this, see Gyula Erdmann, *Begyűjtés, beszolgáltatás Magyarországon 1945–1956* (Békéscsaba: Tevan Kiadó, 1993), 116–27.

32 Initially, this term (ancillary enterprises) meant only the processing and sale of foodstuffs from agricultural production. Later, as the sphere of activity of the cooperatives grew, it came to include machine shops, servicing workshops, the construction brigade, etc. Several different terms were used in Hungarian, but I use this term consistently in this article.

given the strict constraints of the regulations, since according to the philosophy of the Soviet kolkhoz, an agricultural cooperative could focus exclusively on primary agricultural production. This Soviet idea was foreign to the agrarian traditions in Hungary, but it caused a particularly large number of problems in the case of the cooperatives of Budapest. These farms, which dealt primarily with the production of vegetables and fruit, quite naturally would have liked to have prepared at least some of their products for the market and perhaps even to have had the chance to sell them.<sup>33</sup>

In the wake of the changes that began to be implemented following the death of Stalin, the assessments of the agricultural cooperatives shifted as part of the politics of the “new course.” The government of Imre Nagy, in order to prevent or at least curb the unravelling of the cooperatives, introduced numerous discounts.<sup>34</sup> As part of the changes that were being made to agrarian politics, more emphasis was put on adapting to local circumstances, and this entailed a change in the assessments of the ancillary enterprises of the cooperatives, which at first meant the preparation, processing and sale of foodstuffs associated with agricultural production.

A separate governmental decree regulated the creation of ancillary enterprises in agricultural cooperatives, officially in order to increase the incomes of the members.<sup>35</sup> The agricultural cooperatives could create ancillary enterprises individually and collectively, but only if these enterprises had some kind of connection to agricultural work and did not hamper the fulfillment of the primary tasks of production. The use of a foreign workforce was strictly forbidden, though it was possible, exceptionally and only with permission, if there was no one among the members of a cooperative with the proper expertise. The work that was done in the ancillary enterprises could only address the demands of the civilian population if there was no similar local industry and the executive committee of the council gave its consent. The decree distinguished between three types of ancillary enterprise:

33 A 18.010/1951. (I. 20.) However, they could only take their products to the market after having fulfilled their delivery and sales obligations to the state. BFL XXIII.110. 9. d. State farms, agricultural cooperatives, 1952.

34 Iván Pető and Sándor Szakács, *A hazai gazdaság négy évtizedének története 1945–1985. I. Az újjáépítés és a teremtés irányítás időszakai 1945–1968* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1985), 250–57; Zsuzsanna Varga, “Kiútkeresés az agrárszektor válságából az új szakasz (1953) idején,” *Századok* 148, no. 1 (2014): 117–32.

35 39/1954 (VII. 15.) Council of Ministers decree concerning regulation of the activities of the auxiliary and processing plants. *Magyar Közlöny* (1954): 132.

1. production based (for instance, tree nurseries, mushroom growing, tile firing, stone mining, etc.)
2. processing (distillation, milk processing, grinding, etc.)
3. ancillary enterprises in the service industry (vegetable stores, flower stores, milk and dairy stores, etc.)

The fact that, in the free atmosphere of 1954 (not long after the death of Stalin), some 20 new forms of endeavor were being pursued in 63 ancillary enterprises clearly indicates the eagerness of the Budapest agricultural cooperatives to take initiative.<sup>36</sup> In 1955, 49 essentially agricultural ancillary enterprises and landscaping divisions were in operation. Commercial trade took place in 56 market stands or businesses. The Budapest agricultural cooperatives maintained 36 vegetable and fruit businesses, 17 ornamental plant stores, and 3 milk and dairy businesses.<sup>37</sup>

When, with the forced resignation of Imre Nagy in the spring of 1952, the “new course” politics came to an end, the Budapest leadership rushed to declare its solidarity with the dogmatic line, which again was gaining strength. This is clearly discernible in the way in which the cooperatives were castigated for the work done in ancillary enterprises:

In many of the agricultural cooperatives, 30 percent and in some cases even 40 percent of the annual income is made not off agricultural production, but the work done in ancillary enterprises and direct speculative activity. In our agricultural cooperatives, people are engaged in every kind of trade, from making square rules to selling stockings, and yet comrades, we do not need agricultural cooperatives that prosper at any cost, that have let’s say an openly capitalist spirit, but rather cooperatives that operate according to strict regulations and grow stronger and develop on the basis of their own work.<sup>38</sup>

From then on, the expansion of the sphere of activity of the agricultural cooperatives became a question of both economic and political significance. The principles on which the criticisms of the cooperatives were based (the criticism of their profit orientation) remained a salient part of the debates concerning their sphere of activity over the course of the next several decades.

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36 BFL XXIII.110. 22. d. Agricultural cooperative affairs, 1954.

37 BFL XXIII.110. 25. d. Agricultural cooperative affairs, 1954.

38 BFL XXXV.95.a. 5. ő.e. Official report of the February 11, 1955 sitting of the Budapest Executive Committee of the Hungarian Workers’ Party.

*Increasing Scope of Action after 1956*

Though it is not frequently characterized from this perspective, the 1956 Revolution was an important watershed in the history of agriculture in Hungary. The Kádár government, which rose to power in the wake of the Revolution with Soviet support, soon realized that while industrial production had essentially come to a standstill because of a general strike, any confrontation with the peasantry, which essentially was in possession of food supplies, would have unforeseeable consequences. In the interests of rapid consolidation, the new government was prepared to address the principal concerns and grievances of the peasantry. It put an end to the system of compulsory deliveries (which, indeed, had already been repealed once by the government of Imre Nagy) and it permitted members to leave or even dissolve the agricultural cooperatives.<sup>39</sup> Two-thirds of the agricultural cooperatives in Hungary were dissolved, but this included only one of the cooperatives in Budapest.<sup>40</sup>

The most impactful of the measures that were taken was the elimination of the compulsory delivery system. By taking this step, the government put an end to an element of the planned economy that until then had been beyond question. After the system had been repealed, the state could only procure food supplies if it were prepared to pay realistic market prices. Thus instead of relying on compulsion as it had done earlier, the state used market incentives and structured its relationships with the individual producers, cooperatives, and state farms so as to meet address the interests and concerns of the producers. The rehabilitation of the agricultural marketplace, however, was limited, because prices were still determined not by the forces of supply and demand, but by the mechanisms of state price control.<sup>41</sup>

Thus the economic environment in which the agricultural cooperatives functioned changed drastically, but perhaps even more significant was the fact

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39 *Törvények és Rendeletek Hivatalos Gyűjteménye* (1956): 62. Brought to an end the compulsory sowing plans, the obligation to obtain permission before slaughtering an animal, and the obligation to provide fat following the private slaughter of a swine. Ibid. 68–69, 263–65.

40 The number of cooperative members dropped by half, leaving only some 1,000 members of an original 2,000. The loss of land was not this dramatic, since most of the cooperatives farmed on state reserve areas. At the same time, however, the drop in the number of livestock was significant, a drop of some 60 to 70 percent. BFL XV.20. 74. Vol. 189. Official reports of the sittings of the Executive Committee of the Budapest Council, March 1, 1957. Report on the situation of agricultural production and the agricultural cooperative movement.

41 Pető and Szakács, *A hazai gazdaság*, 433–39.

that they were given a chance to make changes to the regulations that governed them. In the power vacuum that emerged in late 1956 and early 1957, government control of the agricultural cooperatives slackened, since the party and state institutions were caught up in the processes of their own restructuring. Taking advantage of this, agricultural cooperatives across the country made important changes to their basic regulations. These initiatives, which came from below, can be divided into two main groups.<sup>42</sup>

The agricultural cooperatives sought to obtain more independence from the party and state institutions that interfered from the outset in their operations. This was made easier by the fact that there was a drastic reduction in the number of people working in the council apparatus, including people in the agricultural divisions. The agricultural cooperatives sought to make themselves independent of the machine and tractor stations by purchasing their own mechanical equipment. At first, it seemed as if they would have the support of upper echelons of government.<sup>43</sup> Taking advantage of the opportunity, in 1957 the agricultural cooperatives purchased 8 Zetor tractors.<sup>44</sup>

The cooperatives sought, furthermore, to make adjustments, adapt to local circumstances, and assert control over the regulation of their own internal affairs, first and foremost the organization of production and labor and the system of wages and pay.<sup>45</sup> This was true of the agricultural cooperatives that continued to function in Budapest. As they had been unable, because of the restrictions of the kolkhoz regulations on which they were modelled, to ensure their members an income that would have competed with the wages offered in the factories of the city,<sup>46</sup> they saw a potential solution in the expansion of their sphere of activities.<sup>47</sup> This enabled them to compensate for the fluctuations in income that

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42 Zsuzsanna Varga, *Politika, paraszti érdekérvényesítés és szövetkezetek Magyarországon 1956–1967* (Budapest: Napvilág, 2001), 17–57.

43 The Agricultural Division of the party center supported this initiative from the outset, while the dogmatic leaders of the Ministry of Agriculture opposed it. Levente Sipos, “Reform és megtorpanás. Viták az MSZMP agrárpolitikájáról (1956–1958),” *Múltunk* 36, no. 2–3 (1991): 188–97.

44 BFL XV.20. 74. Vol. 191. Official reports of the sittings of the Executive Committee of the Budapest Council, May 24, 1957. The transformation of the Budapest Machine and Tractor Station.

45 MNL OL M-KS-288. f. 28/1957/2. ó. e. County reports on the basis of instruction 20/B/1957 of the Ministry of Agriculture on the reexamination of the organizational, economic, and political circumstances of the agricultural cooperatives. May 1957.

46 Attila Csaba Kondor, “Iparpolitika és iparfejlesztés Budapesten az 1960-as években,” in *Budapest az 1960-as években*, ed. István Fejtl (Budapest: Napvilág Kiadó, 2009), 65–80.

47 The Agricultural Policy Theses that were issued in the summer of 1957 were also supportive of expanding the sphere of activities of the cooperatives. Henrik Vass and Ágnes Ságvári, ed., *A Magyar*

were caused by the seasonal nature of production and provide advances for their members the whole year through.

One of the first initiatives of the seven agricultural cooperatives in Budapest came in late 1956 and early 1957 with the creation of distilleries. The discarded or unsold fruits that were piling up in the food shops and canning factories of the capital provided an ideal foundation for the production of spirits.<sup>48</sup> These distilleries did a great deal to alleviate the serious financial problems faced by the agricultural cooperatives and enable them to pay their members regular monthly advances. In general, advances were made every month, but in some cooperatives they were made twice a month. The amount of the advances was set by the Agricultural Cooperative Main Department of the Ministry of Agriculture, and it could not exceed 60 percent of the anticipated value of the annual work unit. Later, the agricultural cooperatives asked the Agricultural Department of the Central Committee to allow them to raise this limit to 80 percent.<sup>49</sup> The fact that at the time the Agricultural Division of the party center was more supportive of initiatives coming from below than the Ministry of Agriculture played a role in this. I will address the tensions that existed between the two a bit later in this article.

The agricultural cooperatives used other means in their attempts to address the problems that had arisen because of the work-unit system of remuneration. The principal problem was that, according to this system, a member of a cooperative as not motivated to work attentively and effectively, but rather sought to acquire as many work units as possible as quickly as possible with the mere appearance of work. This led to unusually dire problems in the agricultural cooperatives of Budapest, since, given the role the cooperatives played in providing food supplies for the population of the city, most of the work involved vegetable gardening, floriculture, and livestock farming, all of which are particularly labor intensive.

A system of work units based on efficiency and results began to be used in places where the products of labor were the most easily quantified. “Thus [these kinds of work units] were used first in the brandy distillation ancillary plants,

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*Szocialista Munkáspárt határozatai és dokumentumai 1956–1962* (Second, expanded edition) (Budapest: Kossuth, 1973), 102–22.

48 BFL XV.20. 74. Vol. 204. Official reports of the sittings of the Executive Committee of the Budapest Council, February 21, 1958. Report on the final accounts for 1957 of the Budapest agricultural cooperatives and the circumstances of the agricultural cooperative movement.

49 MNL OL M-KS-288. f. 28/1960/2. ő.e. Report on the forms of income distribution used in the Budapest agricultural cooperatives.

where the members working in the distillery were given work units on the basis of the gross number of liters of alcohol produced.”<sup>50</sup> In 1959, the Champignon mushroom cooperative in the X. district of the city introduced this system. The work of the different groups of laborers, who were physically separate from one another as they worked in different places, could be clearly measured. Units of laborers shared in the profits on the basis of the number of mushrooms gathered, i.e. the value of the yield of their work.<sup>51</sup>

Sometimes cash bonuses were also made. This form of remuneration was the most effective in branches of agriculture in which the results of a worker’s labor could be the most clearly quantified. Several agricultural cooperatives used this system effectively in dairy farming. For instance, in the Dózsa Agricultural cooperative in the XVII. district, a dairy farmer was given a specific sum in forint—not additional work units—on the basis of the amount of milk produced.<sup>52</sup>

In some of the agricultural cooperatives in Budapest, for instance the Kinizsi and Beloiannis cooperative in the XI. district, the cooperative on Bécsi Boulevard in the III. District, and the Táncsics cooperative in the XX. District, a system of hourly and daily wages was used instead of work units.<sup>53</sup> This represented the most radical departure from the kolkhoz principles of remuneration, since it completely eliminated the work unit by making the amount of time spent working (measured in days or hours) the basis on which work performed was assessed. The agricultural cooperatives tried to make monthly cash advances in compensation for days or hours of work (in other workers, as a divergence from the remainder principle, workers were not compelled to wait until the end of the year for payment), regardless of their economic fortune.

These approaches to remuneration seemed suitable as a means of mitigating fluctuations in the agricultural cooperatives, though because they constituted a departure from the regulations of a kolkhoz, they led to heated debates among the people who crafted agricultural policy, who were preparing to complete the

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50 MNL OL M-KS-288. f. 28/1960/4. ó.e. Report on the continued operation of the distillery of the Budapest agricultural cooperatives.

51 The Champignon Agricultural Cooperative continued to use this system of incentives in 1962, when it was merged with the Pákozdi Antal cooperative in Zugló and the Vaszil Kolarov cooperative in Csepel. “Két szomszéd vár,” *Magyar Nemzet*, August 23, 1962.

52 “Mezőgazdaság Budapesten,” *Népszabadság*, April 26, 1957.

53 MNL OL M-KS-288. f. 28/1960/2. ó.e. The introduction of the system of income distribution in the agricultural cooperatives of Budapest that expressed the direct material incentives for the cooperative members.



process of collectivization. The Ministry of Agriculture, which was led by Imre Dögei (who represented the dogmatic line), opposed these initiatives from below because they would provide members with an income (whether it be money or payment in kind) over the course of the year, before the cooperative had met its obligations to the state. Thus, the agricultural cooperatives were getting around the remainder principle. This principle was, after the practice of compulsory deliveries, the second most powerful tool used by the state to enforce its interests. According to Dögei, the use of alternative forms of remuneration would undermine the ability of the cooperatives to fulfill their obligations, in particular their obligations to the state. Even more disconcerting, in his view, was the fact that the initiatives taken by the cooperatives were a departure from the regulations of the kolkhoz model (and particularly the work unit), which was regarded as unchangeable. In contrast, the Agricultural Division, headed by Lajos Fehér (it functioned alongside the Central Committee), contended that the new solutions, which created new incentives for workers, would motivate the members of the agricultural cooperatives to take a greater interest in improving production from the perspective of both quality and quantity, and this was very much in the interests of the state.<sup>54</sup>

The Budapest leaders found Fehér's reasoning more persuasive, as the following citation concerning the concluding phase of collectivization shows:

The introduction of a system according to which income was shared and bonuses were paid on the basis of the final product and output contributed to the creation of a favorable mood. In most places, the members of our agricultural cooperatives joyously welcomed the introduction of the new system of division of income. [...] The fact that in most of the cooperatives advances on work units were paid every month also helped foster a love of work and a good general mood.<sup>55</sup>

However, all over the country the process of collectivization was accompanied by problems (drops in production, the migration of important segments of the workforce) so dire that the party leadership found itself compelled to confront the gravity of the risks it would face if it were to return to the dogmatic agricultural policy that had prevailed before 1956. At the beginning of 1960,

54 Sipos, *Reform és megtorpanás*, 188–97.

55 MNL OL M-KS-288. f. 28/1960/4.ő.e The report of the Budapest Committee of the Hungarian Socialist Workers' Party on the agricultural cooperatives of Budapest. April 8, 1960.

Dögei was dismissed from his position at the head of the Ministry. Dögei was replaced by Pál Losonczi, an innovation-minded agricultural cooperative president.<sup>56</sup> Under Losonczi, a distinctive approach to problem solving was adopted. Every year, at the beginning of the year, the Ministry would disclose the remuneration strategies and solutions that—while they were in violation of the legal provisions—would create incentives for the members of the agricultural cooperatives. With the introduction of these semi-legal measures, the scope for action of the cooperatives increased step by step, which contributed to growth in income for their members.<sup>57</sup>

The agricultural cooperatives of Budapest adapted well to this new atmosphere of “anything that has not been expressively forbidden is permitted.” Production in the ancillary enterprises was particularly lively. In the XX. district, for instance, each of the agricultural cooperatives pursued significant endeavors, in addition to traditional agriculture. The three cooperatives stored and packaged potatoes, which would be one of the staples of the winter diet for the city. Several cooperatives used their sandy areas for the production of sand and in doing so gained land that could be used for agricultural cultivation. In the Sasad cooperative in Buda, for example, alongside cultivation of plants and livestock farming (the main branches of enterprise), ancillary enterprises also came to play important roles. The latter included distillation, preserves, a tile workshop, a limestone mine, a landscaping enterprise, an automobile plant, and a maintenance workshop. There was also an artificial flower workshop in the cooperative, and the cooperative shops sold wreaths and flowers.<sup>58</sup> The spread of these kinds of ancillary enterprises contributed to the creation of forms of undertaking that were distinctly market oriented.

Government decree 3004/3/1960 (XI. 17.) gave the work of the agricultural cooperatives a new direction. The decree concerned state support provided for the cooperatives, but it also addressed questions concerning the auxiliary and the processing plants, as well as the cooperative construction brigades. According to the decree, the primary responsibility of the construction brigades was the completion of the shared construction projects of the cooperative, the renovation of the buildings used by its members, and the construction of new dwellings for its members. If there was no local industry in the given community,

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56 For more information on the switch of ministers, see Tibor Huszár, *Kádár János politikai életrajza*, vol. 2 (Budapest, Szabad Tér Kiadó–Kossuth Kiadó, 2003), 128–40.

57 For more on its detailed operations see Varga, *Politika*, 82–92.

58 “Budapest mezőgazdasága,” *Figyelő*, October 4, 1961.

the ancillary plants were allowed to continue operation for the members and the local population without having to obtain the express permission of the authorities.<sup>59</sup>

By the beginning of 1961, the complete socialist reorganization of agriculture in Hungary had been completed. According to official statistics, in Budapest there were 25 agricultural cooperatives in operation with a total of 17,114 cadastral yokes and 3,469 members.<sup>60</sup> While collectivization had been effectively implemented, dire problems of production arose, and the country was compelled to import both breads and meat.<sup>61</sup> The leaders of the Kádár regime were compelled to confront the fact that, without the proper mechanization of agriculture, the country would remain very much in need of the members of the agriculture cooperatives and their families as a labor force, but at the same time they recognized that the classic Soviet kolkhoz model did not provide the necessary material incentives for this labor force. Under pressure from the agriculture lobby, which formed around Lajos Fehér (secretary of the Central Committee of the Hungarian Socialist Workers' Party and a member of the Political Committee),<sup>62</sup> the party leadership gave its consent for the adoption, at least temporarily, of a solution which rested on the use of household plots and a system of remuneration that addressed the failings of the work unit system.<sup>63</sup> In Budapest, the household plots were not as significant a factor as they were in the more rural parts of the country. The primary goal was to convert to a system of wages paid in cash. As a consequence of this, the Budapest agricultural cooperatives soon realized that, whatever clever solutions they might devise to replace the work unit system, the impact of these innovations would be limited as long as the remainder principle remained in force. A trifling quantity remains trifling, however equitable its distribution.

In the first third of the 1960s, Fehér and his circle, having confronted the limitations of the solutions that were being proposed from below, crafted a comprehensive agricultural reform plan that outlined all of the financial, legal,

59 With this ruling, the 39/1954 (VII. 15) decree of the Council of Ministers became void.

60 *Budapest Statisztikai Évkönyve* (Budapest: KSH, 1962), 119.

61 András Schlett, "Success and Failure of the Hungarian Agrarian Model," *Arhivele Totalitarismului / Totalitarianism Archives*, 74–75 (2012): 96–97.

62 The agriculture lobby consisted of politicians, agricultural experts, and scientists who wanted to bring about a change in the subordinate position of agriculture and agricultural producers. They suggested changes (corrections) to the use in Hungary of the Stalinist kolkhoz model.

63 Zsuzsanna Varga, "The Impact of 1956 on the Relationship between the Kádár Regime and the peasantry, 1956–66," *Hungarian Studies Review* 1–2 (2007): 155–76.

and administrative measures that would have been necessary in order to begin to address the various challenges. The implementation of these measures, however, was postponed for various reasons.<sup>64</sup> When the upper echelons of the political leadership finally reached a decision regarding the New Economic Mechanism, these agricultural reforms lent a significant dynamism to the process. Since the agriculture lobby had a clearly outlined platform for reform, it soon came forward with concrete suggestions, and thus in 1966 and 1967, i.e. before the actual introduction of the New Economic Mechanism, important reform measures were already underway.

Of these measures, Law III. of 1967 was among the most significant. It contained innovative steps based on the concepts of self-management and equal rights.<sup>65</sup> The agricultural cooperatives were granted the right to make decisions concerning their incomes. They were no longer bound to planning, and thus could reach their own decisions concerning cultivation and working plans. They would have to deal with the economic consequences of their decisions. The law also stipulated that the agricultural cooperative was not simply an independent legal entity, but, furthermore, an entity with no legal superior (no trust, or territorial or production management). I.e. it represented itself in all respects.

In order for independent enterprise management to emerge, it was first important to ensure the necessary financial background. As I have mentioned, the agriculture lobby realized that the difficulties of material incentivizing could not be addressed, neither from the perspective of individual members nor from the perspective of the cooperative as a whole, as long as the system of pricing failed to reflect accurately the costs and the yield. Thus, prices were raised and credit concessions were made in 1966/67 with the aim of providing the foundations for self-financing, or in other words of transforming the majority of the cooperatives into “independently managed enterprises.” This meant, quite simply, that returns from sales would guarantee regular salaries for the members of the cooperatives and, from then on, the cooperatives would have the necessary resources to ensure adequate circulating capital, funds to replace fixed capital assets that had been used, and funds to procure some of the implements necessary to increase production and repay loans that had been taken out for this purpose. At the same time, revenues were not sufficient to cover the investments entirely. Investment policy was one of the main limitations on the

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64 Varga, “The Impact of 1956.”

65 *Mezőgazdasági termelészervezési törvény. Földjogi törvény* (Budapest: Közgazdasági és Jogi Könyvkiadó, 1968).

entrepreneurial independence of the agricultural cooperatives, and it was a tool that was quite deliberately kept in the hands of the regime.<sup>66</sup>

This all affected the members of the cooperatives, since numerous changes were introduced in the distribution of income as the cooperatives came to resemble independent enterprises. Perhaps the most important of these was the elimination of the system based on the remainder principle. The 1967 law stipulated that wages paid to members over the course of the year would be considered a cost of production by the cooperative. It also specified that these wages took precedence over the demands of the state and recovery of the material costs of production. These measures created a fundamentally new situation with regards to incentives for the members of the cooperatives. With the creation of a legal foundation for regular salaries, a new approach had come to prevail, according to which the members of a cooperative (like other workers) were guaranteed a predetermined wage based proportionally on work performed and paid regularly and continuously.

It is worth noting that, of the local initiatives that had already become part of common practice in the cooperatives (though they were departures from the *kolkhoz* model) and that, with the adoption of the new law, were made part of legal practice, most concerned remuneration, the organization of production and labor, and household farming. The decree concerning the implementation of the law addressed remuneration as well, but it allowed for the use of any form of remuneration that corresponded to the principles of socialist distribution.

The transformation of the agricultural cooperatives into increasingly independent enterprises also meant organizational restructuring with regards to economic decisions, as jurisdiction was transferred from bodies of state oversight to the cooperatives themselves, which until then they had only exercised self-management as a matter of form. Earlier, the spheres of activity of the cooperatives had been determined essentially in an administrative manner by the district councils, the enterprises with which they had concluded contracts, and the local offices of the bank, which had used political pressure at times, but usually had relied on economic tools, such as loans and offers of support (or withdrawal of support).

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66 For more on this in detail, see András Schlett, "Másolás – Adaptáció – Útfüggőség. Az agrártechnikai forradalom közgazdasági tanulságai Magyarországon," in *A mában élő tegnapok: tanulmányok a XIX. és XX. század történetéhez*, ed. Sándor M. Kiss, Iván Bertényi, Jr., and Gergely Fejérdy (Piliscsaba: PPKE BTK, 2011), 172–73.

In recognition of the transformation of the cooperatives into semi-independent enterprises, the 1967 law brought to an end the earlier narrow restrictions that had limited their sphere of activity. According to the new regulations, in addition to agriculture, the cooperatives could also pursue food processing, acquisition, sales, and services. A cooperative could use its implements, buildings, and equipment to perform tasks and provide services to address the needs of its members and their families, but also other cooperative and state enterprises, institutions, societies, and the general population.

*The Situation after 1968: “If the Yields of a Cooperative are Bad, That Is Suspicious. If they are Good, That is Even More Suspicious.”*

The secondary literature on socialist economic history has tended to emphasize, as one of the distinct features of the New Economic Mechanism, that it gave the socialist economic organizations a striking degree of independence. My research suggests that, in the case of the agricultural cooperatives, the important elements of entrepreneurial management were not introduced as a result of the New Economic Mechanism, but rather had emerged earlier, in large part as a consequence of initiatives from below. These solutions, which had been crafted in the course of everyday practice, had gradually shifted from the “tolerated” category to the “supported” category (the cultural politics of the Kádár regime classified things as “*tiltott, tűrt, támogatott*,” or “forbidden, tolerated, and supported”) thanks to the pragmatism of the agriculture lobby. The 1967 law provided legal recognition and protection for these innovations. This interesting prologue explains why the field of agriculture, and within agriculture, the cooperatives, were able to adapt the most rapidly to the situation that emerged following the introduction of the New Economic Mechanism.<sup>67</sup> The Presidium of the Alliance of Budapest Agricultural Cooperatives, a new organization responsible for the defense of the interests of the cooperatives, offered the following assessment of the pre-1967/68 period:

The opportunities ensured by the new law pertaining to the agricultural cooperatives have significantly furthered the emergence of independent,

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67 Zsuzsanna Varga, The “Modernizing” Role of Agriculture in the Hungarian Economic Reforms, in *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich*, ed. Christoph Boyer (Frankfurt am Main: Max-Planck-Institut für Europäische Rechtsgeschichte, 2007), 201–18.

entrepreneurial farming, in spite of the fact that individual laws and economic regulations, passed with delay, temporarily hampered work. [...] The cooperatives' yields over the past year *demonstrate the soundness of the measures that were taken as part of the reform of the system of economic management*. The leaders and members of the cooperatives *understood its aims and were able to take advantage of the tools it provided*, and it created a favorable political and economic environment for their operations.<sup>68</sup>

By 1968, as a consequence of a process of unification that had been underway, only 14 agricultural cooperatives remained in Budapest.<sup>69</sup> Alongside the increasing specialization that took place over the course of the decade, the dynamic development of the ancillary enterprises of the cooperatives was also striking. The revenues brought in by these enterprises grew in terms of net and gross earnings more rapidly than the revenues brought in by the basic activities of the cooperatives (in 1968/68, for instance, they grew by 130 percent), and they jumped from 20 percent of the cooperatives' total income to 47 percent.<sup>70</sup>

The Óbuda agricultural cooperative pursued a wide range of endeavors in the III. district, Szentendre, Pomáz, and Csobánka. The president of the cooperative, Ferenc Varga, offered the following explanation for its successes:

The various endeavors undertaken in addition to the basic activity [of the cooperative] are wide-ranging. Industrial undertakings comprise revenues from an array of products and manifold services. In addition to the production of foodstuffs, within the framework of other industrial undertakings the mine, the metal works, and the workshop in which elements used in buttons, rubber, ironworks and concrete are made are also turning out products, and we are also engaged in packaging, automobile and refrigerator repair, motorized winding, cleaning, and other service industries. Of the industrial endeavors, export packaging has the largest volume.<sup>71</sup>

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68 BFL XV.20. 74. Vol. 458. Official reports of the sittings of the Executive Committee of the Budapest Council April 2, 1969. Report on the experiences of management of the agricultural cooperatives in 1968 (emphasis in the original).

69 On the gigantic cooperatives created through these unifications, see for instance Nándor Keresztényi, *Csepeli agrárszövetkezők: a Duna Termelőszövetkezet 25 évének krónikája* (Budapest: Duna Tsz, 1986); Tamás Kő, ed., *25 év a sasadi dombokon* (Budapest: Sasad Kertészeti Mg. Tsz, 1975).

70 BFL XVII-130. 1 FNEB 35. box. Summary report on the supplementary activities of the agricultural cooperatives.

71 Ferenc Varga, "Szövetkezet a főváros peremén," *Gazdálkodás* 26, no. 11 (1982): 49.

In the first half of the 1970s, fifty-five units were involved with domestic trade enterprises in this agricultural cooperative alone, including a flower shop, a grocery store, a clothing store, and a seed shop.

Providing foodstuffs for the population of the capital remained one of the primary responsibilities of the Budapest cooperatives, in spite of the fact that the revenues brought in by work done in agriculture and food processing constituted only a small percentage of the total income. With regards to the needs of the population of Budapest, the most substantial contributions made by the cooperatives involved vegetables, poultry, mushrooms, and flowers. Their entrepreneurial spirit was quite evident in these enterprises. They endeavored to sell as much of their products as possible (for instance poultry meat, eggs, milk, and mushrooms) in their own stores or market stalls, and not to state enterprises.<sup>72</sup> At the time, the agricultural cooperatives in Budapest had 135 stores of their own (74 of which were grocery stores, while the other 61 were flower stores).

Construction work done outside the cooperative was also part of the cooperatives function of addressing the needs of the population of Budapest. They were commissioned by the councils to build schools and kindergartens and renovate and make repairs to residential buildings. Their contributions to the service industries were similarly important. For instance, they set up several automobile repair shops.

As a consequence of the expansion of the scope of activity of the cooperatives and the shifts in the ways in which taxes and fees were levied, in 1968 the Budapest cooperatives had to pay some 120 million forint to the state, in comparison with 38 million in 1967. Of this, 70 million went to the city council (as property tax, income tax, and sales tax), 41 million more than in 1967. Because of changes that were made to the system of social insurance and security and the growth in the number of people working as part of the cooperatives, their direct costs in taxes and fees paid to the state grew by more than a factor of four.<sup>73</sup>

These data clearly demonstrate that by the end of the 1960s, the agricultural cooperatives of Budapest were in a process of dynamic growth because of the successes of their ancillary enterprises. Similar processes were underway in the agricultural cooperatives nationwide thanks to their successful adaptation to the

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72 90 percent of the agricultural and food industry products were sold in Budapest.

73 BFL XV.20. 74. Vol. 458. Official reports of the sittings of the Executive Committee of the Budapest Council. April 2, 1969. Report on the experiences of management of the agricultural cooperatives in 1968.



New Economic Mechanism. The members of the cooperatives profited, but so did the population in general and the regime itself.

In light of this fact, it may seem surprising that at the beginning of the 1970s a press campaign was launched according to which the agricultural cooperatives had achieved their successes not through hard work and judicious adaptation, but rather by swindling, defrauding, and speculating. The criticisms targeted the ancillary enterprises first and foremost, thus it is not surprising that the Budapest cooperatives were put in the spotlight.<sup>74</sup> According to one of the most frequently repeated contentions, staff and workers in the industrial units were given so much in the way bonuses and various benefits that, combined with their wages, these forms of remuneration vastly exceeded the hourly wages earned by workers in state enterprises who performed essentially the same tasks, even taking into consideration the benefits these workers were given. This allegedly led to income inequalities between the Budapest cooperatives and the industrial enterprises. Furthermore, by offering better pay and benefits, the agricultural cooperatives effectively lured skilled workers away from the state sector.

*Népszabadság* (The People's Freedom), the main newspaper of the Communist Party in Hungary, participated intensively in the campaign against the agricultural cooperatives. On February 3, 1971, for instance, it printed an article according to which, between 1968 and 1971, the Shared Independent Agricultural Industrial Enterprise (Mezőgazdasági Ipari Közös Önálló Vállalat, or MIKÖV), a joint venture of the Vörös Október (Red October) and the Sasad cooperatives in Budapest, had illegally paid an innovation fee of more than 500,000 forint to its trade partners, in exchange for which its trade partners were to place an order for the enterprise's low-quality products. After the inquiry had been completed, the Central People's Control Committee (Központi Népi Ellenőrzési Bizottság, or KNEB) issued a report denouncing MIKÖV. The newspaper article, however, did not end here:

It is comforting, then, that the process of holding to account has begun in this matter. It is nonetheless perplexing, however, that until the public interest announcement was made, for years the people at the enterprise of the two cooperatives in question, who are now being held accountable, were able to pursue their business dealings without

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<sup>74</sup> A similar case was mentioned in András Schlett's book on the Bábolna State Farm. András Schlett, *Sziget a szárazföldön. A Bábolnai Állami Gazdaság története 1960 és 1990 között* (Budapest: Szent István Társulat, 2007), 117–20.

hindrance. How was this possible? A swindler or a fraud can always pop up in an industrial plant and try his luck to see if he can illegally get his hands on a higher income without working. But no one can profiteer like this for years at a single enterprise or an industrial plant turning out billions in production value. The fate of such a half-million forint sum is soon exposed. Why? Alongside other safeguards, first and foremost because *the internal and external system of control is strict and consequential*, and it effectively protects public funds.

Perhaps no one is monitoring this agricultural cooperative enterprise? Formally, a board of directors consisting of leaders of the two founding agricultural cooperatives exercises control over the legal supervision of this enterprise, as well as the executive committee of the Agricultural Division of the Budapest Council and the Ministry of Agriculture and Food. Nonetheless, in practice extensive opportunities were available for underhanded dealings that infringed on public interests.

It is worth noting the conclusions reached by József Sólyom, the author of the article:

Such fine agricultural cooperatives as Sasad and Vörös Október should never have given their names (or their money) to such a dubious enterprise. But since they did, they must now take careful note to obeying the laws strictly, lest anyone violate them. [...] Today there is plenty of money in these cooperatives not only for bread, but for spreads as well. This case should shock them: they can avoid problems like this if they really do keep their own enterprises under strict control, if they thoroughly audit the finances and management of their cooperatives. This lesson should be put to good use, and not only by the agricultural cooperatives involved.<sup>75</sup>

This attempt to sway public opinion was part of a larger political struggle the essential question of which was the continuation or the repeal of the 1968 reforms. The agricultural cooperatives found themselves in the crosshairs of the supporters and the opponents of the reforms. One side characterized them as a positive example to be followed, while the other pointed to them as proof positive of the negative effects of the reforms.

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75 “Félmillió forint jogtalan újítási díj. A termelőszövetkezetek ellenőrizték rendszeresen közös vállalkozásaikat,” *Népszabadság*, February 3, 1971.

A campaign of persecution was launched against the agricultural cooperatives the essential point of departure of which was that indeed the cooperatives had achieved their successes dishonorably, by swindling and breaking the law. According to the accusation, the forbearing conduct of the leaders of some of the cooperatives, who paid no mind to ethical or political considerations, had encouraged violation of the law. Allegedly, this indulgence was plainly obvious in the excessive wages that were paid to staff, the efforts that were made to lure workers away from other sectors of the economy, the pursuit of various lines of work without the proper permission from the state, laxity when it came to financial records, and creative interpretations of the law.

In the first half of the 1970s, police and judicial proceedings were launched against more than 1,000 leaders of agricultural cooperatives. Nationally, this meant 10-15 percent of the total number of people belonging to this group.<sup>76</sup> My research has shown that the first step was always a so-called people's control investigation. Historians of the Kádár era have devoted little attention to this organ of government, which was created in 1957, though it was active all over the country and played an array of roles, all the under direct supervision of the party.<sup>77</sup> From the perspective of the agricultural cooperatives, the organs of people's control were particularly significant because, after 1967, given the fact that the cooperatives enjoyed a larger degree of independence than they had earlier, in principle no other body of government had the right to inspect the ways in which they managed their affairs. One should add, at the conclusion of an investigation the people's oversight committees could propose disciplinary proceedings that might also involve having to pay compensation. In more serious cases, they were obliged to file reports with the police and the prosecutor's department.

Every year, the party leadership set the work plan for bodies responsible for the people's oversight. In 1972, the Central People's Control Committee examined the transport activities of the agricultural cooperatives. It is worth noting that, while this investigation involved 39 cooperatives nationwide, 13 of

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76 Zsuzsanna Varga, "Why is Success a Crime? Trials of Managers of Agricultural Cooperatives in the Hungary of the 1970's," *Hungarian Studies Review* 40, no. 2 (2013): 149–76.

77 The people's oversight committees were formed on district and county levels, and they were all part of the Central People's Oversight Committee, or KNEB (Központi Népi Ellenőrzési Bizottság). Formally, KNEB was answerable to the government, but in practice it was answerable to the party leadership. Ferenc Horváth M., "A 'népi ellenőrzés' Magyarországon 1957–1989," *Levéltári Szemle* 40, no. 4 (1990): 29–40.

them were in Budapest.<sup>78</sup> In the first half of the 1970s, the recurring themes of the people's oversight investigations included abuses by the ancillary enterprises, the illegal or improper use of state support, and violations of storage contracts. There were also many inquiries that focused on closing account balances and document forgery. According to my calculations, the number of investigations launched by bodies of people's control rose continuously until 1975, and a growing proportion of these inquiries ended in criminal denunciations.<sup>79</sup>

The Budapest agricultural cooperatives, which were regarded as allies of Lajos Fehér and were under close scrutiny by the party, were not spared the attacks, the gravity of which varied.<sup>80</sup> In some cases, the leaders of a cooperative were “only” issued a warning at the conclusion of a people's control investigation. If abnormalities were discovered to have taken place, a cooperative had to pay compensation to other farms. Sometimes show trials were even launched against the leaders of a cooperative. The Rozmaring (Rosemary) Cooperative had acquired a good reputation for its high-quality flower stores, and not only in Budapest, but in the (not exclusively socialist) countries of Central Europe to which it sent its exports.<sup>81</sup> The president, Alajos Kovács, was known as an entrepreneurial leader eager to succeed. He was a member of the presidium of the National Council of Agricultural Cooperatives, and he had a good relationship with Lajos Fehér, one of the leading figures of the economic reforms. The Rozmaring trial was very clearly a show trial, as is made plain by the fact that articles disparaging the cooperative were printed in the dailies well before the decision of the court had been reached. The following excerpt gives a good sense of the tone of these articles:

Some of the staff of the cooperative [...] cautioned the president many times: if he continued to lead the cooperative in this manner, he would find himself on the accused bench. President Alajos Kovács,

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78 Hungarian–Bulgarian Friendship, Óbuda, Rákosvölgye, Béke, Összefogás, Blagojev, Aranykalász, Vörös Október, Sasad, Dimitrov, Rákosvölgye Béke, Szabadság, Rozmaring. MNL OL XVII–2–a KNEB 13. batch 753. d. Cooperative transport investigation (1972) 2. appendix.

79 MNL OL XVII–2–a 22. batch I. series 2.d. 1970–1977. Monthly notice on the thematical and targeted investigations launched by the bodies of people's control.

80 Because of their location, these agricultural cooperatives were often used when the regime was welcoming high-ranking foreign delegations. This entailed numerous advantages, but at the same time, the high incomes that were paid to the leaders and members of these cooperatives in the 1970s irritated many of the politicians who visited them.

81 Nándor Keresztényi, *Zuglétől a Pilisig: a Rozmaring Termelőszövetkezet első negyedszázada* (Budapest: Rozmaring Mgtasz, 1982), 71–92.

however, did not believe this: ‘*Exaggerated administration, strict regulation,*’ he said, ‘*would weaken the effectiveness of trained leadership.*’ In the Rozmaring Gardening and Agriculture Cooperative—as is now clear—bribery was one of the most important tools of effectiveness: *this criminal gang’s business venture flowered for a long time.* The leaders of the cooperative, who according to the indictment caused damages to the national economy of almost one-million forint, are now waiting in custody for their trial to begin.<sup>82</sup>

In the autumn of 1976, when the article cited was printed in *Esti Hírlap* (Evening News), several leaders of the cooperative, including the president, had already been in custody for months. One might well wonder why a person like Alajos Kovács, who was known all over the country, needed this. He himself later shared the following recollections in an interview:

Returning to the interrogation: it’s quite true that they were able to keep you in a state of stress. A real criminal would have laughed at the whole thing, but this was not my situation. Once they had dictated whatever they felt was important, they put it in front of me for me to sign it. In all sincerity I didn’t even read it. They did not cause me any physical harm, but the feeling of helplessness [...] I cannot express the atmosphere. They had learned how to create this atmosphere very well. It would be slanderous of me to say that they were not civilized police. They never maltreated me. [...] But the atmosphere that they created, one cannot express it. A neurotic or inexperienced person breaks under it.<sup>83</sup>

The president had a shrewd grasp of what was at stake at the time when he was being held in custody. As the study of similar trials makes clear, the accused were held in custody for long periods of time as a general matter of practice. This was in part simply because the process of gathering the evidence in support of the accusation (which had been hastily cobbled together at the order of the regime) was slow. This was one reason why the police strove to prompt the accused to confess. Many agricultural cooperative presidents spoke in interviews of the tools that were used in the investigation stage of the proceedings. At first, the attorney who had been given the task of serving as Kovács’s defense had tried to persuade him to confess, as indeed did his cell mate, who had been recruited by the regime.<sup>84</sup>

82 “Elvirágzott vállalkozás,” *Esti Hírlap*, October 26, 1976 (emphasis in the original).

83 Árpád Pünkösti, *Vasalt ruha mángorolva* (Budapest: Múzsák, 1989), 22.

84 *Ibid.*, 23–24.

I came across many instances of infringements of the rights of the accused, not only in the investigation stage, but also in the courtroom proceedings. For instance, exculpatory witnesses were hardly called to testify. Even more importantly, criminal law, which was modified in 1971, created numerous channels for interference, which allowed for judicial bias—and therefore political pressures—to prevail.<sup>85</sup>

In the end, in the trial that was launched against the Rozmaring Cooperative charges were brought against 22 people and 120 witnesses were called to testify. The hearing in the court of first instance lasted from November 23, 1976 to March 15, 1977. On December 21, 1977 the High Court of Justice issued its ruling.<sup>86</sup> It found Alajos Kovács not guilty of any crimes committed as part of a conspiracy to commit unlawful acts and also not guilty of the crime of breach of trust. He was reprimanded only for having failed to take adequately resolute measures to ensure compliance with the rules concerning the handling of enterprise documents. In other words, he was found not guilty. However, in order to find some justification for having held him in custody for months, the court imposed a fine of 20,000 forint, which it regarded as paid in exchange for time spent in remand. In the meantime, of course, he had lost his position as president and the Rozmaring Cooperative had been merged with another cooperative, and a new president had been chosen for the new, larger cooperative that thus had come into being.<sup>87</sup>

The criminal proceedings that were launched against the leaders of agricultural cooperative clearly demonstrate that the demands that were made concerning market forces and efficiency at the time of the New Economic Mechanism never became (and never could have become) as important as the unchanging ideological precepts. Figures within the regime were able to take coercive measures against the agricultural cooperatives and their leaders by referring to the leading role of the working class and the superiority of the state-owned sector of the economy.

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85 Zsuzsanna Varga, “Hatalom, büntetőjog és termelőszövetkezetek Magyarországon az 1970-es években,” *Jogtörténeti Szemle* 5, no. 4. (2003): 10–21.

86 MNL OL XX-10-e 22.278/1977 (539.d.) Trial documents of J.G. and associates.

87 Keresztényi, *Zuglgettől*, 109–10.

The three decades of agricultural history presented in this essay clearly demonstrate that the successful adaptation of the Budapest agricultural cooperatives depended in part on the extent to which they were able to free themselves from the limitations of the kolkhoz model and in part on the responses of the representatives of power when initiatives that were raised from time to time from below overstepped the regulations prescribed by law. In the 1960s, in part in response to the pressures of the agriculture lobby, the leading organs of the cooperatives addressed this lacuna between law and practice by making changes after the fact to the regulations in order to make them better correspond to the challenges faced in practice. In the 1970s, when the brakes were being put on the economic reforms, this phase displacement became a vulnerable point. Economic and administrative measures and even steps pertaining to criminal law were taken to limit the entrepreneurial independence of the agricultural cooperatives. Unfortunately, this took place at a time when, following the dramatic leap in the price of oil worldwide, effective adaptation to market forces would have been more important than ever if the regime had seriously hoped to salvage the Hungarian economy.

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*Translated by Thomas Cooper*

Zsombor Bódy

## Enthralled by Size

### Business History or the History of Technocracy in the Study of a Hungarian Socialist Factory\*

In this essay, I examine the extent to which the terms and concepts of business history are useful in furthering an understanding of the development of a socialist enterprise, the Hungarian Ikarus bus factory. I come to the conclusion that the factory, which manufactured buses for all of the member states of COMECON (Council for Mutual Economic Assistance, 1949–1991), was not really able to take advantage of and turn a profit off of the economies of scale that the enormous market offered. The reason for this was that the socialist enterprise was not able to bring technological advancement in line with the need to make profit. The large investment in the bus factory rested on a technocratic vision which mechanically linked technical development with the solution to economic problems. This technocratic vision, which was found both in the West and in the countries of the Eastern Bloc, fit particularly well into the system of state socialism.

Keywords: Ikarus, bus manufacture, technocracy, socialism, business history

Scholarship on the economic history of the socialist era for the most part consists of macro-level analysis of economic processes, which are often linked with a kind of sociology of the functioning of the so-called planned economy. These inquiries continue to this day to draw heavily on the classic work by János Kornai.<sup>1</sup> There are also works of social and cultural history that deal first and foremost with the enormous investments of the Stalinist era, but they tend to draw their impetus not from any particular interest in economic history. Rather, they arrive at interpretations of the tremendous investments in industry and the construction of new cities somewhat metaphorically as narratives of the phenomenon of the socialist or Stalinist system as a whole.<sup>2</sup> Microeconomic inquiries, which focus on

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1 János Kornai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992).

2 Stephen Kotkin, *Magnetic Mountain: Stalinism as a Civilization* (Berkeley: University of California Press, 1995); Sándor Horváth, *A kapu és a batár. Mindennapi Sztyálinváros* (Budapest: MTA TTI, 2004); Dagmara Jajiesniak-Quast, *Stablgiganten in der sozialistischen Transformation. Nowa Huta in Krakau, EKO in Eisenbüttendorf und Kuncice in Ostrava* (Wiesbaden: Harrassowitz, 2010).

the history of one or only a few enterprises, are almost absent from the secondary literature on the economic history of the socialist period.<sup>3</sup>

The *visible hand* was very noticeably present in the socialist corporate management, but the ways in which it functioned and the results of its presence have to this day only rarely been made the subject of study.<sup>4</sup> The two factors that played key roles in the history of the evolution of large companies in the United States, namely the requirements of economies of scale (which stemmed in part from technological development) and reductions in transaction costs (through the incorporation of the various manufacturing processes and business activities into a single enterprise) are clearly problems that can be studied in the history of the socialist economies. For the specialization within the COMECON (Council for Mutual Economic Assistance, 1949–1991), the economic organization under Soviet leadership, was based on the idea that the investments in big enterprises would unquestionably be profitable due to economies of scale, since they would be producing for a far bigger market than the domestic one, and that would make possible the use of the most modern technologies. In this essay, I examine the extent to which the terms and concepts of business history are useful in furthering our grasp of the growth of socialist large companies by focusing on a single case study, the history of the Ikarus Bodywork and Vehicle Factory. I also consider how the socialist enterprise and the system of economic management functioned when they had to deal with the problems of the interrelationships between technological development and economies of scale, problems that had been dealt with very effectively by American large enterprises.<sup>5</sup>

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3 The works of Pál Germuska represent an exception: Pál Germuska, “A magyar fogyasztói szocializmus zászlóshajói: Hadiipari vállalatok civil termelése 1953–1963,” *Korall* 33 (2008): 62–80; Pál Germuska and János Honvári, “A közúti járműgyártás története Győrött 1945-től 1990-ig,” in *Győr fejlődésének mozgatórugói*, ed. János Honvári (Győr: Universitas–Győr Nonprofit KFT, 2014), 21–111.

4 The book by Alfred Chandler constitutes a fundamental work in the study of business history to this day: Alfred Chandler, *The Visible Hand. The Managerial Revolution in American Business* (Cambridge, MA–London: The Belknap Press of Harvard University Press, 1977). Károly Halmos raises the possibility of applying the study of the business history of enterprises to the socialist era: Károly Halmos, “A nagyvállalkozás történeti elmélete. A.D. Chandler Jr. három munkája,” *Korall* 14 (2003): 117–34. Ágnes Pogány offers a survey of the findings of business history scholarship in the case of Hungary: Ágnes Pogány, “Business History in Ungarn,” in *Business History. Wissenschaftliche Entwicklungstrends und Studien aus Zentraleuropa*, ed. Alice Teichova, Herbert Matis, and Andreas Resch (Vienna: Manz, 1999), 77–85.

5 Alfred Chandler, *Scale and Scope. The Dynamics of Industrial Capitalism* (Cambridge, MA–London: The Belknap Press of Harvard University Press, 1990). The subject was not unfamiliar in Hungary at the time. See Iván Schweitzer: *A vállalatnagyság* (Budapest: KJK, 1982).

As an alternative to the approach of business history, I will also make some contentions concerning the conclusions at which one may arrive if one attempts to interpret the socialist system of economic management and company management from the perspectives of the history of technocracy. The history of technocracy in the twentieth century is a promising subject of study because the emergence of technocracies itself was a significant phenomenon in determining the Western and Eastern poles of the Cold War era, though it did not take place in the same way on both sides of the Iron Curtain. The history of the technocratic approach and its supporters, the “experts,” is one of the themes that can enable us to go beyond the separation of the history of the “Eastern bloc” and the “West,” a borderline that to this day remains difficult to cross in the writing of history. In both the communist East and the West, technology was a determining factor in the transformation of social structures and everyday life, and the linking of considerations of technical rationality and efficiency with the call for oversight and management of social and economic problems, which was the central element of technocracy, was characteristic of both blocs.<sup>6</sup>

The object of my inquiry is the Ikarus bus factory, which was one of the success stories of Hungary’s industry in the 1960s, 1970s and 1980s. The company, which exported most of its output to COMECON markets, was one of Europe’s biggest bus factories for a long time. The regime presented the international successes of the Ikarus buses, which were in fact primarily successes achieved in the Eastern bloc and in developing countries, as a source of socialist national pride. The presentation of the Ikarus buses in a manner that associated them with domestic political concerns was an important and successfully used tool of the Kádár-regime’s portrayal of itself to Hungarian society. This strategy was so successful that Ikarus, as one of the country’s few globally successful companies, still evokes a sense of nostalgia in many.<sup>7</sup>

My study aims to examine the so-called “Road vehicle program 1965–1975,” which was launched in the wake of the COMECON agreement of 1963. This agreement assigned the manufacturing of large buses within the Eastern bloc

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6 Dirk van Laak, “Technokratie im Europa des 20. Jahrhunderts – eine einflussreiche ‘Hintergrundideologie,’” in *Theorien und Experimente der Moderne. Europas Gesellschaften im 20. Jahrhundert*, ed. Lutz Raphael (Cologne: Böhlau, 2012), 101–28. For a comparison of the early technocratic approach in three countries see Wolfgang Schivelbusch, *Entfernte Verwandtschaft. Faschismus, Nationalsozialismus, New Deal 1933–1939* (Munich–Vienna: Fischer, 2005).

7 Zsombor Bódy, “Der Ikarus-Bus als ungarische und sozialistische Ikone. Die symbolische Aufladung alltäglicher Objekte mit politischen Bedeutung,” *Österreichische Zeitschrift für Geschichtswissenschaften* 21, no. 2 (2010): 152–72.

to Hungary. The investment program concentrated primarily on the Ikarus plant, and it was designed to develop the company to a level at which it would be capable of meeting the needs of all the socialist countries for buses. In addition to a number of smaller companies, the Győr Rába Magyar Vagon-és Gépgyár (Rába Hungarian Wagon and Machine Factory in Győr) and the Csepel Autógyár (Csepel Automobile Factory) as suppliers were also recipients of the investments of the program. The program was based on the idea that the investment would unquestionably be profitable due to economies of scale, as Ikarus would be producing for a far bigger market than the domestic one. One of the key questions of my research was whether the picture “broadcast” at the time of the success of the Ikarus investment program was accurate. To put differently, I have tried to determine whether, when measured according to the standards of business history, integration into the COMECON actually created favorable circumstances for Hungary and whether the larger market of which Hungary became a part actually brought useful advantages from the perspective of economies of scale.<sup>8</sup>

In the course of my work, however, I encountered a problem that initially seemed to be an issue of source criticism. Namely, the company and the organizations overseeing it did not produce any statements or analyses revealing whether the investments of the 10-year Ikarus development project actually brought a matching return, to put it in today’s economic terms. In the economic management of socialist Hungary, they did not apply the concept of profitability in the sense generally used in economics and everyday business calculations. Although efforts were made to measure success and efficiency and to improve productivity in various ways, the concepts applied differed from those used today. The differences between the economic concepts applied at the time and those used today meant that, in order to answer my original question, I first had to clarify the meanings of the various categories applied in socialist economic management and the concepts that were used to measure the results. One might well ask what criteria drove the decision-makers in connection with the “Road vehicle program” and what concepts they intended to use to measure success. Thus, the question of how those in charge of managing the economy at the time were thinking, a question which could be regarded as part of the

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8 I cannot touch on the questions pertaining to the financing of socialist enterprises within the framework of this inquiry, but limit myself strictly to the operation of the enterprise from the perspectives of technological development and the buyer’s markets. Thus as a study of business history, my examination is one-sided.

history of mentality, seemed as important as the one concerning the plausibility of the economic successes allegedly achieved by the Ikarus factory through its integration into the COMECON.

### *The Antecedents to and Preparatory Steps for the Road Vehicle Program*

First, I would offer a brief sketch of the preliminary history of the Ikarus plant and the origins of the bus development program in the first half of the 1960s. Ikarus' predecessor companies, the Uhri brothers' vehicle body factory and the far smaller original Ikarus plant, which made coolers for combustion engines, were nationalized in 1947, before the general nationalization of industrial plants. After they had been nationalized, the two plants were merged.

It might seem self-evident that the collectivist socialist regime would favor community transport over private motoring and that a fundamentally ideological commitment lay behind its support for the development of the bus network and bus manufacturing. In reality, this was not the case. In fact, the regime did not have a specific transport policy concept based on ideological criteria.<sup>9</sup> In the early period, those in charge of transport policy focused primarily on the railways and freight transport and did not concern themselves with the problems of road passenger transport.<sup>10</sup> The fact that Ikarus was nevertheless able to develop and start manufacturing new types of vehicles in pre-1956 times was probably the result of the work of engineers and transport experts committed to bus manufacturing, people who were in mid-level positions at the company or served in various organizations of the planned economy.<sup>11</sup> 1956 (a year of

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9 The situation was similar in the GDR, where road passenger transport was also addressed with the use of Ikarus buses following the first decade of communism and where a comprehensive transport concept was never developed. However, from the early sixties, private motoring came to the forefront in the GDR as well. Burghard Ciesla, "Die Vision von der planbaren Mobilität. Entwürfe des öffentlichen Nahverkehrs in der DDR (1949–1990)," in *Geschichte der Zukunft des Verkehrs. Verkehrskonzepte von der frühen Neuzeit bis zum 21. Jahrhundert*, ed. Hans-Liudger Dienel and Helmuth Trischler (Frankfurt–New York: Campus, 1997): 223–44.

10 *Dokumentumok a magyar közlekedés történetéből 1945–1949*, ed. Béla Pálmány (Budapest: Új Magyar Központi Levéltár–Közlekedési és Postaügyi Minisztérium, 1981), see: draft proposal prepared at the Ministry of Transport in January 1947, *ibid.*, 468–70; memorandum of the Transport Department of the National Planning Office (OT) to the government in July 1949, *ibid.*, 507; statement of the National Planning Office on the completion of transport investments, May 1949, *ibid.* 658; minutes of planning meeting held at the Ministry of Transport, *ibid.*, 650–56.

11 The Transport Department of the OT indicated in July 1949 to Zoltán Vass that, in order to replace bus imports, they wanted to switch to meeting demand from domestic manufacturing. *Documents* 1981, 507.



unrest that culminated in the uprising against Soviet occupation in late October and early November) brought about a change in the development of Ikarus. There were substantial fluctuations of output at the time, and the types designed during this period did not prove successful. This was a consequence of the fact that the staff of engineers and the plant management, which had enjoyed successes before 1956, disintegrated or could not continue their work in part for political reasons.<sup>12</sup> It must be noted, however, that the engineers and experts who left Ikarus at the time to emigrate or who were removed for political reasons after the revolution were replaced by equally well-prepared engineers, who often also had had to leave their former workplaces for political reasons. They came primarily from the army or from the defense industry, from which they had been removed because their loyalty to the Kádár-government had been thrown into question by the regime.

At the same time the political leadership also became seriously interested in Ikarus. One of the reasons for this was the attention paid by the Kádár- leadership to infrastructural developments that improved the quality of life. The other one was the Eastern Bloc's policy of placing COMECON cooperation onto new foundations. The intention was to coordinate five-year plans rather than simply focusing on foreign trade agreements, as earlier had been the practice. Attempts to coordinate the plans proved unsuccessful (though the Soviet partner continued to propose this at later stages) because the planning procedures and particularly the interests of the individual member states were far too divergent. Nevertheless, while planning as a whole was not coordinated, the economies of the individual socialist countries, which until then had been rather autarky-oriented, began to cooperate. This cooperation went beyond barter trade and

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The decision seems to have originated from the medium-level management of the planned economy; it was at this level that the decision, taken at the political level, was initiated and prepared.

12 They wrote about chief engineer Béla Zerkovitz, son of the songwriter of the same name, who was acting CEO of the factory during the revolution, and the chief accountant and head of the department for construction as follows: "It can be regarded as political illiteracy, lack of experience and short-sightedness that the abovementioned persons continued to support the anti-Communist measures even after November 4 [if they cooperated with the workers' council]. Through their actions, they not only offended against their own work, past and earlier friends, but, excluding themselves from the subsequent life of the company, they renounced that wonderful and incredible development which started almost out of nothing, and which until then they had initiated, managed, actively participated in and fought for." Károly Jenéi and József Szekeres, *Az Ikarus Karosszéria és Járműgyár története 1895–1980* (Budapest: Ikarus Karosszéria és Járműgyár, 1981), 160–61. On the failed attempt to develop new types of buses, *ibid.* "We must point out the fact, however, that the attempts to further develop type I 55, manifested in prototype I 155, proved unsuccessful, similarly to prototype 303." *Ibid.*, 173.

was introduced in various areas of production. The partnerships were based on the idea that the manufacturing of individual products must be conducted wherever would be most advantageous given the local traditions, geographical conditions and existing production capacities, and comparatively less favorable production capacities in the other socialist countries must be dismantled. Officials saw “parallel capacities” (as they referred to the existence of enterprises that performed the same functions within the COMECON) as a squandering of resources. In their assessment, competition made no sense in the economic space integrated into the COMECON. Consequently, industrial expert committees were established within the international organization of the COMECON, and they began working out the production specialization of the member states.<sup>13</sup> In the course of these negotiations, bus manufacturing belonged to the authority of the forum that bore the title “COMECON Standing Committee for Economic and Scientific-Technical Cooperation in the Machine Industry, Section no. 7 for the Manufacturing of Automobiles, Tractors and Farm Machinery.” During the series of negotiations, which took about seven years and included various twists and turns, the Hungarian political leadership and vehicle industry expert circles consistently battled to ensure that the manufacturing of large long-distance and city buses would be allocated to Hungary.

There was an extensive road vehicle industry research base operating in the country at the time, Járműfejlesztési Intézet (JÁFI, Research Institute for Vehicle Development), and in addition to the staff of the three large companies concerned—győri Rába Magyar Vagon- és Gépgyár (Rába Hungarian Wagon and Machine Factory in Győr), Csepel Autógyár (Csepel Automobile Factory) and Ikarus—, certain sections of the staff of the ministries were also involved in the issues. In fact, even the Ministry of Postal Affairs had a Research Institute for Automobile Transport at one point. These professional circles worked with visible commitment and a kind of planning ethos on the development of Hungary’s bus manufacturing, and when expert-level talks with COMECON partners came to a standstill, they tried to mobilize the Hungarian political leadership in the interest of the cause.<sup>14</sup> The mentality and professional ethos of these engineering circles and their visions of modernity were in harmony with the regime’s official economic doctrines in their enthusiasm for planning

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13 Iván Pető and Sándor Szakács, *A hazai gazdaság négy évtizedének története 1945–1985* (Budapest: KJK, 1985), 379.

14 The documentation of the negotiations is found in the National Archives of the Hungarian State Archives (=MNL OL). XXIX-F-1-a T. 1. XXIX-F-1-a T. 2.

even in the absence of any deeper Marxist commitment. From the engineering perspective, the internal requirements of technical/technological design were a given priority, and the laws of a market economy, which, for example, demand that investment be used as efficiently (inexpensively) as possible, constituted impediments. Thus, the elimination of the “anarchy” of the markets through the institution of central planning would also have appealed to engineers who were not necessarily Marxists or leftists, and this constituted a basis on which these engineers could get involved in various projects of the “building of Socialism.”

While the Soviet Union had more influence at the COMECON talks on the specialization of bus manufacturing than the other countries, the Soviets did not simply dictate the terms. The other COMECON countries also had some room for manoeuvre in the early 1960s. In the end, the Hungarian endeavour proved largely successful, as the manufacturing of large buses was “allocated to Hungary” through a COMECON agreement in 1963, with Czechoslovakia alone retaining its manufacturing of large buses, although for domestic purposes only, not for export. In order to support the development plans of Ikarus, even while the talks were underway the experts tried to determine the projected bus requirements of the COMECON countries all the way up to 1980. This itself reveals one of the characteristics of socialist planning. The aim was not to survey the projected solvent demand for the buses. Given that they were attempting to look ahead 20 years, this would not have been possible anyway. They tried to calculate the natural demand for buses in the Eastern Bloc. In order to do this, they analysed the bus fleets of forty of the world’s developed countries in proportion to their populations, by bus categories, and calculated in passenger-kilometres, and they compared these results with the existing bus fleets of the socialist countries in order to estimate the projected development. This planning provided the basis for the Hungarian claims for bus manufacturing at the COMECON talks, and the argument made in favor of selecting Hungary seems to have been more convincing than the arguments made in favor of other countries, which were not as thoroughly supported with similar calculations. Thus, the manufacturing of larger-category buses was allocated to Hungary by the COMECON, even if the manufacturing of Hungarian Csepel trucks, for example, had to be sacrificed in exchange for the bus monopoly. After the COMECON agreement had been concluded, they launched the “Road vehicle program,” which primarily involved increasing the production capacities of the Ikarus factory. Ikarus’ two main suppliers, Csepel and Győr, were also affected (as were further suppliers, if indirectly).

The technocrat groups active in the vehicle industry were obviously attracted by the opportunity to use calculations involving resources and demands on a far larger scale than the calculations suited for Hungary in connection with bus manufacturing.<sup>15</sup> This criterion also influenced the politicians who made the investment decision. The documents drawn up by the planning office in preparation for the decision were all based on the single argument that it is not worth developing the bus manufacturing capacity or developing modern bus types to meet the Hungarian requirements alone because that would not be efficient. The index number used to prove this was the daily per capita production value calculated for the company. According to the calculation, if the capacities of Ikarus were increased to suit the demands of the entire Eastern Bloc, per capita daily production value would grow to 148 percent of its level in 1960 by the end of the investment program. What is implied by the per capita daily production value index number that the decision-makers had in mind in the early 1960s? It is obvious at first glance what is not implied. There are no calculations concerning the return of the investment amount. It seems that such calculations simply were not prepared. From the perspective of the planners and economic policy decision-makers, the proportion of the invested amount and the projected profit was not a question in the early 1960s. Later on, after the economic reform of 1968 in Hungary, such calculations were required before investments, but their reliability remained questionable. In the early 1960s, however, development was measured in natural indicators, specifically in terms of the number of buses, and per capita daily production value was used as a measure of efficiency. This indicator, of course, contained a number of arbitrary elements, as the estimates regarding the future price of the buses were rather uncertain. Further background calculations were even more uncertain, however.

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15 During the protracted negotiations, in which the issues of bus manufacturing, truck manufacturing and passenger car manufacturing were combined, they tried to proceed in a highly methodical way on the one hand, so a great part of the negotiations consisted simply of the actual preparations. This is why documents such as the following were created: “Report and draft recommendation for the development of type series of passenger cars and the methodology and schedule for the development of the draft recommendation for the specialization of the manufacturing thereof.” MNL OL XXIX-F-1-a T. 4. On the other hand, every member state clearly tried fiercely to protect its own interests, even if they were not equally able to justify this methodically and convincingly from the point of view of planning. In the case of Ikarus, the Hungarian delegation seems to have done a thorough job by COMECON standards with its analyses of the future of bus transport and domestic manufacturing opportunities. The documents of the negotiations: MNL OL XXIX-F-1-a T. 1., XXIX-F-1-a T. 2.

Due to the country's negative foreign trade balance at the time, particular attention was paid to the proportions of exports and imports. Developing bus manufacturing capacities were expected to improve the particularly negative export-import balance of the vehicle industry substantially, even with the projected increase in passenger car imports. From the point of view of the foreign trade balance, however, whether the countries involved were socialist or capitalist countries made a difference. In the case of investments, the level of import demand from capitalist countries was generally a priority indicator, since the country was constantly struggling with a foreign currency shortage in connection with the financing of imports from Western countries. Here they calculated with the indicator of the foreign currency return per one USD worth of imports, and in the case of Ikarus they found that a far more favorable foreign currency revenue ratio could be achieved relative to import costs by manufacturing the buses in larger volumes and exporting them. Of course, when calculating the foreign currency revenue ratio, they took into account not only the buses sold for dollars, but also the socialist imports that were offset by Ikarus buses, which could replace imports from capitalist countries. This means that they did not just calculate with the actual foreign currency revenue, but also included estimated foreign currency savings that could be achieved through socialist imports.<sup>16</sup> The series of investments of the "Road vehicle program" were launched on the basis of these calculations.<sup>17</sup>

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16 Foreign trade calculation looking at 1961 from the perspective of MOGÜRT (the monopoly company that distributed the buses to foreign markets). MNL OL XXIX-F-1-a T. 3.

17 The documentation of the preparations that were made for the Road Vehicle Program can be found in three volumes: MNL OL XIX-F-6-h 102. According to the preliminary calculations, labor productivity would increase by 204 percent with the switch to assembly line production techniques. The predicted rise in labor productivity as a consequence of an increase in the number of workers was comparatively slight. One forint of investment was expected to lead to an increase in production value of 7.3 forints. The necessary capital would be reduced to 77.7 percent of what it was at the time. Material costs would drop by 10 percent. The acquisition of the large stamping machines, up-to-date painting technologies and assembly-line production techniques were expected to lead to a decrease in wage costs. However, however persuasive these calculations may seem, their plausibility was undermined by the following remark: "The economic indicators of the investment expressed in terms of international value suggest similarly favorable efficiency. However, we must note that MOGÜRT's remarkably inadequate information regarding price makes its assessment of production for the global marketplace unreliable." I. 103.

### *The Launch of the Road Vehicle Program*

The program was launched in 1965 and continued for ten years. The investments also affected the Rába plant in Győr and the Csepel Automobile Factory, since Ikarus only manufactured the bodies and assembled the buses. On the whole, the three companies employed about 40,000 people and constituted one of the biggest manufacturing industry complexes in the country. For Rába, which manufactured the engines for the buses, they purchased a license from the German MAN group, so imports of Western technology played a part at the start in this case as well, as it did in many other industrial projects in the Eastern Bloc.

The program managed to achieve its objective in terms of volume, as they manufactured 12,000 buses a year in the first half of the 1970s as targeted, while also switching over to new types, and progress was also made in modernizing production technology. The buses were sold in socialist countries and a number of developing countries. The buses exported to the Middle East and other Third World countries were perhaps the most unambiguous business successes for Ikarus, as well as an assembly plant established in Iraq. The company managed to establish a presence in these countries in the 1960s and 1970s with competitively-priced, hard-wearing buses. More than 30,000 buses were sold to the German Democratic Republic (GDR) alone, but Ikarus buses could also be seen in the public transport of Hamburg at one time. However, the relationship between these quantitative performances, the modernization of production technology and economic efficiency remains questionable.

At the end of the 1960s, the factory's management effectively rejected in a report the idea of economic efficiency, a criterion required after the economic reform of 1968. They pointed out that they were not able to take rentability into consideration while they were focusing on meeting quantitative targets, developing new types and applying new technologies.<sup>18</sup> According to the report prepared for the Ministry of the Metallurgy and Machine Industry, it was almost impossible to determine whether Ikarus was profitable, as state funding was present at so many levels and in so many forms in the production and sales process, not to mention the maze of various foreign exchange rates, which made the economic rentability of production opaque.<sup>19</sup> Another reason why it was difficult to calculate the profitability of Ikarus was that part of the profit appeared

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18 Letter from the CEO of Ikarus to the minister for the metallurgy and machine industry, December 4, 1968, MNL OL XXIX-F-187-r Box 205.

19 MNL OL XXIX-F-1-a T. 3.

at the large suppliers, which had better chances of passing on their actual costs to Ikarus through their prices after the economic reform of 1968 than Ikarus could do through the export prices of the buses. Reports prepared by the management of MOGÜRT (Magyar Országos Gépkocsi Üzem Rt. [Hungarian National Road Vehicle Works Co.]), the foreign trade company exporting Ikarus buses, revealed that the price of the buses did not depend directly on production costs in any of the markets. It was in the domestic market that prices best reflected the changes in costs. In the various socialist markets, the price of the buses was influenced by political power relations. At one time, for example, the buses sold to the Soviet market were cheaper than those exported to the GDR.<sup>20</sup> In the case of the buses made for “capitalist export,” although these exports were highly appreciated because they brought in convertible currency, costs were relatively high due to the relatively small sizes of the series and the various individual requirements (as these vehicles were never exactly the same as the vehicles made in large series for the socialist markets). Nevertheless, foreign currency revenue counted as an achievement regardless of the cost.<sup>21</sup> For that matter, foreign trade within the COMECON was rather bureaucratic.

There were long-term master agreements, for example, designating Hungary for the manufacturing of large-category buses. These were broken down to the individual countries through annual bilateral trade agreements. And finally, based on the annual trade agreements, there were specific contracts regarding the deliveries, assigning prices, numbers of units and deadlines. These contracts, however, were not usually concluded by the manufacturing companies themselves, but by foreign trade companies enjoying a monopoly and overseen by the Ministry of Foreign Trade. The contradiction built into the system meant that the management of Ikarus prepared its plans based on long-term master agreements and annual trade agreements, and these agreements never coincided with the actual stock of orders. In the course of the reform, a number of large companies were granted independent foreign trade rights in Hungary, but this almost never happened in the other socialist partner countries.

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20 Based on the analysis of Ikarus' Main Division of Pricing and Tenders on the pricing of the buses and a similar and, from many perspectives, self-contradictory analysis by the Main Division of Pricing of the Ministry of the Metallurgy and Machine Industry in June 1969. MNL OL XXIX-F-187-r 205.

21 According to a retrospective analysis by one of the experts on foreign trade at the time, the export of Ikarus buses from Hungary to the West really meant little more than the export of the pressed sheet metal since these buses contained so many components obtained from abroad, differing to a large extent from the buses that were produced for the “socialist” markets. Ferenc Kozma, “Külgazdaság-stratégiai kihívások a hatvanas évtizedben,” *Múltunk*, no. 4 (2001): 78–106.

Ikarus and, in general, the other enterprises involved in the road vehicle program were in an extremely tense relationship with MOGÜRT, which had a monopoly in foreign trade. In 1961, Ikarus and the Csepel Automobile Factory negotiated and prepared a statement of their common standpoint in which they presented their grievances with regards to MOGÜRT. They contended that MOGÜRT was unable to organize the provision of necessary replacement parts. There were more than enough in stock, but in some countries there was nonetheless a dearth of parts. MOGÜRT itself had replacement parts made that could be sold for profit, while the parts that could only be produced at a cost it ordered from the Ikarus plant and Csepel Automobile. In the contracts with foreign partners, MOGÜRT agreed to provide an unjustifiable quantity of replacement parts the price of which, however, could not be covered on the basis of the price of the vehicles that had been fixed in advance. MOGÜRT also expected the factories to cover the costs of the production of the brochures and instruction manuals for the vehicles, which was a significant burden because they had to be both detailed and precise with regards to the given product. However, since there was a wide variety of types, changes to the texts (editing, typesetting, translation) represented a tremendous cost. Furthermore, they were often not completed by the time orders had been placed. MOGÜRT, however, charged a penalty for missing or incomplete printed materials.<sup>22</sup> On many individual points, the enterprise in charge of exports and the businesses responsible for production had conflicting interests. With the revenue made through the sale of buses, they were only able to earn a profit at each other's expense.

The modernization of the technology was also not free of conflict. The management of Ikarus and the offices of the Ministry were well aware of a number of problems surrounding bus manufacturing. They tried to follow innovations of the global vehicle industry continuously (a special technical press monitoring department was established for this purpose), and they believed that, in contrast with the design of the buses, manufacturing technology in the early 1960s was less up-to-date by international comparison. Production also fluctuated radically, with rather substantial differences from one month to the next. The higher echelons of management had to struggle to replace the industrial culture with which people were familiar with the industrial culture deemed up-to-date by the technocratic approach, which placed emphasis on the importance of large-scale production. The annual factory inspections that were done by the

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22 The notice of the head book-keepers of Ikarus and the Csepel Automobile Factory to the general managers of the two factories. 1962. 05. 28. MNL OL XXIX-F-187-r 178.



organs of upper management represented regular assessments on the basis of the criteria of modernization and efficiency, as well as the struggle with the work force's attachment to the work culture with which they were familiar, but which was seen as obsolete by the technocrats.<sup>23</sup>

A long explanatory report that was written by the chief engineer of Ikarus sheds light on the details of all this. The report concerned the critical contentions made in the course of one of the factory inspections. Essentially, according to the technocratic reproaches, the factory was not using adequately detailed plans or adequate technological documentation. In his reply, chief engineer Hirmann did not dispute the validity of the claim and the expectation, but he noted the difficulties that were presented by the production and use of the technological documentation and adherence to the proper production guidelines. As he observes, the design division did not have the capacity to prepare detailed plans for every type and every series, as the series themselves were too diverse, and the technological division was also unable to draw up complete documentation of the production technology because it was simply too understaffed. In addition, any efforts that were made to provide complete documentation were met with decisive opposition in the workshops:

[The leadership of the enterprise] attempted at the launch of type 55 to do everything according to the prescriptions, but this striving was thwarted by opposition in the workshops, which were not willing to acknowledge that the manner ordered by the upper-level management was correct when, until then, a different approach had been fine, and they deviated from the documentation, and the design and technological divisions were unable, because of their small size, to keep this within bounds or record the deviations. [...] The workers see the documentation as completely unnecessary and they will only be sufficiently convinced to take an interest in this question after long educational efforts have been made, because for the moment they only see the unpleasant side. [...] This causes a particularly difficult problem in the case of the few old skilled laborers who really can do good work and, because they have seen many solutions, tend to feel what is this young engineer or technician doing explaining things to me, someone who was doing far better things back when he was still a little child.<sup>24</sup>

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23 Reports of the factory inspections: MNL OL XXIX-F-187-r 178. doboz.

24 Report of Ferenc Hirmann, dated December 31, 1958. MNL OL XXIX-F-187-r 178. Type 55 was the so-called "rear" Ikarus. It was given this name because of the unusual placing of the rear engine, and it was one of the successful designs.

They were unable to document the many variations in the different types or the practical solutions that were devised in the course of manufacture, and indeed the skilled laborers did not see the need for this. The Technical Oversight Department of the Automobile and Tractor Industry Trust, which was charged with the task of ensuring that methods of production met technological standards, complained a great deal about this, though they often had occasion to observe that in the workshops their efforts to enforce standards were regarded as a hindrance to production. A former Ikarus designer recalled the experienced car-body ironworkers (they were nicknamed “sheet-metal emperors”), who were able to accomplish any task by hand before the installation of the stamping machines that were well-suited to the production of large series.<sup>25</sup> This old work culture, however, did not harmonize with the technocratic approach, which was oriented around large-scale production.

*The Road Vehicle Program betwixt Economic Integration into the Empire and the Scale of Business in Hungary*

By 1966, the fundamental transformation of production technology had expanded as a consequence of new and significant investments. However, from a certain perspective the efforts to use the most modern technologies overshot the mark. There was no doubt concerning the modernity of the technology, but there might be questions regarding the profitability of the application of modern solutions. Economists at the time determined that technological modernization in the Csepel Automobile Factory, for instance, would hardly yield a profit. In order to manufacture the shells of the Ikarus vehicles, automated up-to-date welding equipment was purchased from Switzerland that could only be used economically in the case of the manufacture of very large series. Although in the perception of the ministerial apparatus the purchase of the automated Swiss machinery would ensure that the techniques used in production were modern, and the factory leadership regarded it as a solution to the problem of understaffing, though Ikarus always needed different versions of the shells because it produced vehicles for buyers from the Third World and the West in comparatively small numbers. Thus the machinery, which was suitable for the economical production of large-scale series, continuously had to be stopped and

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25 László Finta, *Földön – vízben – levegőben. Ubrri testvérek története 1941-től 1942-ig* (Budapest: published by the author, n.y. [2012]).

adjusted to weld together new, differing shells. The Csepel Automobile Factory and Ikarus were exclusive partners in the 1970s. In other words the former essentially only supplied these frames for the latter and the latter ordered all of the necessary shells from the former.<sup>26</sup>

Many times Ikarus also faced the problem of modern technologies that were only economically practical when used on a large scale. As early as the late 1950s, in the course of the inspections that were done by the upper level authorities for economic management, the observation was made that some of the expensive machines that had been purchased from western European countries were not in use.<sup>27</sup> These machines included the up-to-date stamping equipment, which according to the original plans was supposed to fill the needs not only of Ikarus but also the entire vehicle industry in Hungary, and later a modern varnishing workshop where for a time a varnishing material was used that was regarded as out-of-date. Even as late as 1964, one still found complaints in the factory inspection reports according to which the individual production phases that represented different technological levels could only be coordinated with “crafty tricks” (in the report one finds the word “*kunststiklikkel*,” a somewhat slangy Hungarian word), and management had the creativity of the experienced workforce to thank for these tricks.

After 1966, thanks to the new investments, Ikarus began to use assembly-line production techniques when a new line moving system was created. There was, in principle, one production line suitable for manufacturing the buses of various size and purpose belonging to Type 200, which, however, were assembled largely from identical components for the Soviet and other socialist “markets.”<sup>28</sup> At the same time, even in this case the use of modern technologies was not always profitable or economical. They not only produced large series of buses for the socialist countries, but also regularly manufactured buses in smaller numbers for Third World and Western countries, for which they had to take into consideration the particular wishes of the customer. In the second half of the 1960s and in the 1970s, these vehicles were therefore put together using separate workshops, alongside the equipment designed for the production of large-scale

26 Károly Attila Soós, “Műszaki színvonal és gazdaságosság. Beruházási döntés egy központi fejlesztési program keretében,” in *Vállalati magatartás – vállalati környezet*, ed. Márton Tardos (Budapest: KJK, 1980), 285–94. I would like to thank Aladár Madarász for having called my attention to this publication.

27 The reports of the so-called factory examinations and the explanatory statements that were written on them by the various leaders at Ikarus: MNL OL XXIX-F-187-r 178.

28 A type of Ikarus bus that had the form of a box and was planned in the 1960s and produced in large quantities in the 1970s and 1980s.

series. Naturally this dramatically increased the costs. Additional problems arose because Ikarus was, first and foremost, an assembly plant, in accordance with the vision at the time of the up-to-date enterprise. In other words, Ikarus itself only produced the bodywork of the vehicles, and it assembled the buses out of the main units and component parts delivered by the suppliers.

Ikarus had continuous problems with the suppliers (problems that in the end remained unsolved), or, to use the language of socialist economic management, the “cooperation partners.” Socialist economic management saw the manufacture of series on a large-scale as the essential criterion of economical production and parallel production capacities as a waste of resources. For this reason, Ikarus had only a single supplier for most of the main units and components, and usually the supplier could only deliver the product in a single kind of transport. This left Ikarus at the mercy of the suppliers, since it could not turn to other potential partners in the event of a problem with quality and it faced difficulties when filling smaller orders from clients in the West or the Third World, since when it came to the parts for “deviating types” (to borrow the terminology used at the time), there was not an adequate array from which to choose on the market.

The differing technical quality of the parts that were provided by the various suppliers also caused problems. The economic management strove to ensure that the parts met high technical standards, though this was not always possible. Some of the high quality parts made the buses more expensive for the socialist and the Third World markets, which already constituted a loss for Ikarus, since the additional costs stemming from the higher technical standards of the components were not reflected in the prices. In other cases, parts that did not meet high technical standards were a source of problems, because they could not be used in the production of the buses intended for the “non-socialist market,” where good quality was a basic expectation. The shock absorbers (which were obtained through an English license), the braking system (obtained through the license with Knorr), the starting engine (obtained through the license with Bosch), and the engine produced by Rába (obtained through the MAN license, and too small for use in the largest buses<sup>29</sup>) increased the production costs of

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29 I cannot go into the question of the choice between engines that were produced in Hungary and those that were obtained from abroad through various licenses, a question that was only resolved after several years of debate, after the engine designed by the Research Institute for Vehicle Development did not meet expectations. The perception was that it would take years to redesign the engine in order to make it useful, and the Road Vehicle Program could not wait that long. For an analysis of the decision making process see: Germuska, Honvári, “A közúti járműgyártás története.”

the buses, while the anterior bridge supplied by the Soviet Union (which was designed for trucks), the Czechoslovak gear shift, and the Polish distributor pump brought down the quality of the final product in comparison with the expectations of the Western markets.<sup>30</sup> The suppliers, furthermore, were often incapable of providing the parts at the pace necessary for Ikarus. This problem was often solved by using parts in the buses that were produced for urgent orders that had been manufactured on the spur of the moment or, when this was not an option, simply by taking the parts from vehicles made for other, less pressing orders.<sup>31</sup>

Ikarus expected the superior authorities to arrive at solutions to these difficulties. When no other options were available, the authorities had to address the problems by issuing instructions to the suppliers regarding concerns of quality or adherence to deadlines. Given its role, it is worth examining this mode of operation not only on the level of the enterprises but also on the level of the management that dealt with this entire branch of industry. From many perspectives, the superior authorities, which to be more specific meant at first the Automobile and Tractor Directorate of the Ministry of Metallurgy and Machine Industry, then later the ministry's Automobile and Tractor Trust (1963–1967) and then, following the cessation of this trust, the ministry's head division in charge of the Road Vehicle Program (1967–1975) handled Ikarus, the Csepel Automobile Factory, the Rába factory and the other enterprises with which they worked as parts of one large enterprise group. Thus one might well ask whether or not this gave rise to the same kinds of advantages that were created by the development of large enterprise in America.

In Northern America, large businesses came into being because some technologies could be put to use more economically only in the case of large-scale production. Large-scale production meant both the use of assembly-line production techniques and the entirety of the process of turning the finished product to account, which included the well-organized marketing of a product that was identified by its brand name. From the perspectives of labor productivity and reduced transaction costs it proved more effective to bring all of the various production and marketing functions under the umbrella of a single enterprise than to address these needs simply on the basis of market contracts. One of the conditions of the existence of big business was the emergence of a managerial

30 Károly Attila Soós, “Műszaki színvonal és gazdaságosság.”

31 According to the instructions of general management, this solution was only to be adopted as a last means of recourse in cases in which it could be justified. February 3, 1966. MNL OL XXIX-F-187-r 179.

apparatus that performed the tasks involving the organization of the various functions within a single enterprise, in other words the development of modern entrepreneurial management, which was becoming increasingly technical and effective.<sup>32</sup>

From many perspectives, the main ministerial department responsible for the Automobile and Tractor Industry Trust and, later (as of 1967), the Road Vehicle Program treated Ikarus and its most prominent partners as if they were the various units of a single large enterprise. However, according to the indicators, this did not bring about the kinds of advantages which served as the foundations for the business successes and potentials for continuous technological innovation of the American enterprises.<sup>33</sup> A comparison of the development plans of the Automobile and Tractor Industry Trust and the analyses that were done by Ikarus of the activities of the Trust is revealing. According to the ideas that were formulated at the time of its establishment, the Trust was going to be the economic unit responsible for management issues, such as concluding contracts in order to bring the products of the enterprises that belonged to it to the market, coordinate production development, centralize administration of raw materials acquisition and the labor force, integrate the production of machine tools into the branch of industry, and professionalize (and specialize) the production of parts.<sup>34</sup> Instead of performing these functions, however, the Trust functioned essentially as an entity that played supervisory roles and set the prices that were used in the industry (including the prices of components that cost only a few hundred forint). According to Ikarus' own analyses, the Trust was not able to perform many of the tasks for which it would have been responsible according to the plans.<sup>35</sup> It did not actually function as unit responsible for economically effective management, but rather served merely as a forum for strategic decisions regarding the branch of industry in question and

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32 For a summary see Halmos: "A nagyvállalkozás történeti elmélete," 124. Halmos draws on the work of David S. Landes.

33 According to a similar analysis, the hidden transaction costs were very high in the bureaucratic socialist economy. Friederike Sattler, "Unternehmerische und kompensatorische Netzwerke. Anregungen der Unternehmensgeschichte für die Analyse von wirtschaftlichen Netzwerkstrukturen in staatssozialistischen Gesellschaften," in *Vernetzte Improvisationen. Gesellschaftliche Subsysteme in Ostmitteleuropa und in der DDR*, ed. A. Schuhmann (Cologne–Weimar–Vienna: Böhlau, 2008), 139–55.

34 Under the guidance of the Trust's technical manager, plans that in the end amounted to a thick book's worth of documentation were drawn up concerning this in 1964. MNL OL XXIX-F-187-r 178.

35 These analyses, it seems, were made for the general manager, presumably so that he would be adequately prepared for negotiations with the high-level organs, probably in the interests of dissolving the Trust. MNL OL XXIX-F-187-r 178.

an arbitrator in the conflicts that arose between the various individual enterprises. Furthermore, the structure of its own was functioning parallel to the organs of the enterprises, since it had numerous organs of its own, such as control and allocation of materials, development of production techniques, and a personnel department. Thus it is hardly coincidental that the overall structure as such did not lead to the advantages usually associated with centralization, nor could the benefits, brought about by the creation of a system in which management was close to production, be earned by the enterprises.

Yet the economic organization for the management of the ever-shifting vehicle industry was nonetheless not the main source of problems. The structural problem of this branch of the economy actually was that while the finished products (in this case the Ikarus buses) could be produced at profit in large quantities in a small country (the COMECON marketplace made this possible), the network that provided the parts necessary for the manufacture of the finished products could not function on a similarly large scale. Hungary was not capable of producing economically the parts and main units. Indeed as a consequence of the principle of specialization, even in the best case scenario in the COMECON marketplace only one provider could be found, and that provider enjoyed a monopolistic position. This hampered attempts to deal with problems concerning quality from the outset, since the entity that placed an order was unable, instead of using the existing provider, to turn to a competitor. The efforts of the ministry in question to provide Ikarus with technologically up-to-date parts lead to a situation rife with contradictions, and not simply because for some of the buyers this made the buses unnecessarily expensive, but also because the production practices of the suppliers were not always cost effective. As of the end of the 1960s, the size of the series of buses produced by Ikarus corresponded to the technological equipment that had been built, though the economically profitable series did not mean the same thing for the suppliers of the main unit or individual replacement parts as it did for the bus factory. The investments and the technologies purchased from the West thus did not bring in returns adequate to cover their cost, neither in the case of the engines produced by the Rába factory on the basis of the MAN license nor in the case of the small parts. In North America and Western Europe, behind the large enterprises that bore the brand names of their finished products, there was an array of producers and suppliers of larger and smaller parts and main units in the vehicle industry, and these enterprises were usually extremely specialized. Thus outside of the national boundaries one was always able to find an appropriate range

of products to choose from and, seen from the other side of the exchange, producers of parts could always find more potential clients on the market. The rigid COMECON cooperation, which strove to eliminate parallel capacities and therefore competition as well, made this impossible, and within the framework of the scale of enterprise in Hungary the vertical development of the entire vehicle industry would have been impossible from the outset.

Ikarus' impressive results in the area of production, results which it achieved first and foremost with the production of the 200 series of buses for the Soviet Union and other "friendly markets," ultimately constituted a pitfall.<sup>36</sup> The series, which was unusually large in its scale, was a consequence of a very particular circumstance, namely that the orders were being placed by a large, centralized empire. In other parts of the world the management and operation of local and long-distance bus transport was always broken into smaller units. Thus there was no other entity that would have purchased buses in such large numbers for a prolonged period of time. (The situation in the automobile market was different.) Ikarus continued to manufacture the Type 200 bus line for the Eastern bloc for a long time even when it was already regarded as obsolete and the new design meant to replace Type 200 buses was ready. Socialist countries continued to accept these in the 1980s, as they did not really have a choice due to Ikarus' quasi monopoly position within the COMECON. Thus, Ikarus did not have to switch over to serial production of the new types until around the time of the change of systems, when its earlier recipient markets suddenly turned into real, ever-shrinking markets. Under the conditions of real competition, the company, which lacked capital and could no longer reckon with government investments, became increasingly indebted. In the mid-1990s, the government tried to tackle this problem by privatizing the company, but it was unsuccessful.

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Returning to one of our questions on the efficiency of the COMECON integration, we can establish that although this kind of integration offered some benefits through economies of scale and the production capacities created for the Eastern bloc allowed companies such as Ikarus to enter the market in other countries as well (primarily in developing countries), nevertheless, the balance

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36 The investment program managed to achieve its objective in terms of volume, as they manufactured 12,000 buses a year in the first half of the 1970s, which had been the target.



on the whole was negative. Although the Ikarus buses and, through related maintenance work, supply of spare parts or the training of local workforce, Hungarian experts found their way to many countries worldwide, the semi-globalization based on the planned economy and the elimination of competition never created a globally competitive company and was not able to contribute to the development of the applied technology.

The other lesson to be learned on the basis of my inquiry is that the conceptual tools of business history are less applicable to the study of the history of socialist enterprises. To be more precise, when one applies them it becomes clear that the “visible hand” of socialist economic direction was not able to obtain the same results from the perspective of increased labor productivity and reduction of costs as large enterprise management in capitalist markets. The reason for this was not simply the absence of the market from the dynamics or, in the event of a setback, the absence of appropriate feedback. In the nationalized economy of the socialist state, the borders of an enterprise were blurry. From many perspectives, a branch that functioned under central management could be considered an enterprise, but at the same time it was unable to operate like an enterprise, for the branch never became a well-integrated unit, even in the period of oversight in which it was in the form of a trust. Individual enterprises had conflicts of interest because they had to divide the revenues of the branch among themselves in a zero sum game.

On the level of this branch of industry, the distinctive socialist technocratic approach (the complexities of which I mentioned in the introduction) was decisive. There are virtually no studies on this question in the Hungarian secondary literature, though on an international level we are dealing with an increasingly prominent trend in the scholarship on the socialist era.<sup>37</sup> The technocracy that emerged in the wake of World War II assumed it would find solutions to economic and social problems through the spread in the active application of scientific knowledge, and it held this vision of cybernetic efficiency—a vision that today seems even antiquated—as valid, regardless of political standpoint. This technocracy, and in particular its engineering version, harmonized well with the needs of the political systems which put planning in the center of their focus. In most of the socialist countries, the technocratic vision of modernization

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37 L. R. Graham, *The Ghost of the Executed Engineer: Technology and the Fall of the Soviet Union* (Cambridge, MA: John Hopkins University Press, 1993); Paul. R. Josephson, *Totalitarian Science and Technology* (New York: Humanity Books, 1996); K. Gestwa, *Die “Stalinistische Großbauten des Kommunismus” Sowjetische Technik- und Umweltgeschichte 1948–1964* (Munich: Oldenbourg, 2010).

began to replace Marxist ideology, particularly in the 1960s, and it was able to create some measure of loyalty toward the regime among the people who played the roles of technical experts, even among members of the younger generation.<sup>38</sup> (The fact that in the 1980s half of the well-trained engineers of the world worked in the Soviet Union was one of the consequences of this faith in a kind of technical rationalism.<sup>39</sup>) However, in the prevailing conditions of the socialist state, the implementation or adoption of technical rationalism was not ensured by considerations of self-interest or internally motivated, independent participation of the actors, which would have compelled every player to accept a more efficient solution. Rather it was dictated by the regime, by a system that was both one of bureaucracy and one of power. Thus the tension between the aim of maintaining the system of rule, the solidarity of the bloc, and technical efficiency remained, since technical efficiency would have required more wide-ranging cooperation with external partners, which would have increased the scope for action of the individual players, and this would have represented an attack on the system of power.<sup>40</sup>

The socialist regime and ideology essentially made it impossible for the system of differentiated operations that is required by modern technological standards to emerge in the economic sphere, as such a system would have been founded on the autonomous movement of the various players in the economy. Instead, socialism attempted to transform a technocratic vision that appeared to be free of politics or rather prior to politics into a reality. This vision was based on the notion that technological modernization and economic profitability always went hand in hand. Yet as a consequence of this assumption the most important ability of modern organizations, the ability to learn and remain adaptable, was lost, for either the real challenges never even reached them or the organizations were only able to deal with these challenges in a distorted form.<sup>41</sup>

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38 Martin Schulze Wessel, “Zukunftsentwürfe und Planungspraktiken in der Sowjetunion und der sozialistischen Tschechoslowakei: Zur Einleitung,” in *Zukunftsvorstellungen und staatliche Planung im Sozialismus. Die Tschechoslowakei im ostmitteleuropäischen Kontext 1945–1989*, ed. Martin Schulze Wessel and Christiane Brenner (Munich: Oldenbourg, 2010), 1–18.

39 Gestwa, *Die “Stalinistischen Grossbauten.”*

40 For an analysis of the dynamics of the socialist economic reforms, which would get off to a good start and then come to a standstill again and again, see Christoph Boyer, “Einleitung,” in *Zur Physiognomie sozialistischer Wirtschaftsreformen. Die Sowjetunion, Polen, die Tschechoslowakei, Ungarn, die DDR und Jugoslawien im Vergleich*, ed. Christoph Boyer (Frankfurt am M.: Klostermann, 2007), IX–XLII.

41 Peter Heumos, “Der Himmel ist hoch, und Prag ist weit!” Sekundäre Machtverhältnisse und organisatorische Entdifferenzierung in tschechoslowakischen Industriebetrieben (1945–1968),” in *Vernetzte*

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*Translated by Thomas Cooper*

## FEATURED REVIEW

Felvilágosult vallás és modern katasztrófa között: magyar zsidó gondolkodás a Horthy-korban [Between Enlightened Religion and Modern Catastrophe: Hungarian Jewish Thinking in the Horthy Era]. By Ferenc Laczó. Budapest: Osiris, 2014. 299 pp.

What is a (Neolog) Jew? Ferenc Laczó's monograph, adapted from his PhD thesis, is an attempt to answer this apparently simple but actually highly complex question. His approach is idiosyncratic in several respects. Firstly, as the author notes several times, the shadow of the Holocaust lurks behind the entire investigation, although he does not subject thoughts expressed prior to 1944 to the teleological reading that genocide was their inevitable outcome, but traces a more complex causality. He asks how much contemporaries knew of Auschwitz, whether they were aware of its significance and, if so, how they behaved and reacted. It is this aspect of Hungarian Jewish thinking between the wars that comes in for his analysis. He also shows that the historians, literary historians, etc. who have treated this period have mainly been interested in – to use the words of Isaac Deutscher – “non-Jewish Jews,” people whose work was very important from the individual point of view, but whose activities do not and cannot characterize the official Jewish forums, associations, weekly and monthly periodicals, cultural journals, etc.

The author has focused his research on the question of what it meant to be Jewish for the authors of the yearbook of the Hungarian Jewish Literary Society (Izraelita Magyar Irodalmi Társulat, IMIT; yearbook revived in 1929 and survived until 1943), the journal *Libanon* (1936–1943) and the yearbook *Ararát* (1939–1944). While keeping the Neolog aspect in view, the author consistently maintains that this was not some kind of homogeneous discourse, but involved highly diverse values, organizing principles and goals, making it extremely difficult to reconstruct what was Jewish and what it meant to be a Jew in this period. A lucid expression of this dilemma is Béla Zsolt's novel *Kilenc koffer* [Nine Suitcases], about the diversity and even moral divergence of people crammed together into the ghetto of Nagyvárad (now Oradea, Romania) and legally regarded as all of a kind. “Then there emerged a different kind of finickiness: the progressive,

European-looking Jews did not want the payot-wearers to mix with them. There were murmurs of, “There’s always trouble with that lot.”<sup>1</sup>

The moral imperatives of the Holocaust have caused us *ex post facto* to regard the Jews of the time as homogeneous, but the historical reality was different. It was not simply a matter of denominational divisions (Orthodox, Neolog, and status quo ante) and the distancing arising from the associated externals, but the very meaning – in a society that was becoming “modern” – of the Jewish religion and the culture intimately bonded to it. This is the implicit social-theory message of Laczó’s book. Although eleven chapters are devoted to analysing the discourse of the yearbooks and journals, it is not, in terms of its approach, a work of media history. The distinction arises from the thematic rather than descriptive nature of the analysis. The thematic criteria have been chosen to bring the academic discourse on Hungarian Jewish thinking into line with international studies. This is an essential condition for the critical treatment of international academic work on Hungarian Jews and the adaptation of the associated methodology, concepts and comparative approach. The author consciously distances himself from the metaphors and half-truths that abound in the Hungarian public discourse and journalism; he requires a discourse that looks at the Hungarian Jewish past from the outside. Significantly, a large proportion of the 69 footnotes in the introductory historiographical chapter are foreign-language references.

The first chapter takes as its context the creation of Jewish religious institutions and examines attempts to harmonize thinking based on religious tradition with the modern professional academic ideal that had been emerging since the nineteenth century. Following Michael Brenner, Laczó demonstrates the dual character of the *Wissenschaft des Judentums*, an endeavour that transcended national borders and national problems, although it was also propagated in the Hungarian language. It both promoted the emancipation of the Jews among non-Jewish majority society and pushed for internal reform and modernization of Jewish communities. One of the most important stations in attempts to harmonize the Jewish religion and modern academia was the foundation of the Budapest Rabbinical School in 1877 and the opposition it provoked among Orthodox Jews. Of similar significance was the setting up of IMIT in 1894. IMIT adopted a broad profile which embraced the translation of the Jewish religious, literary and historical tradition into Hungarian and support for the

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1 Béla Zsolt, *Kilenc koffer* [Nine Suitcases] (Budapest: Magvető, 1980), 58, 59, 60. The expression “progressive” meant what we now call the Neolog movement. Zsolt was born into such a family in Komárom in 1895.

Jewish Museum. It published yearbooks regularly from 1895 onwards. The process was interrupted at the end of World War I, but IMIT relaunched the series in the period under study, so that IMIT yearbooks appeared between 1929 and 1943. The reason for mentioning this set of sources at such length is that they form much of the base for Laczó's book, and he analyses them in chapters 1–7.

Chapter two examines the Neolog movement and the issues of fitting religion into modern society and conveying to the non-Jewish majority the “essence of Jewishness” in a secular framework – other than through history, music and the arts. Particularly interesting is the ambivalent assessment of the role of Moses Mendelssohn, in which Ármin Kecskeméti went as far as to state that re-evaluating and appreciating culture at the expense of religion was upsetting what he saw as a traditional balance. He did value Mendelssohn, however, for having the two-pronged objectives of bringing culture to the Jewish community and bringing Jewishness into “cultural Jewishness,” which meant convincing the increasingly irreligious Jews of the central role of tradition in faith. Laczó considers as a unique feature of the Neolog movement the discussions in the IMIT yearbooks surrounding how Jewishness relates to morality, and truth to mentality.

One of the most absorbing intellectual exchanges concerning the Neolog interrelationship between “religious Jew” and “*polgár*” [member of the mainstream middle class] was the issue of incompatibility. The debate surrounded how Jews who tried to take their places in secular life but wanted social assimilation without acculturation could identify themselves in modern Hungarian society. Since this involved a dual identity arising from equal love of homeland and religion, the key question is how to define or discover the essence of Jewish self-consciousness (from which, logically, a constitutive element of identity arises). Here Laczó distinguishes seven types, differing from each other only in nuance. The first four are: denominational identity; joint or mixed Hungarian-Jewish (assimilating but remaining) identity; the subtly different progressive, “forward looking” identity that upholds retention of Jewishness; and the idea of the “Jewish people,” whose members are also Hungarian Jews. The author admits that these are subtle distinctions, difficult to formalize, and are all characterized by a wish for consensus and harmonization.

Chapter four deals with a discourse that always offers a legitimating force to minorities, the question of “contribution.” What did the Jews contribute to Hungarian scholarship, culture, economy and everything else that, in its time, was



regarded and appreciated as an accomplishment? Laczó takes a critical approach to this question, perceiving that its underlying assumption of a need for self-justification affords it the status of an apologia. In addition, it creates the false impression of being a kind of group-forming force, while actually regarding the minority to be an integral, inseparable part of majority society (or to be no more than formally distinct). Chapter five discusses the Hungarian Jews' connections to Erec, which was centrally concerned at the time with the question of political Zionism. About twenty years ago, Gábor Schweitzer convincingly demonstrated why Hungarian Jews, some of whose most prominent figures had dressed up in the Hungarian ceremonial military and civil attire during the Millennium celebrations, people like Berthold Weiss, Sándor Deutsch of Hatvan, Lajos Krausz of Megyer and Zsigmond Kornfeld, had no need for political Zionism.<sup>2</sup> The causes, or rather stereotypes, mentioned right at the beginning include being “unpatriotic” or “irreligious.” These concerns were clearly in direct opposition to what we have seen were the aspirations of the Neologs. Indeed, through all the disputes and confrontations among the three divisions of Hungarian Jewish society (Neolog, Orthodox and status quo ante), aversion to Zionism almost uniquely constituted a common thread. Nonetheless, the author's analysis of the IMIT yearbooks has convinced him that despite the paucity of writing on the themes of Zionism and Erec in general, certainly compared with the attention paid to Hungarian Jewish identity, Zionist voices were still present in the Neolog milieu between the world wars, as were reports about Palestine, and these unavoidably contained talk of the Jewish *people*.

While the preceding chapters partly attempt to adapt the problems inherited from the nineteenth century to the new context within the territory of post-Trianon Hungary, chapters 6–10 concentrate on reactions to the steadily worsening situation and attempt to characterize them. The central concept here is crisis. What did contemporaries know about the discrimination of the time and the passage of laws that scorned basic legal principles, and how did they perceive these developments? Did any kind of crisis consciousness emerge in response? From his analysis of the IMIT yearbooks, Laczó concludes that until the passage of the First Jewish Law in 1938, the Neolog discourse predominantly followed

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2 Gábor Schweitzer, “Miért nem kellett Herzl a magyar zsidóknak? A politikai cionizmus kezdetei és a magyarországi zsidó közvélemény” [Why did the Hungarian Jews Have No Time for Herzl? The Beginnings of Political Zionism and Public Opinion among Hungarian Jews], *Budapesti Negyed*, 2 (1994): 42–55.

what Bourdieu and Boltanski called a “compliance strategy”, and reproduced the prevailing political discourse almost without criticism.<sup>3</sup>

Despite the rising volume of critical voices in the IMIT yearbooks following the Nazi takeover of 1933 and – even more so – after the passage of the Jewish Law of 1938, and despite the pronouncement of “end of the liberal era” and the emergence of crisis consciousness in response to European (German) and Hungarian events, the internally-constructed identity policies, however sophisticated, lost ground. As Laczó points out, reports by Fülöp Grünvald made clear at least a year before the deportations started exactly what was meant by the *Endlösung*, and “when the crime of the century was being committed, (...) Hungary’s Jewish intellectuals could have been the force to shake the slumbering conscience of people living within the Axis Powers” (p.172), but the published revelations remained a cry in the wilderness. Amid the internal constructions and debates over identity, the authors of the IMIT yearbooks seem to have overlooked the change in the external political – and increasingly the legal – context of their debates, so that the self-understanding of the (Neolog) Jews and their positioning among Hungarian citizens were no longer the issue. In this changed discourse, the definition of “Jew” came from *outside* the communities, because the closed ideological system, by virtue of its closedness, was uncompromisingly defining the political language in which the world was to be conceived.

The unbinding of the analysis unbinds from its sources – the IMIT yearbooks and the periodicals *Libanon* and *Ararát* – presumably aims to fulfil the objective promised in the subtitle of discussing general and thus not exclusively Neolog “Hungarian Jewish thinking”. In fact, to dispense with the interpretative adjective “Neolog” would imply an objective for the book which is almost unattainable, because even the other periodicals coming out during that period, *Egyenlőség*, *Múlt és Jövő*, and even *Századunk* (carrying on the spirit of *Huszadik Század*) kept this issue on the agenda. The left-wing journals *Szocializmus* and *Korunk* also addressed this problem, and the list goes on. The contents of the bibliography make clear that Laczó is aware of this, and so the critic is somewhat at a loss to understand why the subtitle, which usually narrows down the subject, remains so wide (even if it does not bear the definite article). Since the book sketches out the background and context of each journal, its virtue would have

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3 Pierre Bourdieu and Luc Boltanski, “La production de l’idéologie dominante,” *Actes de la recherche en sciences sociales*, 2–3 (1976): 3–74.

been to place the analyses in a conceptual field and not talk about “the” Jews in the interwar period. If he was bent on broadening the base of his sources, he could have extended his discussion to the Jewish Museum, which he does mention several times (e.g. p.46); its role and function at that time is being steadily revealed through the research of Zsuzsanna Toronyi.<sup>4</sup>

One not entirely fortunately formulated sentence and a slightly imprecise subtitle should not distract us from the many virtues of this short monograph. By integrating the problem into international historiographical and methodological developments and providing minute analysis of hitherto largely neglected sources, *Felvilágosult vallás és modern katasztrófa között* does great service to the better understanding of the history of ideas among the Jewish community of the time.

Zsolt K. Horváth

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4 See Zsuzsanna Toronyi, “A magyar zsidó múzeum épületéről” [On the Building of the Hungarian Jewish Museum], in *Kép-keret. Az identitás konstrukciói* [Picture-Frame. Constructions of Identity], ed. Gantner B. Eszter et al. (Budapest: Nyitott Könyvműhely 2010), 269–80, and Zsuzsanna Toronyi, “Egy budapesti kert története” [Stories of a Budapest Garden], *Korall*, 41 (2010): 97–112.

## BOOK REVIEWS

On the Road: The History and Archaeology of Medieval Communication Networks in East-Central Europe. By Magdolna Szilágyi.  
Budapest: Archaeolingua, 2014. 250 pp.

There is very little secondary literature in Hungarian historiography on the subject of the history of roads, or *Altstrassenforschung*. A few works by József Holub (1917), Endre Tóth (1970/2008), and in particular Lajos Glaser (1930/33) are indeed the only bits of scholarship on the topic in Hungary. This makes the stimulating and innovative inquiry under review here even more important and, indeed, pioneering.

Szilágyi's study of the history of roads and routes of travel in East Central Europe is based on archival research. She examines an immense quantity of written sources and engages in additional selective fieldwork. With regards to the Hungarian secondary literature, her work represents the first profound and comprehensive study in the field of the historical and archaeological study of medieval road systems, their different functions, and the hidden remnants of tracks in the landscapes. This extract of a dissertation, *Árpád Period Communication Networks: Road Systems in Western Transdanubia* (defended at Central European University, Budapest, 2012), is a pioneering work in the study of East Central Europe that constitutes a significant contribution to the growing body of scholarly literature on the study of old roads in the European context.

The selected area of study is within Vas County in Western Transdanubia. However, given the approach and geographical framework of the inquiry, in which Szilágyi raises several general research questions, it constitutes much more than a mere case study of a given area. The regional focus in this case—and this is essential—helps establish the precise limits of the investigation, which is not merely a traditional historical-geographical reconstruction of the topography of a regional road network based on maps and fieldwork. The period in focus is the Árpád Era, i.e. the period from 1001 to 1301.

In her monograph, Szilágyi uses written sources and map collections held in the Hungarian National Archives, the National Széchényi Library, the Archaeological Archives of the Savaria Museum and the Archive of Vas County, as well as a considerable number of printed sources. Selected field observations complement the traditional sources, and Szilágyi offers penetrating evaluations

of recent findings of archaeological investigations, not going beyond the limits of individual excavations as such. She is thoroughly familiar with the necessary complementary analytical methods, which she uses in her reconstruction of medieval road systems on the basis of the historical terminology, archaeological evidence, historical and topographical documentation, and personal identification of features in the field.

A 44 page-long bibliography demonstrates wide-ranging insight into recent regional research in Hungary. It includes translations of the Hungarian titles into English, which is very useful in a work intended for an international readership. The many footnotes (566 in total), which primarily provide citations of the wide spectrum of hodonoms (names of streets or roads) in their original contexts, indicate that the inquiry is predominantly a historical–etymological study based on written sources. The written sources, which are indispensable in the study of medieval roads in Hungary, consist primarily of documents—in particular regarding perambulations—drawn up for legal purposes (property boundaries). Related sketches and maps come up later. Most of the terms are in Latin, which is hardly surprising given the subject and the period of history in question, though there are some in German and Hungarian. More recent road maps (from the eighteenth and nineteenth centuries) were used to locate medieval tracks. The maps of the Cadastral survey that was carried out in the nineteenth century were of special importance in identifying toponyms (field names), which were often related to old roads in their function as boundaries.

After a brief but concise presentation of the historiography and the sources, the main problems discussed in the related chapters are: the possible constancy of Roman roads in the medieval road system (Chapter 2) and the terminology of medieval roads (hodonoms), hierarchies within the road network, legal differentiations (rights, obligations), functional aspects, modes of travel and transportation, topography, road construction (especially urban archaeology) and river crossings (fords, bridges) (Chapter 3). Within the context of the European scholarship on medieval roads, this investigation adopts a distinctive approach, creating a framework of eight “categories” (relevant characteristics), which are treated in individual subchapters. These chapters, which are grouped under the headline “Terminology and characterization of medieval roads,” form the main section of the study. They inspire further individual and comparative studies in each field and in other regions.

One of the specific and, in research on the former Roman provinces, essential research questions concerns the influence (continuity) of the Roman

road network on the development of a new and different settlement pattern and related road networks in medieval times. This question is often a subject of debate. The medieval documents—specifically the ones from or pertaining to Western Transdanubia—mention “*öttevény*” or “*kövesút*,” terms which refer to the wide strips of gravel that remained from ancient Roman road constructions. Roman alignments survived in urban street patterns (especially in Savaria, where the city of Szombathely stands today, and to some extent Scarbantia, today the city of Sopron). However, due to later transformations of settlement locations, many sections of Roman roads fell into disuse and decay. The remnants of the ramparts were even avoided and alternative medieval routes evolved.

A comprehensive chapter is devoted to a functional differentiation of the medieval road network based on considerations related to production, transport and travel, drawing primarily on analyses of documented terms. Certainly, most of the tracks did not serve one specific function, but this approach opens up a broader view on the economic history of traffic and communication based in part on the complexity of the road network. It is important to note that the focus of the study is thus not only main routes of long-distance travel and transport, but also the connections between places of production and consumption (regional transport systems), including for instance salt roads, wine roads, market roads, livestock roads, drift roads, mill roads, etc., and also between private and public demands (for instance, pilgrims routes, military roads, and church roads).

The subchapter on salt roads (3.3.3.1.) in the section on functional aspects is particularly interesting. The terms referring to these roads point to a well-organized transport system in the hands of the king from sites of production (mines in Transylvania) to centers of trade (Szeged, Szalacs) and from these centers to a regional distribution network. Here “*sajtosút*” (road of the salt carriers) is mentioned as a specific term that was in use in Transylvania. Salt roads have been a distinct field of research in Germany and Austria for quite some time now. The long-distance cattle drove roads constituted another specific network connected with distinctive infrastructure. The monograph thus touches on an additional field of research by incorporating discussion of the relevant sources.

This historical-archaeological study, which adopts an ambitious and theoretically nuanced approach and aspires to offer more than a mere reconstruction of a regional historic road network, opens up new directions in the investigation of medieval and Early Modern road systems for travel and transport in East Central Europe, drawing on the long-standing and also recent intensive

research activities in this field, especially in Switzerland, Austria and Germany. Szilágyi's challenging and substantial study, in which she adopts a historical and philological approach, is a welcome contribution to the various initiatives concerning the study of the history and development of communication, travel and transport networks in a European context. This noteworthy book should stimulate further investigations in Hungary and East Central Europe.

Dietrich Denecke

A pozsonyi prépost és a káptalan vizsállya (1421–1425). A szentszéki bírászkodás Magyarországon – a pozsonyi káptalan szervezete és működése a XV. század elején [Conflict between the Provost and the Chapter of Pressburg (1421–1425). Jurisdiction of the Holy See in Hungary – Organization and Operation of the Pressburg Chapter in the Early Fifteenth Century]. By Norbert C. Tóth, Bálint Lakatos, and Gábor Mikó. (Subsidia ad Historiam medii aevi Hungariae inquirendam 3.) Budapest: MTA TKI, 2014. 464 pp.

One of the increasingly prominent topics of research in recent Hungarian medieval historiography is ecclesiastical history and, more precisely, the investigation of the middle class in the medieval clergy, i.e. members and the operation of chapters. In 1971, Elemér Mályusz issued his fundamental monograph (composed mainly in the 1930s) on Hungarian ecclesiastical society before the battle of Mohács. In the monograph he drew attention to the fact that the middle and lower layers of the medieval Hungarian clergy had not been examined. Only a decade later, József Köblös, embarking down the path blazed by Mályusz, published the first archontology of four chapters (Buda, Székesfehérvár, Győr and Pressburg). Some years later, he published a comparative sociographic analysis of the prebendaries in these four institutions. Inspired by these works, over the course of the last fifteen years several researchers have made significant contributions to the study of this topic. (Cf. Tamás Fedeles, “Die ungarische Dom- und Kollegiatkapitel und ihre Mitglieder im Mittelalter. Forschungsstand, Aufgaben, Initiativen,” in *Kapituly v zemích koruny české a v uhrách ve středověku* [The Chapters in the Czech and Hungarian Kingdoms in the Middle Ages], ed. Václav Ledvinka and Jiří Pešek. Documenta Pragensia Supplementa II [2011], 161–96.)

Tóth, Lakatos, and Mikó’s book is itself based on a charter and its copies from January 1425, which the three authors came across as the following twelfth part of the *Zsigmondkori Oklevéltár* was being compiled. (Norbert C. Tóth and Bálint Lakatos, *Zsigmondkori oklevéltár* [Sigismundian Cartulary], vol 12 (1425) [2013].) A thorough examination revealed that there are altogether fifteen (!) copies of the charter, which all together contain a composite legal procedure between the chapter of Pressburg (Hungarian Pozsony, today Bratislava) and its provost, László Sóvári Sós. The research group, having finished the aforementioned volume of the sourcebook, managed to examine the legal case in detail, which resulted in this book.



The work of the three medievalists consists of four separate units. The first part includes six separate studies that mostly concern the functioning of the courts of the Holy See in the Middle Ages, the structure of the chapter of Pressburg, and a detailed analysis of the court case between the provost and the chapter. The second main part provides data on three members of the collegiate chapter of Pressburg who were important with regard to the court case, followed by a prosopographic database and survey of the estates of the chapter. The third main part contains the Latin documents that are connected to the legal case, regardless of whether they are later transcriptions or full-text publications of authentic originals. The edited documents are complemented by an explanation of some legal terms and short summaries of the individual documents. The fourth part is the obligatory detailed index of place and personal names discussed in the book.

By tackling the exhausting textual and genealogical problems of the charter, the authors ended up raising questions, the answers to which demanded separate analyses. The first study covers the historiography of Hungarian ecclesiastical jurisdiction and presents the operation of the Esztergom Holy See during the vicariate of Vicedomini Máté (Matheus de Vicedomini de Placentia) and his delegate substitutes. The authors conclude that the legal actions of the Esztergom Holy See, compared to the practice of European and other Hungarian Holy Sees, consisted mostly of affairs concerning marriage and inheritance, whereas cases in which members of the clergy formed both parties are less in number but were more significant. The second study is a penetrating examination of the personal relationships within the chapter itself. As discussed by the authors, the collegiate chapter of Pressburg lacked both the *lector* and *cantor*, and consisted of 14 members. It was the *custos* and the provost who determined the life of the chapter, and royal nomination dominated the selection and promotion of members within the body. The following chapter is an overview of the course and sections of ecclesiastical jurisdiction. In addition to a valuable overview of the existing literature (both Hungarian and in other languages), it provides new data concerning legal terms in the medieval Kingdom of Hungary. The analysis of sessional data led to the conclusion that, apart from major feast days (i.e. Christmas and Easter) and the period around the harvest, ecclesiastical jurisdiction and the operation of the Holy Sees was continuous, as was true in the case of secular courts.

The fourth paper investigates the suit of the chapter against its own provost concerning the prebendaries' action and the provost's counter-action,

commissioning the case to delegated judges in Pressburg, the investigation and judiciary stage in the city, and the provost's appeal to King Sigismund himself, who ordered György Pálóci, archbishop of Esztergom, to review the case. The chapter as a body accused Sívári with altogether 34 different articles, including liturgical defaults, offences against the prebendaries and economic misdeeds. The provost was compelled to compensate the chapter financially (306 florins and the cost of the proceedings), but the most humiliating detail for him was that he was obliged to make apologies to the body. As a result of Sívári's appeal, one fee was waived, deadlines for liquidation were disburdened, and the obligation that he apologize was abrogated.

The fifth and sixth studies deal with the rights and obligations of the chapter. The right to the quarter or, in some villages, to the whole tithe (which, according to the suit, had been violated by the provost) was financially crucial to the prebendaries, as three-fourths of their whole income might have originated from ecclesiastical earnings, and manorial income was only the remaining one-fourth.

Among the expenditures of the church, an unmarked tax is analyzed in the last study, namely the 63<sup>rd</sup> article of the acts issued by King Sigismund in 1397. This stipulated that every ecclesiastical figure should spend half of his income for military purposes. The paper comes to the conclusion that the middle class members of the clergy actually paid this tax, though less than the prescribed half, whereas prelates supplied their *banderia*, mounted forces. Calculations suggest that middle class members of the clergy contributed with an annual 11,000 florins to national military expenditures, and prelates did so with more than 60,000 florins, which meant a significant portion of the royal budget for defense.

In summary, the book provides a complex approach towards both the history of the Pressburg chapter in a relatively narrow scope and an overview of medieval ecclesiastical legal proceedings in Hungary at the same time. It calls attention to the fact that records of legal cases (even if copies) might contain significant data concerning ecclesiastical bodies and the individuals they involved, and charters of this kind should be analyzed with similarly thorough methods. (For a similar case between the Veszprém chapter and its provost, Pál Emődi, see the recent *Monumenta Ecclesiae Veszprimiensis 1437–1464*, edited by Gábor Dreska and Balázs Karlinszky and published in 2014 by the Veszprém Diocese.) The book provides a summary of its findings in German and Slovak, as well as a detailed bibliography, which will be useful to further investigations of the topic.

Balázs Karlinszky

Cities and their Spaces. Concepts and their Use in Europe. Edited by Michel Pauly and Martin Scheutz. Cologne–Weimar–Vienna: Böhlau, 2014. 324 pp.

Urban settlement has always had a strong and complex spatial dimension. According to some definitions, one of the main distinctive criteria between towns and villages is precisely the more sophisticated topography of the former. Every town or city develops its unique structure and built form, which undergoes changes over time, providing ample food for thought for many branches of historical research. One might think that the spatial turn in history writing, which has been acknowledged now for a long time, would have been particularly welcome among urban historians. Indeed, as noted in the introduction to the present volume (which was written by its two editors), the localization of various features in urban space has always been on the agenda of scholars of a city's past. The identification of particular buildings or neighborhoods and the ties they had to families or social groups have been familiar themes in praises of towns, city chronicles, and academic works alike. From the perspective of methodology, however, urban history can strongly benefit from the sociologically and theoretically inspired new wave of modern and post-modern spatial studies, which are presented in the volume in Keith Lilley's essay on "Conceptualizing the City." After having been engaged for centuries with the questions of "who, what and where," urban historians have now been prompted by these new impulses to engage more systematically with the issue of "how?" and—no less important—"why?"

The book reviewed here does a great service by extending the scope of up-to-date spatial inquiries, or at least providing good raw material for them, concerning cities in regions that are often neglected in this context or studied within the boundaries of national paradigms (and languages). The reason for this greater openness is that the present collection of 19 articles (14 in English, 4 in German, and an introduction in both—one gratefully acknowledges the efforts of the editors to have the articles translated) is based on two conferences of the International Commission for the History of Towns (ICHT) organized in Sibiu (Hermannstadt) and Prague, both of which welcomed a good number of local speakers and participants. These two cities at the same time are home to institutions that have been active in editing and publishing the *Historic Towns Atlas* series of their respective countries. Knowledge of primary sources and recent

research on the spatial development of a good number of towns is therefore readily available.

It follows logically from these premises that the great flagship enterprise of the ICHT, the towns' atlases, are utilized as reference works in many of the articles here. Ferdinand Opll, the editor-in-chief of the already completed Austrian atlas series, shows new ways of using the toponyms on the maps and in the topographical gazetteers (mainly in the Irish atlas series) for comparative research. Regarding the example of the names of gates and suburbs that lay beyond them, he offers a typology of naming patterns as reflections of spatial thinking and awareness of the hinterland and its main contact points. His study demonstrates that it is well worth pursuing comparisons in the cases of other kinds of urban toponyms on a European scale.

The four studies connected to the territory of modern-day Romania also draw on many examples from towns that have been included in the atlas series. Paul Niedermaier, the initiator of the Romanian atlas project and author of multiple volumes on urban development in Transylvania, follows his own hypothetical-deductive method, suggesting previous phases of development by studying the plot-patterns on cadastral maps. While one may express some skepticism concerning the accuracy of the reconstructions and their dating, the processes of the “genesis of closed spaces” and market infill that he describes with reference to the example of Sebeș (Szászsebes, Mühlbach), Sibiu, Sighișoara (Segesvár, Schäßburg) and other settlements have parallels in many towns of Europe. His disciple, Maria Crîngaci Țiplic, examines the relationship between trade privileges and the evolution of urban space in the same three towns. It is indeed worthwhile looking at these two phenomena in parallel, but it is difficult to distinguish cause and effect, especially knowing that the pace at which the kings “followed up” on the development of commercial contacts with administrative measures depended a great deal on royal policy. It is also important to distinguish which kinds of privileges actually had local impact. Liberation from paying customs at faraway places could have at best indirect consequences, whereas, for instance, staple right resulting in increased need for storage could indeed influence the structure of the merchants' houses and the use of public space, as has also been demonstrated in the case of Hanseatic towns.

Urban development in the principalities of Moldavia and Wallachia is discussed in the articles by Laurențiu Rădvan, the author of a comprehensive monograph on the subject, and Dan Dumitru Iacob. Rădvan's well-balanced

analysis follows long-term processes in the shaping of streets and plot structure and the roles of monasteries between the fourteenth and eighteenth centuries. He clearly distinguishes between the first period, when the influx of German and Hungarian settlers via Poland and Transylvania brought along a “systematic topographical outline of inhabited space,” whereas from the sixteenth century onwards colonists arriving from the Balkans and the Levant spread other models of organizing space, such as the wide areas of bazaars and the encroachment of orthodox monasteries, which in the long run contributed to reductions in urban autonomy. Iacob’s study takes up the story from this point and describes the modernization of the markets of Iași in the nineteenth century. He considers commercial streets and zones both in the center and the suburbs and explains how the carefully crafted projects of creating civic or parade squares were carried out by local authorities.

Similar sets of questions concerning the centers and central marketplaces are taken up by Roman Czaja in his discussion of cities in the territory of modern-day Poland, taking Elbląg (Elbing) as the central example. Czaja observes a strong conservative tendency in retaining the medieval main square as a commercial and community center and even keeping the fortifications intact. It was partly due to major town fires or to the unavoidable need for modernization in the nineteenth century that the medieval inner city lost its exclusive role as the most important urban space, although it still retained its role as a platform for public rituals and a social meeting place. The phenomenon of incremental growth is demonstrated by the maps of Görlitz, Auma (in Thuringia), Bruneck (in Tirol) and Ljubljana in Karlheinz Blaschke’s contribution. The German historian has dedicated the work of a lifetime and several monographs to plot the churches dedicated to St. Nicholas and the adjoining merchants’ settlements as catalysts of “spontaneous development” of urban spatial structure.

Abandoning the order of the volume, I complete my look at the range of contributions on Central Europe with two studies on medieval and Early Modern Bohemia. Martin Musílek’s investigation of property transactions in the Old Town of Prague in a relatively short period between 1351 and 1367 seems to imply a micro-historical approach, but as the author points out, these seventeen years capture an important moment of transformation of the urban elite from an old stock of merchants to a new, more craftsmen-dominated group of house-owners and council members. One may wonder if the Black Death of 1347–49 had any impact on this shift, although there is no reference to this in the article. However, the similarity of this process to the changes in Buda’s leading

elite a few decades later makes it seem likely that such a change would have taken place in any case. In Robert Šimůnek's study on towns as "theatres" of sacral representation Prague plays rather a supporting role, while the center stage is taken by Český Krumlov, from where an exceptionally detailed fourteenth-century description of the local Corpus Christi procession has survived. The author explains the importance of such an exercise in the visualization of social hierarchies and also touches on some of the changes at the turn of the fifteenth century.

On the western periphery of Europe, Ireland has set a new trend in topographical research with its high quality town atlases, which include detailed and informative gazetteers. This series is the basis for the articles by Anngret Simms and Howard B. Clarke, two of the great movers and shakers of the atlas project on a European scale. Simms provides a masterly example of the comparative use of three atlases, those of Tuam, Armagh and Limerick, highlighting the impact of the Reformation on the uses of urban space. She points out that due to the political circumstances, i.e. the close association of Reformation and colonization in Ireland, resisting the new movement and reestablishing the Catholic Church in particular quarters of the towns in question can be considered a form of ethnic survival. Her study can be instructive for scholars investigating the topographical impact of the dissolution of monasteries in any other part of Europe, too. Clarke's insightful analysis of the hinterlands of medieval Dublin offers an overview of the main directions of contacts and their changes over time in five periods from the eighth century to 1500. His study also points out the importance of assembling the evidence from the broadest possible spectrum of sources for periods when no administrative records are available, from place-names to church dedications or the distribution of church prebends or special types of pottery produced in Dublin.

Remaining with the topic of hinterlands, Jean-Pierre Poussou discusses this issue in the case of the four largest French port cities, Bordeaux, Nantes, Rouen/Le Havre and Marseille. He examines whether there was a relationship of dominance or relative interdependence between the big ports that were (with the exception of Marseille) by estuaries of rivers 50-120 kilometers away from the open sea, the smaller outer harbors and the settlements along the same rivers or beyond, on the mainland. He also examines the change caused by the increasing volume of colonial trade, especially with the West Indies in the eighteenth century, which reinforced "the primacy of the large ports." Hinterlands are also the subject of inquiry in Caroline Le Mao's contribution on the provisioning

of French maritime arsenals with the most essential raw materials, particularly wood, in the late seventeenth century. Although these large military-industrial complexes were established and run not by towns but by the absolutist state, according to Le Mao, “a town and its arsenal were inextricably linked,” thus their well-researched system of transport infrastructure has relevance for the civilian aspects of urban life as well. The fourth article concerning hinterlands, by Máximo Diago Hernando, offers a broad overview of the territorial politics of Spanish towns from the eleventh to the nineteenth centuries. His concept of hinterland is more legal than economic, unlike the two French contributions presented above. He shows that towns in the kingdoms of León-Castile and Aragon received by royal decree large territories to control in order to foster the colonization of areas reconquered from Muslim rule. Later, the controlled estates were often reduced due to the crown’s actions to donate or sell some villages, while the towns, especially in Aragon, managed to purchase more land for their lordships. In any case, strong royal supervision remained the defining factor.

Rosemary Sweet’s analysis stands out because of her decision to focus on the “conceptualization and cultural production of historic urban space rather than its purely physical manifestation,” connecting closely to the postmodern agenda outlined by Keith Lilley’s introductory essay. She eloquently demonstrates how, through the combined effect of a growing body of knowledge on the architectural heritage of cities and towns and the increasing modernization in a time of rapid urban change (“uncovering Roman sewers while digging their own”), views and value judgments on urban space have changed. Her examples refer to Rome and Britain, but similar inquiries can and should be profitably extended to other parts of the continent, including the Kingdom of Hungary in the nineteenth century.

Finally, two articles discuss urban space in modern and post-modern times. Lars Nilsson describes processes in Stockholm between 1860 and 2010 to show changes in the town planning strategies in certain neighborhoods of the inner and the outer city. Two of the most instructive questions raised here are the recovery and restructuring of the Inner City in the face of deindustrialization and the impact of spatial transformations on social inequalities and segregation. Peter Clark traces the emergence and typology of green spaces in cities, from promenades and parks to recreation grounds, allotment gardens and private gardens. His focus, however, is more social than spatial, looking for agents of change and the interest groups benefitting from them.

The essays in this volume, which were written by prominent urban historians from all over Europe, clearly demonstrate that the study of cities and their spaces is rewarding. As Anngret Simms emphasizes, cities and settlements “reflect historical processes” and long-term changes over time. She adds that “large-scale topographical maps ... communicate cultural meaning and as such, we should learn how to read these maps as the expression of cultural shifts.” The validity of her statement goes beyond Irish towns and should be a helpful reminder to all readers, and some of the authors too. Many of the articles use maps skillfully to demonstrate their point, while others unfortunately are not supported with visual materials, although their authors definitely used them in their research. Another minor shortcoming is the lack of mention of historic place names and the failure to provide a proper gazetteer of these names, especially in the case of Transylvania. In sum, the main value of the book lies, in addition to the practical information it contains, in the relevant and thought-provoking questions that may be, *mutatis mutandis*, posed across regions and over time, questions that will increase our understanding not only of urban space, but also of those who created, inhabited and perceived them.

Katalin Szende



Dzsámik és mecsetek a hódolt Magyarországon [Mosques in the Territories of Hungary under Ottoman Occupation]. By Balázs Sudár. (Magyar Történelmi Emlékek. Adattárak.) Budapest: MTA Bölcsészettudományi Kutatóközpont Történettudományi Intézet, 2014. 650 pp.

The Ottoman occupation of Hungary, which lasted roughly a century and a half, fundamentally changed the fates of the peoples living in the Carpathian Basin. Yet soon after the expulsion of the Ottoman forces from the region, very few traces of their presence remained. Within a short period of time, the majority of the works of Islamic architecture had been partly dismantled or rebuilt to serve other functions. Perhaps this is one of the reasons why romantic historians in the nineteenth century, distanced from the period of occupation by two centuries, wrote ever more positively about the era. The question of the balance of salutary and regrettable consequences of the Ottoman occupation remains a subject of debate today. Thus, one of the tasks for historians was to determine the extent to which the Ottomans came to inhabit the occupied territories of the Hungarian kingdom and the extent to which they transformed the settlements to better fit their culture and lifestyles. Balázs Sudár has undertaken this task. He has gathered all of the data on the mosques that were built in the Carpathian Basin and published them in this thick book.

The book, which was published by the Hungarian Academy of Sciences, is divided into three long chapters. The first part is essentially a preliminary study in which the author summarizes the relevant data and information already known to the community of scholars and presents the sources. At the beginning of the chapter, which has been further divided into ten subchapters, he provides a detailed presentation of the Islamic and Christian written sources and image sources, including archeological findings. This is followed by a brief history of the scholarship and a short though all the more important explanation of the terminology, which contains precise definitions of the terms “occupation” and “Turk.” Sudár then offers a summary of Islam belief and practice on the basis of the current Turkish and international secondary literature. This summary is important in part because, lamentably, to this day European publics still have little more than a superficial knowledge of Islam and the role it plays in the lives of Muslims.

The chapter dealing with the number of places of worship for Muslims in the territory under occupation is an important part of the book. As Sudár

notes, in the 1660s, when Evliya Çelebi was writing his famous travelogue, there were roughly 400 places of prayer in the parts of Hungary that had fallen under Ottoman rule. If one considers the size of the Balkan peninsula, this might seem a comparatively small number. If we recall that at the beginning of the sixteenth century, there were roughly 9,000 Christian edifices in the Carpathian Basin, 400 seems trifling. There were minarets only in some 50 cities, and they were lost in the surrounding forests of Hungarian villages. This shows that the influence of Islamic culture was limited at most. The Hungarian population was not responsive to the new faith. However, if we closely follow the process of the construction of mosques, we see that over the course of the seventeenth century the occupying forces came to settle in the lands more and more, and thus in the long run there was a perfectly good chance that the areas of Hungary that had fallen under Ottoman occupation might have shared the same fate as Bosnia or Albania.

The last subchapter of the introductory essay deals with the people who founded the places of prayer and the people who maintained them, as well as the distinctive features of the buildings themselves. The reader gains a thorough understanding of the construction and functions of the mosques and the roles they played during the period of occupation.

The reference section comprises the longest part of the book, consisting of some 450 pages with information about the individual mosques. The text, which has been arranged in alphabetical order on the basis of the names of the settlements, contains everything we can know about the various edifices. Alongside citations from the sources, one also finds a chronology, biographies of the people who founded the mosques, and a list of the works available in the existing secondary literature. One of the great strengths of the book is the inclusion of a wide array of relevant images and visual sources. For instance, one finds many prints, maps, and archeological ground-plans that help one understand details of the text. Thus, the book contains a great deal of new information for local historians, so hopefully knowledge of these kinds of details will soon reach the wider reading public. The book also contains innumerable interesting tidbits, for instance mention of the distinctive windows and two mihrabs of the Suleiman mosque in Szigetvár, no similar versions of which have yet been found anywhere in the Balkan peninsula.

With this work of scholarship, Balázs Sudár has done a great deal to fill a lacuna in the secondary literature on the subject of the traces of Ottoman religious culture in the territories that were once under occupation, and his book

contains a wealth of information that will be of interest both to Hungarian historians of the era and people curious about Islamic culture and local history. Given the value of this book, it would be important to have it translated into English well and as soon as possible, since it would constitute an indispensable resource for the international community of scholars with an interest in Ottoman history.

Szabolcs Varga

A Divided Hungary in Europe: Exchanges, Networks and Representations, 1541–1699. Vol. 1–3. Edited by Gábor Almási, Szymon Brzezinski, Ildikó Horn, Kees Tszelszky, and Áron Zarnóczki. Newcastle upon Tyne: Cambridge Scholars Publishing, 2014. 738 pp.

This three-volume publication is the product of a four-year research program entitled “Hungary in early modern Europe,” which was headed by the late Ágnes R. Várkonyi. The purpose of this Hungarian Scientific Research Fund-funded program was to study Hungary’s presence and place in Europe and its role on the “European stage” in the sixteenth and seventeenth centuries. The 29 case studies arranged in three volumes put the cultural, religious, intellectual and political relationships between Hungary and the rest of Europe in focus. They examine questions of cultural transfer and exchange, thus seeking to situate Hungary in the European context. They are the result of an international cooperative endeavor. Although most of the contributors are prominent Hungarian historians, one also finds Slovak, Polish, American, Croatian and Dutch scholars among them.

The first volume (*Study Tours and Intellectual-Religious Relationships*) investigates how cultural exchange between Hungary and Europe affected intellectual life in Hungary. The essays in this volume deal with two major subjects, academic study tours and intellectual-religious exchange. For instance, Gizella Keserű examines the study tours of Unitarians from Transylvania. András Péter Szabó investigates those of the Lutherans from Upper-Hungary to Prussia. Gábor Almási compares the peregrination tours of Hungarian students with the study tours of students from other East-Central European countries. Ildikó Horn investigates the peregrination of the Transylvanian elite, providing an explanation for the decline of such ventures in the seventeenth century. In regard to intellectual-religious relationships, three studies examine international Catholic intellectual life and scientific exchange. Farkas Gábor Kiss studies the possibilities and severe limitations of the exchange of scientific knowledge between Hungary and the rest of Europe based on the case of Athanasius Kircher. Ildikó Sz. Kristóf examines descriptions of peoples and lands of other continents in the calendars published by the University of Nagyszombat (Trnava). Another Jesuit, Martinus Cseles, and his discovery of the account of Brother Julianus are the subject of an essay by Paul Shore. Two other essays approach the question of cultural transfer from a different perspective. István Monok compares the publishing activity of three major cities (Paris, Basel, Venice) from the point of view of

books on Hungary and Hungarians, and Péter Király studies the role of foreign musicians in Hungary.

The intention of the second volume (*Diplomacy, Information Flow and Cultural Exchange*) is to investigate the history of cultural transfer in the areas of international relations and diplomacy. For instance, Dóra Kerekes studies the interpreters, an important group of cultural mediators in seventeenth-century Istanbul. A topic closely related to the exchange of culture and knowledge is the research on information flows in politics, which is the subject of several of the essays. These chapters study the details concerning information gathering networks, both the networks of the Transylvanian Principality as a whole (Gábor Kármán) and those of individuals (e. g. Ferenc Nádasdy by Noémi Viskolcz). The crucial role of the individual actors in these information-gathering and diplomatic networks is emphasized. Mónika F. Molnár examines the activities of a famous “information agent” and scientist, Luigi Marsigli, and his activities at the Habsburg-Ottoman borderline. The Transylvanian István Kakas and the broadly international contexts of his mission to Persia are investigated by Pál Ács, and the Hungarian contexts of the assassination of Antonio Rincón and Cesare Fergoso are studied by Megan Williams. Péter Tusor examines the unexpected appointment of Péter Pázmány to the position of Archbishop of Esztergom and the responses and repercussions in Vienna and Rome.

The third volume (*The Making and Uses of the Image of Hungary and Transylvania*) deals with the image of Hungary and the Hungarians in the sixteenth and seventeenth centuries and the various local uses to which it was put in the political communication across Europe. Two essays focus on the Holy Roman Empire. Nóra G. Etényi studies the news pamphlets and publications on the military and political developments in Hungary which appeared in the Empire in the second half of the seventeenth century. Orsolya Lénárt analyzes changes in the image of Hungary based on Eberhard Werner Happel’s novel. Two studies deal with the Low Countries as well (the essays by Kees Tszelszky and Orsolya Réthelyi). Another two essays examine the images of Hungary in Early Modern Croatian (Iva Kurelac) and Moldavian and Wallachian (Klára Jakó) historiography. Tamás Kruppa and Szymon Brzezinski investigate the perception of Hungary and Hungarians and related topoi in Italy and in Poland-Lithuania.

The authors of the volumes focus on the questions of cultural transfer and exchange and by this approach they seek to place Hungary in a European context. They approach the aspects of diplomacy and politics too in terms of cultural exchange, and consider the image of Hungary as a product of this

exchange of knowledge and information as well. Besides they concentrate on the intellectual and diplomatic networks and the important role individual historical actors played in these networks. These approaches have already gained significant international attention (cf. primarily the fundamental work *Cultural Exchange in Early Modern Europe*, vols. 1–4, ed. R. Muchembled and W. Monter) but have just recently started to be applied in Hungarian scholarship on the country's period under Ottoman rule.

The importance of the publication therefore lies not simply in the fact that the authors used a wide array and large quantity of new sources, thanks to their extensive archival research (the essays are based on archival sources from more than 25 cities across Europe), but primarily in the use of these new research methods and approaches. The research areas and themes represented here (such as church history and the history of communication) likewise constitute topics and fields that have undergone considerable development over the course of the past few decades in Hungarian historiography. Thus, these volumes seek to give insights into current Hungarian historical scholarship as well.

The references and footnotes are thorough and shed light on the most recent historiography of Early Modern Hungary, and they were composed with an international readership in mind. All of the essays in this compelling three-volume publication provide ample material for the study of the connections of Hungarian elite circles to the contemporary European cultural trends in the Early Modern period. Much as the Hungarians of the period in question kept up with trends at the time, the authors of these essays have remained abreast of international scholarly trends and tendencies today, and indeed they have “provided us with a state-of the art knowledge of early modern Hungary” (Vol. 1, p.ix).

Krisztina Péter

Pálos missziók Magyarországon a 17–18. században [The Pauline Order's Missions in Hungary in the Seventeenth and Eighteenth Centuries].  
By †Ferenc Galla. Edited by István Fazekas. (Collectanea Vaticana Hungariae – Classis 1, vol. 11.) Budapest–Rome: MTA-PPKE 'Lendület' Egyháztörténeti Kutatócsoport–Gondolat, 2015. 536 pp.

Ferenc Galla (1888–1977), a Catholic priest and historian and at one time a professor of church history (Royal Hungarian Péter Pázmány University of Budapest, Faculty of Theology), was one of the greatest researchers of sources on the Early Modern history of the Hungarian Catholic Church in Rome, mainly in the Archives of the Sacred Congregation for the Propagation of the Faith (Sacra Congregatio de Propaganda Fide). As he spent almost the last three decades of his long life living under a communist regime in Hungary, he was not allowed to publish much of the data he had collected. He spent these decades of forced silence supplementing the Roman material with sources from the National Archives of Hungary (Archives of the Hungarian Treasury and the Hungarian Chancellery). He wrote several important monographs and essays on these sources, which remained unpublished at the time, but which are now held in the National Archives of Hungary (Archives of Families, Corporations and Institutions), together with his huge bequest of manuscripts. These manuscripts were discovered by the narrow community of professional historians in the early 1990s, and they have since served as sources of inspiration for various scholars, but were still waiting to be published.

For more than 10 years now, the series *Collectanea Vaticana Hungariae* has published monographs, essays, source materials, repertories and bibliographies concerning Hungarian historical research in the Vatican. Thus, Galla's legacy found the perfect caretaker in its editorial committee, which is under the leadership of Péter Tusor. The volume under review is the third one published as part of the series, following *Ferences misszionáriusok Magyarországon: a Királyságban és Erdélyben a 17–18. században* [Franciscan Missionaries in Hungary: In the Kingdom and in Transylvania in the 17<sup>th</sup> and 18<sup>th</sup> Centuries], which was issued in 2005 (Classis 1, vol. 2), and *Pápai kinevezések, megbízások és felhatalmazások Erdély, a Magyar Királyság és a Hódoltság területére (1550–1711)* [Pontifical Provisions, Faculties and Commissions in Transylvania, Habsburg and Ottoman Hungary (1550–1771)], which was published in 2010 (Classis 2, vol. 3). The editing and redacting of the present text, as in the case of the aforementioned volume issued

in 2005, was done by István Fazekas and is ample testimony to his competence and attentiveness.

The volume consists of three parts, which are arranged chronologically. The first deals with the history of the Pauline Order from its general reform in the 1630s to the late 1670s. The chapter is structured around the biography of János Vanoviczy (c. 1612–1678), Pauline missionary and head of the apostolic prefecture maintained by the order, but this part also deals with the monasteries that had been in continuous operation since the Middle Ages, as well as the ones that were founded in the period under discussion. Focus, however, is on the beginning of the evangelistic activities of the Paulines and the establishment of the apostolic prefecture in 1667. The second part is dedicated to the development of Pauline missions during the wartime period of 1671–1711, namely the anti-Habsburg uprisings, Kuruc Wars, the Great Turkish War and Ferenc Rákóczi II's war of liberation. This chapter, however, uses a regional division. After an introductory section on the Pauline missions of the era in general and the old and new monasteries (again), it contains four sections concerning four different territories affected by the missions of the order, namely Szepes (Spiš) and Árva (Orava) Counties, Transdanubia and the regions recaptured from the Ottoman Empire (in this case, only the Diocese of Pécs, the city of Nagyvárad (Oradea) and Transylvania). Finally, the third part, which is considerably shorter than the previous two, summarizes the characteristics of the Pauline missions in the eighteenth century and evaluates the work of the order in this area. The last seventy pages of the volume consist of a list of sources and a bibliography, a particularly extensive index of people and places, and a detailed English abstract (some 10 pages long) including a map of the Pauline missions in the seventeenth century.

Although the published manuscript represents the most complete surviving version of the monograph, it is still an unfinished variant, as the work was probably never totally finalized by Galla. Thus there are significant differences between the three parts of the volume. First, as already mentioned, the third part is only one-third as long as the first two. Second, only the annotations of the first part survived or were made up by the author. Accordingly, there were differences in the editorial work on the text. The first part needed only the revision of the originally ponderous style of the author to make it more flowing and the division of the enormously long notes into shorter ones. However, the annotations in the first part still remain long, and as every single note relates to several paragraphs, sometimes even pages, they contain many repetitions of the



main text when specifying the exact topic to which they pertain. In the other two parts, the annotations were compiled by the editor, partially on the basis of the original notes of the author from a former version of the manuscript. Fazekas also cited recent historical literature in order to refresh the study, which is more than half a century old.

As is the case in other works by Galla, his positivist method of accumulating data is often supplemented by explanations of the histories of families and places, general national and church history, and biographies of individuals, mainly members of the Pauline Order and Hungarian aristocrats. More importantly, he summarizes certain sections in general terms either before or after the given details, and in these sections he has ventured several ascertainments that have not been discredited since. These are the features that make Galla's recently published volume really notable, not to mention his treatment of a huge amount of data, so far unknown, from Rome as well as from Budapest, the importance of which can hardly be overestimated.

Dániel Siptár

Conflicting Values of Inquiry. Ideologies of Epistemology in Early Modern Europe. Edited by Tamás Demeter, Kathryn Murphy, and Claus Zittel. Leiden–Boston: Brill, 2015. 410 pp.

The fact that a collection of essays that will in all likelihood find its place on library shelves reserved for philosophical studies is being reviewed in a historical journal by a sociologist should be taken as a good sign. The editorial intention, beyond doubt, was to deliver a bouquet of studies primarily philosophical in their subject matter and to show that, in addition to a revisionist approach to primarily classical chapters in the history of philosophy, a wider, social scientific questioning and treatment of their subjects can also yield essays interesting and relevant for a broad interdisciplinary academic readership.

The volume, however, seeks to achieve further goals, or, if you will, even higher purposes. As Tamás Demeter, one of the editors, highlights in his introductory essay (“Values, Norms and Ideologies in Early Modern Inquiry”), studies aimed at exposing underlying political, religious or ideological commitments in scientific debates have been in vogue since Shapin and Schaffer came out with *Leviathan and the Air-Pump* in 1985 (Steven Shapin and Simon Schaffer, *Leviathan and the Air-Pump: Hobbes, Boyle, and the Experimental Life* [1985]), and while such aspirations have not yet become part of the mainstream, they are familiar enough now to venture beyond or away from the territories that they have uncovered. Hence, “the present volume suggests that with an awareness of this context, it is now worth turning back to questions of the epistemic content itself” (p.2).

In the first essay, which also serves as an introduction to or an overview of the aspirations of the articles that follow, Peter Dear, a renowned historian of science, gives a short account and evaluation of *Leviathan and the Air-Pump*, the milestone work that this volume now goes beyond, at least if the contributors have met their aim. “Going beyond,” Professor Dear assures his reader, does not mean turning against, and his overview serves to avoid throwing out “the baby with the bathwater when attempting to elaborate other sorts of accounts” (p.11). The so-called Sociology of Scientific Knowledge, or SSK exemplified by the *Leviathan and the Air-Pump* called for an account of scientific ideas in terms of the acts and actions that they facilitate (p.12), a kind of a contextual analysis that rejects the internal logic of the history of science, refutes the notion that scientific knowledge can be accounted for solely on the basis of prior forms

of scientific knowledge, and argues that these systems of knowledge are not purely built upon and consequences of one another. This contextual analysis, also known as the “Strong Program,” advocates an elaboration (explanation or understanding) of all scientific knowledge, whether held to be true or false by contemporaries or present-day representatives of the field, with reference to the historical, political, ideological etc. context within which they are expressed. As Peter Dear puts it, it calls for an interpretation of knowledge-production in terms of an understanding of the stakes that scientific discourses and debates carried for the participants. This approach, as he points out, equates the answers yielded by “instrumental” questions with “understanding.” It is precisely here that the present volume most sharply diverges from the SSK program, for it draws a categorical distinction between the two. Dear considers this a “fundamental incommensurability” between the questions posed by an intellectualist history of science and philosophy and those addressed by SSK.

That there is such a sharp difference or even incommensurability between the emphasis on the instrumental use of ideas and, as is the aim of this volume, their account with reference to “values” (understood in a broad sense) is not entirely clear. Neither Peter Dear nor the other authors seem entirely convinced, in their presentation of their arguments, that this is the case. The distance, however, that *Conflicting Values* manages to put between the SSK and its own endeavor is less significant than the vast and up-to-date knowledge and the novel questions and interpretations that the authors of the volume offer in their supposedly “post-SSK” scholarly essays on early modern European science.

As is evident from many features of the book (from the perspective of form the similar structure and length of the chapters and from the perspective of content the effort to revise traditional readings of well-known episodes of the history of science and philosophy), the editors had a clear vision which they managed to sustain. The authors, says Tamás Demeter, were asked not to write traditional chapters in the history of philosophy but instead “to explore how certain non-epistemic values had been turned into epistemic ones, how they had an effect on epistemic content, and eventually how they became ideologies of knowledge” (p.2) In fact, as indicated in a short acknowledgment, the collection was based on two preceding workshops in the course of which the ideas were discussed at length and common grounds were established. Hence, this volume, authored by a rather impressive group of historians and philosophers of science, succeeds in avoiding the trap into which many such collections fall. Rather than merely presenting some writings that are at best interesting in themselves, this

book grows into an organic whole the parts of which not only function together but also enhance one another.

The unifying idea behind the essays puts the volume at a crossroads of history, philosophy and sociology: “the volume as a whole drives towards the study of those values, norms, and standards that unify knowledge-making practices, which otherwise, from the perspective of different disciplinary canons, may easily seem to be entirely disjointed” (pp.8–9). This junction has been marked by certain territorial battles. As John Henry, himself a highly acclaimed associate of the Edinburgh School of Sociology of Scientific Knowledge, contends in his essay (“Testimony and Empiricism: John Sergeant, John Locke, and the Social History of Truth”), while philosophers in the modern tradition have been “blind to social epistemology until very recently” (p.121), the sociology of knowledge entered territory hitherto occupied by philosophy and history, and so, as an even more recent development, sociologically inclined interpretations are more abundant in philosophy, suggesting an attempt to recover lost ground. However, the volume shows—and this is one of its greatest merits—that peaceful learning and inter(trans)disciplinary cooperation can flourish in the place of conflict, bringing a deeper understanding of how philosophical and scientific knowledge has been (and is being) produced. For as John Henry contends, “the fact is, our epistemologies, our theories as to what counts as knowledge, and therefore our ideas about what is true, as much as those developed in the early modern period, depend upon our social and political starting points; and if they change, they do so because those broader circumstances have also changed” (p.121).

The general topic of the essays, as is marked in the subtitle of the volume, is Early Modern European philosophy and science. The subject matter of the chapters ranges from very well-known figures of the history of philosophy (such as Kant or Hume) to less familiar characters, such as the controversial Catholic thinker John Sergeant or the hydraulic engineer Giovan Battista Aleotti. Nonetheless, the choice of the topic is not the innovative aspect of the studies. Whether they concern well-known or forgotten chapters in the history of European thought, they all aspire to frame their subject in a novel way, and they all propose new interpretations of their topics.

Thus, in the first thematic block (“Devices and Epistemic Values”) we learn about the important but rarely acknowledged role that sixteenth-century engineers, through the processes of codification of their practical knowledge, played in the emergence of theoretical knowledge and empiricism as a scientific practice (Matteo Valleriani). Or, as an example of reclaiming and reinterpreting

classic topics, Dániel Schmal's essay examines the famous metaphor of the *camera obscura*. Schmal argues against the traditional view, claiming that the simile does not suggest a concept of the enclosed nature of the mind but can more plausibly be interpreted as illuminating an active mind, a cognitive machinery that comes into contact with reality through rather complex processes.

The second part of the book focuses on a topic now fashionable in science studies: the epistemic status of testimony. John Henry gives a reevaluation of John Sergeant's thought. As far as testimony is concerned, Henry claims that it is a crucial feature of Catholicism, which is at the core of Sergeant's thinking, and that it is purely based on testimonial and consensual (communal) knowledge, whereas in Protestantism, knowledge is based more on the individual mind. This difference, argues Henry, necessarily led Sergeant to an epistemology also inherently different from that of Locke, and it inevitably deemed Sergeant to obscurity. In the next chapter, Falk Wunderlich closely scrutinizes Hume's theory on the testimonial evidence of miracles. Since Hume rejected the possibility of miracles, this starting point led him to a more refined notion of the epistemic status of testimonies than is generally held, argues Wunderlich.

The third thematic block of the volume revolves around the role religious embeddedness at times plays in scientific inquiry. Giora Hon questions the widespread notion that it was Copernicus whose work marked the transformation of science, and attributes such significance instead to Kepler's *Astronomia nova*. Her core argument is that Kepler's natural philosophy is essentially theological, and it is the theological context of his work that should be acknowledged in order to reconcile the conflicting views in historiography that prevented him from being elevated to the status of the astronomer who revolutionized science. Tamás Demeter's chapter invites us to look at Hume again. He shows how Hume regarded natural theology, a theologically guided inspection of natural phenomena and the dominant scientific approach at the time (and up until the second half of the nineteenth century, one might add), as something akin to superstition. As Demeter points out, the notion that, as an organized body of knowledge, religion needed to be judged by the same epistemological standards as other bodies of knowledge (such as natural and moral philosophy) contributed to the emergence of a secular ideology of natural inquiry. The next chapter ventures far afield from the British Isles, to eighteenth century Hungary. János Tanács examines the history of mathematics. As is a common denominator in the volume, he challenges a widely held notion in the history of science. He claims that the so-called Problem of Parallels—and Bolyai's revolutionary problem-

solving, which marked the emergence of non-Euclidian mathematics—was not simply motivated by Kant’s ideas (as has been discussed in detail), but was also deeply influenced by the Protestant intellectual milieu. His essay explores the “confessional embeddedness” of this mathematical question in late eighteenth-century Hungary.

The next thematic unit consists of two essays that analyze cases of strategic communication in situations of conflict or controversy. Gábor Áron Zemplén describes how Newton’s “strategic maneuvering,” found in passages on rainbow colors, helped him circumvent objections and accumulate social credit for his new theory, which conflicted with contemporary geometrical optics. Thus, the reader can learn how, even in the case of a seemingly “pure” scientific argument, strategic communication and rhetoric played a role not to be ignored or underestimated. Zemplén’s conclusion describes Newton as more of a great *rhetor* than a rigorous scientist of physical phenomena: “[i]n theology, Newton believed that God revealed the truth through prophecies, ‘to try men, and convert the best’. And that is exactly what his first article tried, and, with time, achieved” (pp.242–43). In the second essay of the block, Axel Gelfert takes a look at Hobbes’s natural philosophy (his writings on science and geometry), seeking again to expose a strategy, a kind of a hidden agenda, behind the scholarly thoughts. In this case, the conclusion is not all that surprising, since, according to Gelfert, it is Hobbes’s attempt to contribute to peace and provide ways of managing conflicts and disagreement (which poisoned his society and caused him considerable concern) that lies underneath his scientific argument.

Following the essays on scientific devices, testimony, religious context and strategic communication, two writings are paired in a block on the “science of man.” Thomas Sturm explores attempts to develop theories of the mind based on Newton’s methods of analysis and synthesis and concludes that none of them were “good enough” (i.e. they were overshadowed by Newton’s optics) to grow into an early form of psychology. Eric Schliesser’s essay takes us back to Hume, providing a thorough analysis of three passages from various texts to reconstruct distinct intellectual traditions (and the differences between them) to which Hume claimed to belong at various times in his career. These intellectual traditions also framed a system of sciences and placed the “science of man” within it.

The last thematic unit (“Ethics in Epistemology”), with its moral philosophical focus, contains what could perhaps be considered the most “traditional” studies in the book. And yet, even in these three writings, a clearly discernible aspiration

to untangle underlying values or personal agenda and to demonstrate how such factors are thickly woven into the threads of philosophical and scientific thinking leads to arguments no less novel or provocative than the ones presented in the previous chapters.

Sorana Corneanu's approach to Francis Bacon's concept of the charitable, beneficial character of legitimate knowledge is historical *par excellence*. She traces the historical context of the concept of charity in order to arrive at a nuanced interpretation of Bacon's notion of the benefits of knowledge. She shows how Bacon's concept was embedded in different traditions but at the same time new in some aspects of his understanding. Not surprisingly, Corneanu's interpretation also serves to refute the nineteenth-century utilitarian reading of Bacon that still exerts an influence on receptions of his writings today.

Even Spinoza is not spared thorough scrutiny that unveils his personal attachments to certain ideals which, apparently, gave way to some logical flaws and a whole conceptual edifice constructed from top to bottom. Ruth Lorand looks at Spinoza's theories of the ideal life and shows that, despite the seemingly strict logical structure of Spinoza's argument, the conclusion (the description of the "free man" and the valuable life) preceded the theorizing. According to Lorand, Spinoza basically molded his metaphysics with the final conclusion already in mind. However, Spinoza is not the only great emblem of ethical thinking whose prejudices are challenged: in her conclusion, in line with Hume (and Max Weber), Lorand intimates (without, however, providing any further support) that Spinoza can be taken as a paradigm for the inevitable problems encountered in the course of any attempt to base metaphysics on values, for "the effort to validate a normative theory is self-defeating" (p.368).

From the point of view of disciplinary boundaries and boxing, the last philosophical study of the collection is perhaps the least ambiguous. Catherine Wilson paints a portrait of Kant that is considerably less flattering than the usual accounts, revealing the significant extent to which his epistemological interests were subservient to his normative ones, as he sought to reject the views of his contemporaries. In other words, he is exposed to have had a "deeply personal and not altogether appealing agenda" (p.405).

As is probably obvious from this short overview, the book offers essays that cover a wide range of topics from the volume's main thematic realm. Some are more philosophical in their focus or emphasis, others perhaps more sociological or historical in their considerations or methodology, but each one of them presents strong and thought-provoking arguments in support of novel

(sometimes even provocative) interpretations of familiar topics. They shed new light on fairly well-known themes and figures while, in accordance with the editorial conception, persuasively arguing in support of the conclusion that, in order to understand ourselves better, it is worth looking at how issues of personal, religious and political preferences and similar factors affect or are inherent parts of the ways in which we construct theories. These scholarly essays demonstrate the main theme of the volume and illuminate ways in which non-epistemic values not only play a role in the process of the construction of great scientific theories, but themselves become epistemic values, assumptions about what counts as “true” and what does not: ideologies of knowledge. Put blatantly, whether we approach the question of knowledge as historians, philosophers or sociologists (or other representatives of the sciences), it would be prudent to keep in mind that we are (only) human.

Eszter Pál



Császárválasztás 1745 [Imperial Election of 1745]. By Márta Vajnági. Budapest: ELTE BTK Középkori és Kora Újkori Egyetemes Történeti Tanszék, 2014. 186 pp.

Márta Vajnági's monograph, *Császárválasztás 1745*, investigates the circumstances of the propaganda war that received more publicity than any other in the history of the Holy Roman Empire. After the death of Emperor Charles VI, the War of Austrian Succession was fought not only on the battlefields, but also with pamphlets and an array of press products in the political publicity. In 1745, after the death of the Bavarian Emperor, given the military and political situation, the Habsburgs seemed to have a good chance at a run for the throne of the "king of kings."

The book is the paperback edition of Vajnági's doctoral dissertation, which she defended in 2011. Primarily, Vajnági follows the approach used in works on the history of propaganda and in the study of diplomacy and representation. She does not merely examine the context of the imperial election on the basis of available archival sources (Elias Fromm, *Die Kaiservahl Franz I., ein Beitrag zur deutschen Reichsgeschichte des achtzehnten Jahrhunderts* [1883]; Josef Posch, *Die Kaiservahl Franz I. 1745* [1949]), but rather offers a comparative analysis of the pamphlets that were published in large numbers during a period marked by upheavals in press technology. The main subject of the volume is the ways in which the campaign for the election of the emperor in 1745 appeared in the contemporary political media and political sphere.

Beginning in the 1990s, the problems of propaganda and the public sphere in the Early Modern era began to be given more and more attention in Hungarian and international historical scholarship. The history of the Holy Roman Empire, in which there were extensive reading networks and numerous active presses, has proven a particularly engaging field for research. For instance, Francis Stephen of Lorraine, whom the eighteenth-century historiography left in the shadow of Maria Theresa, emerges as a very exciting figure. Although Hans Leo Mikoletzky wrote articles about Francis I in the 1960s and called attention to his indisputable role in and talent for addressing economic issues, Renate Zedinger's monograph, published in 2008, was the first and so far the only comprehensive contribution to the scientific biography of Francis I that attempted to assemble a less fragmentary picture of the Emperor. (Hans Leo Mikoletzky, "Franz Stefan von Lothringen als Wirtschaftspolitiker," *Mittelungen*

*des Österreichischen Staatsarchivs* 13 (1961): 231–57; Renate Zedinger, *Franz Stephan von Lothringen (1708–1765). Monarch, Manager, Mäzen* [2008].) One finds a similar example in the Hungarian scholarship dealing with Francis of Lorraine, who tends to be mentioned only with reference to his Hungarian governorship (1732–1741). (Bernadett Bakács, “Franz Stephan von Lothringen als Ungarns Statthalter 1732–1741,” *Jahrbuch für österreichische Kulturgeschichte* 10 (1984): 27–36.) From this point of view, the importance of the Vajnági’s monograph can hardly be thrown into question.

Vajnági discusses the historiographical antecedents and the sources, and she defines the applied conceptual categories very precisely. She then offers an introduction to the extensive diplomatic context of the imperial pre-election, the very sensitive and constantly shifting systems of alliances and the military and fiscal background of the hostile powers. It is also important to observe that the author not only analyzes the so-called *Reichspublizistik* sources, but also takes into account the Dresden and Hanoverian diplomatic records of the well-known diary writer, Johann Joseph Fürst von Khevenhüller (1706–1776), who served as Grand Marshal (*Obersthofmarschall*) and, from 1745, Grand Chamberlain (*Oberstkämmerer*).

In the middle parts of the book, Vajnági examines both the German and the French arguments of the pro-Habsburg and anti-Habsburg pamphlets and considers the tractates of 1745 from a comparative approach. Hence, the reader is given clear insights into the debates in which the two sides used anonymous publicists to underpin their own political legitimation and power representation. These analyses exemplify the richness of contemporary political culture in their complexity regarding interpretations of the most prominent historical and legal arguments, which were often used in supportive propaganda materials and in attacks. On the one hand, the three hundred-year imperial continuity of the Habsburg dynasty seemed to guarantee the permanent security and sway of the empire. On the other, the long rule of the Habsburgs provided obvious arguments against development and in favor of suppressing the orders of the Empire. The topoi, rhetorical formulas and ideas that were used for the defense of Francis of Lorraine (such the depiction of Maria Theresa as a German heroine who embodied all the virtues of her Habsburg ancestors) were completely accommodated to the image-building policy of the Habsburg(-Lorraine) dynasty in the eighteenth century. The conclusions of the chapter will be useful for other fields of research, such as interpretations of funeral speeches, imperial laudations, and different sorts of gala speeches and poems.

In the final thematic part of the book, the ceremonies of the imperial election come to the fore. Vajnági not only describes the coronation, but also examines the historical-legal traditions and regulations. In these chapters, she admittedly tries to adapt the approach to the study of rituals and representations initiated by Barbara Stollberg-Rilinger to her subject, and she discerns symbolical meanings behind the spectacular ceremonies. (Barbara Stollberg-Rilinger, *Des Kaisers alte Kleider. Verfassungsgeschichte und Symbolsprache des Alten Reiches* [2008].) In Vajnági's interpretations of the ritual acts, the reader recognizes not only the ceremonial *Ordo*, but also the participants and the insignia of the Holy Roman Empire of the German Nation, which represented symbolic unity in an age of internal warfare and disintegration.

In conclusion, the well-edited monograph presents a clear, perspicuous, but also complex picture of the imperial election of 1745, the working mechanisms of the Holy Roman Empire, and the diplomatic, political and ritual historical dimensions. Although the book was written in Hungarian, Vajnági has also published more articles in English in which she presents her conclusions. (Márta Vajnági, "Britain-Hanover and the Imperial Election of 1745," *Hungarian Journal of English and American studies* 14, no. 1 (2008): 1, 51–64; Márta Vajnági, "The Habsburgs and the Imperial Crown in the Eighteenth Century," *Das Achtzehnte Jahrhundert und Österreich* 26 (2012): 92–102.) The appendix includes two highly important German and French pamphlets, which exemplify the predominant attitudes of the debates. The book will prove interesting and valuable for scholars who have an interest in the German political and media culture of the eighteenth century.

Zsolt Kökényesi

The Charmed Circle. Joseph II and the “Five Princesses,” 1765–1790.  
By Rebecca Gates-Coon. West Lafayette: Purdue University Press, 2015.  
380 pp.

For a decade, research on the Imperial and Royal *Residenz* has called for a new understanding of the circle of the five princesses that dominated aristocratic social life during the coregency and reign of Joseph II (1765–1790). So far, studies on Vienna have systematically referred to the seminal work of Adam Wolf (*Fürstin Eleonore Liechtenstein, 1745–1812 nach Briefen und Memoiren ihrer Zeit* [1875]), which examines the correspondence of Eleonore Ötting, princess of Liechtenstein. Wolf’s insights remain profound and valuable today, and the challenge of outdoing his penetrating analyses is both daunting and alluring. Rebecca Gates-Coon seems to aim to do just this. She ventures the contention according to which the *société* played a significant role in the reforms implemented by Joseph II. It was, she suggests, a kind of Imperial shadow cabinet that generated confusion between the court and the government.

After the first chapter, which provides the information necessary to understand the close ties between the families (Hohenzollern-Hechingen, Sternberg, Öttingen-Spielberg, Clary, Kinsky, Lichtenstein, and Kaunitz), Gate-Coon examines the five *Dames* in the context of the history of European aristocracy, which she defines as a “social class,” regardless of the differences in national status and economic, social, political and cultural circumstances across the continent and even within Austria. However, the debate on the domestication of the nobility, which is based on a discussion of Norbert Elias’s paradigm of *société de cour*, is limited to two paragraphs, in spite of the fact that it represents one of the most complex and thoroughly studied trends in European history of the eighteenth century. Gates-Coon’s position is clear. She sticks to the Austrian historiographical mainstream and pays little if any attention to the counter-models recently developed by Jeroen Duindam and Éric Hassler, which she regards as little more than samples of academic erudition. The latter’s work (*La Cour de Vienne, 1680–1740: service de l’empereur et stratégies spatiales de l’élite nobiliaire dans la monarchie des Habsbourg* [2013]) actually provides a very accurate analysis of Viennese aristocratic society between 1680 and 1740, which was not organized around the Emperor or the Imperial family at all. Thus, the “*société des cinq princesses*” would have constituted a new form of socialization for the members of the Imperial family, an insight that Rebecca Gates-Coon seems to

have missed. However, she does provide a narrative of the social activities and distractions of the Viennese court over the course of the second half of the eighteenth century, drawing heavily on primary sources, which is one of the great strengths of the book.

Chapters 3, 4 and 5 examine the circle itself. The society was established during the coregency (1765–1780), when the Emperor was associated with the government of the Austrian Lands. Gates-Coon contextualizes the rise of the circle in the milieu of the profound and sometimes controversial reforms of the monarchy. She also emphasizes the organization of the circle and the central position hold by Eleonore Liechtenstein, writing that “the Emperor’s friendships with the other four Dames developed naturally in the course of his association with Eleonore Lichtenstein” (p.127). However, Gates-Coon’s decision to base her inquiry almost exclusively on Eleonore Liechtenstein’s correspondence indicates a bias that is never questioned.

Gates-Coon emphasizes the influence of the princesses on the Emperor. To understand this influence, it would have been interesting to compare it with the one of the other circles with which Joseph II socialized, for instance the one of Count Windischgraetz. Philipp Cobenzl’s *Memoiren* gives valuable information concerning this circle (briefly mentioned on p.35), which brought together men and women of less important aristocratic rank to discuss the sciences, philosophy and politics. Cobenzl clearly acknowledged that this *société* functioned until women lived, and he felt that women were the vital element of this sociability. Cobenzl also helps his reader grasp a fact that Derek Beales has already noted, namely that Joseph II acceded to the circle of the five princesses through the mediation of Cobenzl and the Windischgraetz society. While the Grand Chamberlain Rosenberg was an active member of the five princesses’ circle, the people that Joseph promoted politically were the men of the Windischgraetz’s entourage.

In fact, the circle of the five princesses had more influence on the court than it did on the government, an important detail that Gates-Coon seems to acknowledge when she writes, “she [Eleonore] would prefer, she said, that he [Joseph II] have less regard (*bontés*) for her and greater consideration for her husband Charles” (p.120). Joseph was clearly aware of this, saying “please be just, I beg you, to the emperor, who can do nothing about the constitution of his Empire, and to Joseph, who can do nothing about the fact that he is emperor” (p.140). Other contemporary sources, like Count Fekete de Galántha’s *Esquisse d’un tableau mouvant de Vienne* in 1787, which Rebecca Gates-Coon fails to mention, throw into question the notion that such a coterie could have

exerted any significant political influence. As a radical Josephinist, Fekete hardly censured this aristocratic society or its habits, which Rebecca Gates-Coon very precisely describes. Finally, it would have been interesting to look at this *société* as a conservative group of interests, superficially concerned about their position at court and how reforms and wars would affect their incomes, more than as a sign of a fashionable female Austrian *Aufklärung*, a fact that the book, its initial claim to the contrary, ultimately acknowledges.

David Do Paço

“A Sanguine Bunch.” Regional Identification in Habsburg Bukovina 1774–1919. By Jeroen van Drunen. (Pegasus Oost-Europese Studies 24.) Amsterdam: Uitgeverij Pegasus, 2015. 653 pp.

The mythos of Bukovina as an allegedly successful regional “realization” of the Habsburg vision of the supranational state seemed interesting enough to contemporaries before 1914 to be the subject of feuilletons, reports, and similar kinds of publications. After 1918 and in particular during the Cold War, another facet of the mythos was added that owed its existence to a romanticization of the past (with a look back on the fate of Europe since) and that affectionately cultivated an image of the vanished world of Bukovina as an Austrian crownland and at the same time a charmed “Europe in miniature.” With the disintegration of the Eastern Bloc, people set out in search of this fabled crownland in memoirs, travelogues, and collected impressions of places. Admittedly, the not infrequently miserable everyday realities of the region (which is now divided between Romania and Ukraine) brought observers back to their senses or, quite the opposite, prompted them to sink deep into the mythos of the past. From the outset, nationalist perspectives on the history of Bukovina represent an opposing standpoint. The focus from the national perspective is always on one’s “own.” The other “foreign nations” existed only on the margin, as a kind of foil. Van Drunen pays particular attention to this in his introductory overview of the secondary literature. Even when, at first glance, this introduction seems a bit inconsistent, it contains a decisive benefit in comparison with other works on Bukovina. Beginning with newer monographs on the history of Bukovina (after 1918) and covering historical narratives (before 1918), including contemporary descriptions of the late eighteenth century that in this context may well have been better used as sources, van Drunen covers a long arc to strongly nationalistic (German, Romanian, and Ukrainian/Soviet) studies. He discusses detailed individual, central works (such as writings by Ion Nistor, Rudolf Wagner, Vasyl Botushanskij) and their selective perspectives, which to a large extent in turn influenced the (national) secondary literature on this one-time Austrian crownland since World War II and particularly since the fall of communism in Central Europe. On the whole, it is up to the more recent literature on Bukovina (and in particular the work under review) to take the whole question and subject it to critical scrutiny and not simply to address selected moments and events.

In his dissertation, which he submitted to the University of Amsterdam, van Drunen offers a persuasive investigation of the subtleties of the question of the identity of Bukovina: “The central question remains to which extent a regional identification was experienced and debated during the crownland’s existence” (p.4). In the discussion, which is divided into four blocks (I - Introduction and theoretical framework; II – Bukovinians; III – Elements of Regional Identification; IV – Summary and Conclusion), van Drunen attempts to cast light on the complex situation from various perspectives. He emphasizes from the outset the meaning of the multiple identities of a space (region) and its population, which in the pre-Modern era was largely organized around agriculture and therefore had a settlement structure in which the cities resembled islands. In his discussion of the secondary literature, van Drunen finds fault with the widespread reliance of historians on sources the origins of which lie in one of the given national discourses and/or were predominantly urban in nature and therefore have only limited relevance in a discussion of the majority of the people, who lived in rural settlements (one finds pertinent remarks on this on pages 43, 113, and 161). Even in the varied development of nationally active elites there were people with distinctive and sometimes ambivalent backgrounds (for instance Silvestru Morariu Andrievici, p.168). A clear categorization is therefore often only possible with regards to a concrete occasion. Even the national parties—and this is one of the important conclusions of the inquiry—saw themselves as essentially Austrian. The functioning constitutional state gave them the necessary form and sphere for their activity (p.394). The current search for structures of identity among the rural population—and van Drunen must concede this point—can therefore only be carried out in an indirect manner, and it remains, whether we like it or not, focused or even restricted to the urban elites (p.180).

Van Drunen draws attention in his inquiry to numerous salient elements of the foundations of regional identities, which also opens the door to the themes he has chosen. Here lies one of the great merits of the monograph for the scholarship on Bukovina and, naturally, the history of the Habsburg Monarchy. The central institutions include the diet and the university (Part III), but also the Church (characterized as “the quintessential Bukovinian institution” (p.581), which van Drunen analyses in another context (Part II). There is another institution that van Drunen also could have made use of from this perspective as a meaningful source with a wide scope: the Bukovina (German-language) press. Recently, many important studies have been published that place particular emphasis on



this aspect (for instance Ion Lihaciu, *Czernowitz 1848–1918. Das kulturelle Leben einer Provinzmetropole* [2012]; Corbea-Hoişie et al., *Prolegomene la un dictionar al presei de limba germana din Bucovina istorica (1848–1940)* [2012]; *Zeitungsstadt Czernowitz: Studien zur Geschichte der deutschsprachigen Presse der Bukovina (1848–1940)* [2014]). First and foremost, the *Czernowitzer Allgemeine Zeitung*, which was edited and published by Philipp Menczel, provided a public forum which was consistently as aware as it was critical of the supranational idea of the Austrian state and therefore became a primary basis for regional (if predominantly urban) identity creation (p.612). Van Drunen has a critical view of the oft-mentioned National Compromise of 1910. The significance of the Compromise is often interpreted retrospectively, though actually it really gave rise to a kind of adjacent existence at the time, and much less a shared existence or coexistence (p.371). Nonetheless, one should note that in comparison with the other crownlands of Cisleithania this attempt alone and the agreement that was reached (even if there was never really enough time to begin to implement this agreement before the outbreak of war in 1914) were both signs of a certain awareness of identity, based on the will (which found manifestation in the agreement itself) at least to search for a way of getting along with one another. Thus, here two of the analytical levels of the study overlap. It is quite correct that the Compromise was not an expression of a kind of tolerance that was widespread throughout the region, but rather more an idea cherished by the urban (primarily the Czernowitz) elites. Tolerance among the rural people of Bukovina was based, in contrast, on a pre-modern form of loyalty and a sense of belonging (the embodiment of which was the Kaiser), and not on any kind of reaction founded on anti-national sentiment. The elites, in contrast, were navigating stormy seas of national feeling. For them and for the Austrian administration, the Compromise was a momentous achievement, an affirmation of the lowest common denominator that could be reached at the time. It was a formidable step, in spite of everything, even if it only managed to take the wind out of the sails of the increasingly radical nationalist demands for a short period of time (p.372).

Van Drunen examines in minute detail various examples of efforts that were intended to foster a sense of identity or at least could be seen as having had this as their goal, but he presents them in all of their contemporary ambivalence. In doing so, he identifies the danger that each of these institutions could at the same time become a platform for intolerant nationalism. Ironically, the shared feature of the national movements lay in the fact they were among the phenomena that essentially had been imported and were largely based in urban communities.

They were therefore often dependent on diametrically opposed figures who were characterized as foreigners or aliens (see pp.232, 603). At least—and van Duren puts considerable emphasis on this in his inquiry—national aspirations came from the rural (majority) population, even if the elites targeted these groups and also drew on them for their efforts to assert their legitimacy.

Finally, the Austrian administration saw, in cautious maneuvering between the parties and their largely nonpartisan conduct, one of their most important tasks (p.599). The reader might perhaps have the—incorrect—impression, while reading the monograph, of a failure that was foreseeable from the outset. Yet Bukovina society functioned until 1914, in spite of the pervasive quarrels, and it portrayed itself positively, without of course meaning, in saying this, to intone a hymn to the mythos I mentioned at the beginning of this review. If one were looking to find fault with van Duren's superb contribution to the secondary literature, I would mention his failure to discuss a fundamental facet that must always be taken into consideration in an assessment of Bukovina: namely the context, i.e. the relationship of the crownland at the time to the rest of the Habsburg Monarchy, but also to its international neighbors, the Russian Empire and the Kingdom of Romania. Not that mention of this would have cast any less critical light on the direly flawed political attempts (such as the diet, the liberal alliance, or the National Compromise), as van Duren quite accurately observes, but rather because a flavor of reality at the time allows us to see the distinctive features of this crownland and the (missed) chances it had in an entirely different light. The social, political, and economic problems are discernible in other peripheral areas of the empire. Van Duren demonstrates in his presentation the complexity of this crownland by the example of the question of identity. And yet Bukovina itself was not so unusual. Rather, it was the context in which it existed that was unusual.

Kurt Scharr

Die Donauschwaben 1868–1948. Ihre Rolle im rumänischen und serbischen Banat [The Danube Swabians: Their Role in the Romanian and Serbian Banat]. By Mariana Hausleitner. (Schriftenreihe des Instituts für donauschwäbische Geschichte und Landeskunde, Band 18 – Quellen und Forschungen, Band 2.) Stuttgart: Franz Steiner Verlag, 2014. 417 pp.

Mariana Hausleitner's monograph on Danube Swabians in the Romanian and Serbian Banat between 1868 and 1948 is a well-written and balanced study that aims to explain the reasons behind the different treatment of Swabians in the two countries at the end and in the immediate aftermath of World War II. In Yugoslavia, a process of ethnic cleansing took place that involved mass killings and expulsions, whereas in Romania anti-German provisions included expropriations and deportation for forced labor to the Soviet Union. The latter measures were nevertheless smaller in scope in comparison with what happened to Germans in Yugoslavia.

Hausleitner's comparative approach is welcome, considering that academic research on German "expellees" tends to be country-focused. Furthermore, *Die Donauschwaben* also has the merit of presenting and comparing the developments related to Banat Swabians in Romania and Yugoslavia in a wider context. It emphasizes, for example, the links between what happened to Swabians and what happened to other ethnic groups in the two countries.

The study is divided into seven chapters. The first one presents the rationale underlying the comparative approach. The point of departure is the question "why so many Danube Swabians in the Yugoslav part of the Banat were killed after 1944 and why the survivors were expelled" (p.9, my translation - C.C.). This question grew into a comparative investigation of the reasons for the differing fates of Swabians in Romania and Yugoslavia. The second chapter explores the pre-1918 history of the Swabians of the region in its broader multi-ethnic context. Thus, it sets the stage for the core of Hausleitner's research, which unfolds in the following four chapters. The third chapter gives particular attention to the workers' movement in Banat and its stance on the minority issues in the interwar period. The fourth one looks at the "nationally-oriented" Danube Swabians in the two countries and their relationships with their neighbors. The fifth chapter analyzes the period 1938–1944 in the Romanian and Serbian Banat, marked by National Socialist radicalization. The sixth chapter examines the anti-German measures in the two countries in the aftermath of World War II. Finally, the

seventh and last chapter sums up the similarities and differences between the historical developments related to Swabians in the Romanian and Serbian parts of the Banat.

Hausleitner's answer to the question as to why the treatment of Swabians was so different in the two parts of the Banat at the end of World War II is the conclusion of a rich and complex line of argumentation. One of the main points she raises has to do with the significantly different experiences of the war and of Swabian participation in the war in the two countries. Romania was, until August 23, 1944, an ally of Hitler's Germany, whereas Serbia was placed under military occupation by the Nazis. Swabians were in effect directly involved in the administration and plundering of the communities of Western Banat. The gruesome deeds of the SS division Prinz Eugen (which targeted both partisans and civilians), the population resettlements, and the property confiscations, all of them processes in which a significant number of Swabians played important roles, contributed to the growth of anti-German feeling, which may offer some explanation for the massacres that took place at the end of the war. In the Romanian Banat, Swabians became a privileged ethnic group, enjoying the open support of Nazi Germany. Nevertheless, this led to different developments, as Romanian authorities also aimed to put a cap on these privileges. For example, they directly and successfully opposed attempts of Swabians to get hold of confiscated Jewish property, in order to prevent Romanian Germans from acquiring too much power.

Furthermore, there was some opposition to National Socialism in Eastern Banat, albeit frail, from within the German community. It came on the one hand from conservative Catholic circles and on the other from organized left-wing workers in industrial centers, such as Reșița (Reschitz). There was no such opposition in Western Banat. Thus, at the end of the war, as Hausleitner shows, there were still voices who could claim to speak on behalf of Germans in Romania, which was not the case in Yugoslavia. This observation leads me to another great merit of Hausleitner's study, namely the attention she devotes to the left-wing movement in Banat. She shows, for example, how before 1918, in a context in which bourgeois Swabians were prone to adopt Hungarian culture and learn and use Hungarian, Social Democrats and workers' associations promoted the German language and German culture in their milieus, but without embracing nationalism. In this context, it is worth noting that the German-language left-wing tradition in Eastern Banat is usually ignored in Swabian historiography, as it does not tie in well with the conservative, *völkisch*, right-wing outlook of

the latter. Consequently, Hausleitner's final observations on the postwar West German career of former Swabian National-Socialists, who bore significant responsibility for the tragic fate of the community, are also relevant. Hausleitner shows how the West German associations that purported to represent Swabians from Romania or from Yugoslavia were from the very start heavily influenced by the presence of former Nazis who managed to stylize themselves as protectors of the community.

*Die Donauschwaben* is undoubtedly a study valuable in both its empirical and methodological dimensions. Yet in addition to pointing out small factual errors which do not change in any way the overall value of the author's arguments (e.g. Ante Pavelić died in Madrid, not in Argentina, as footnote 63 on page 305 suggests), I would also raise a point of more substantial criticism. Hausleitner depends to a large extent on archival sources in Romania, whereas her discussions of the Yugoslav case are based mainly on secondary sources. It is true that the existing scholarship on Western Banat is richer than the scholarship on Eastern Banat, and Hausleitner emphasizes this very early in the book (p.10). Nevertheless, this difference between the use of primary and secondary sources in the two cases gives at times the impression that the arguments on Eastern Banat are better grounded than the ones on Western Banat. However, this is perhaps merely a semi-important asymmetry in an otherwise solid piece of scholarship.

Cristian Cercel

Enemies for a Day: Antisemitism and Anti-Jewish Violence in Lithuania under the Tsars. By Darius Staliūnas. Budapest: CEU Press, 2015. 284 pp.

It is by now a commonplace in the secondary literature that before 1905, at least, no pogroms occurred in the “Northwest provinces” of the Russian Empire (today’s Lithuania and Belarus), but only in the southwest (Ukraine) and Polish gubernii. John D. Klier’s magisterial *Russians, Jews, and the Pogroms of 1881–1882*, to name just one important work, argues along these lines. Darius Staliūnas does not directly contradict this thesis. He also concludes that the “Storms in the South” did not significantly spill into neighboring provinces to the north. His purpose in the book is a more subtle one: to show how anti-Jewish sentiment, based on religious, social, and economic factors, developed and led to clashes between Jews and Christians in the decades before World War I. This book is a significant contribution to our understanding of the region’s history, Jewish history, and the dynamics of interethnic tension and violence.

Staliūnas focuses geographically on the “Lithuanian” provinces of the Russian Empire, i.e. Vilnius (Vil’na), Kaunas (Kovno), and Suvalki provinces and chronologically on the turn of the nineteenth and twentieth centuries, i.e. the period after the 1881 pogroms. His title suggests a loose (though entirely appropriate) understanding of “anti-Jewish violence”: most of the incidents he investigates involved a rise in tension and violence, followed by an ebbing of antagonisms within a few days. At the same time, Staliūnas provides us with an excellent picture of the background to this violence: the general mistrust that existed between Jews and their Christian neighbors, the prevalence of the belief that Jews (at least some Jews) used Christian blood for certain ceremonies, and a frequent conviction among Christian peasants that a certain, limited amount of violence toward Jews was sanctioned by the authorities. This careful and sophisticated examination of the background of anti-Jewish violence is, to my mind, every bit as important as the well-researched “case studies” of pogroms.

The first trigger of anti-Jewish violence that Staliūnas considers is the blood libel. A number of case studies (the earliest from 1801) from the archives are examined and a general pattern is established: a child disappears, Jews arouse suspicion by (for example) not allowing peasants to enter a house or tavern, a mob attacks Jewish residents and businesses, the violence is over in a few hours. Interestingly, in some of these cases, when appealing to the Russian authorities local Jews used anti-Polish (and anti-Catholic) tropes prevalent among Russian

officialdom, especially from the 1860s. Not all accusations of ritual murder, however, led to violence. The author concludes that the Russian authorities' general antipathy to the Jews and their unwillingness (or inability) to respond swiftly and effectively to anti-Jewish violence reinforced the peasant belief that this violence was simply a way of "achieving justice" by punishing (alleged) Jewish malefactors.

Staliūnas devotes an interesting chapter to the crucial years 1881 and 1882, concluding that while major pogroms did not take place in the Lithuanian provinces, tensions did exist, and certain Lithuanian-language flyers and songs from those years can be interpreted as calling for violence against Jews. Still, other texts specifically called on Lithuanians to refrain from violence, and, a few small squabbles aside, major incidents were avoided.

Violence against Jews gained steadily in frequency and intensity after the turn of the century. The Kishinev pogrom (1903) is probably the best known of these episodes, but the Bialystok pogrom three years later was much more devastating. As Staliūnas documents, significant violence against Jews occurred in the Lithuanian provinces already in 1900. The author explains these attacks as the outcome of "insulted religious feelings" among Lithuanian Catholics. It should be noted that in the Lithuanian incidents, unlike in Kishinev and Bialystok, violence rarely escalated to murder and the most significant consequence was property damage. Still, the background of "righteous indignation" against Jewish lack of respect for Christian dogmas and rituals cannot be dismissed when investigating later, more violent pogrom waves during the 1905 Revolution and World War I (especially 1915). The book concludes with a comparative analysis of anti-Jewish violence in the Lithuanian and neighboring Belarusian provinces.

*Enemies for a Day* significantly deepens our knowledge of the dynamics of anti-Jewish violence in the Lithuanian provinces before 1914. In this way, this book makes a valuable contribution to our knowledge of the roots of Lithuanian antisemitism. *Enemies for a Day* is recommended for anyone interested in the history of Jews in Eastern Europe and the study of ethnic relations and violence.

Theodore R. Weeks

Les guerres balkaniques (1912–1913): Conflits, enjeux, mémoires. Edited by Catherine Horel. (Enjeux internationaux 31.) Bruxelles–Bern–Berlin–Oxford: P.I.E. Peter Lang, 2014. 348 pp.

This volume, edited by Catherine Horel and containing essays in English and French, is the second book in part of a larger international project. The first volume, also edited by Horel and published in 2011, deals with the reception and the consequences of the annexation of Bosnia-Herzegovina by the Austro-Hungarian Monarchy in 1908 (Catherine Horel, ed., *1908, l'annexion de la Bosnie-Herzégovine, cent ans après* [2011]). Obviously, any scholar dealing with the Balkan Peninsula would have great expectations regarding a book that contains essays by a group of internationally renowned experts on the history of the area, particularly, focuses on the Balkan wars of 1912/13, which shook the very foundations of the peninsula, even if it is clear from the outset that an assortment of essays addressing a wide array of themes will never be entirely cohesive. At the same time, the volume includes essays by several authorities on the subject, offering readers samplings and insights into the latest theoretical findings and approaches. However, one should not expect the articles, which discuss the various questions from different angles and according to frequently contradictory national or global narratives, to offer a more nuanced understanding of the conflict or the authors to reflect on one another's contentions, nor does any dialogue or conversation emerge regarding the conflict, which can be regarded as the direct precursor to World War I (at least in the sense that it clearly demonstrated that the concert of Great Powers was no longer an effective assurance against instability). The volume provides insights into individual issues, but the bulk of the essays either seem to lack the knowledge required to address these questions in depth or, conversely, address overly specialized or specific problems as the subjects of their inquiry. Not even the leading scholars attempt to synthesize the existing scholarship on the subject, let alone provide a comprehensive interpretation of the conflict within the framework of recent theoretical developments, since the volume is first and foremost a collection of case studies. The essays are not only uneven, they are also often one-sided (the conflict is approached almost exclusively from the point of view of the Entente countries and their allies). They do not offer a nuanced overview of the conflict.

The articles have been divided into three thematic groups. The essays in the first section provide a historical analysis of the conflicts. In this group, both



in terms of its subject matter and its approach, the most remarkable study is Dimitar Tasić's interpretation of the role and the social basis of the irregular armed forces on the basis of a comparative analysis of the acts and functions of various paramilitary groups. Tasić argues that the irregular armed forces were by and large heterogeneous regarding their aims and methods, as well as the nationalities of their members and the social backgrounds and origins of their leaders. For instance, many of the soldiers serving under Major Vojislav Tankosić, who was in charge of the Prokuplje Operating Base, were Bosnian Muslims and Albanians, who—although they were fighting to further Serbian aims—were primarily occupied with taking revenge for personal grievances (which were not necessarily of a nationalistic nature). The detachments under the command of Major Branko Vukosavljević were disciplined, orderly and tolerant, and they followed the orders issued by the higher levels of command.

One of the most outstanding essays is Patrick Louvier's thought-provoking study on the slow decline that can be observed in the number of the Cretan Muslim inhabitants in the period beginning with the Greco-Turkish War of 1897 (the autonomous Cretan State was established in 1898) and ending in 1913. Louvier's analysis breaks away from the long-established approach, according to which most of the Turkish people in Crete were town-dwellers, and it offers an examination of the percentage of immigrants and renegades among them. Using several primary sources and consular reports, Louvier also attempts to reconstruct the change in the number of inhabitants during the years.

An insightful essay by Emanuele Constantini deals with the Jewish community of Thessaloniki. More specifically, it provides an analysis of the diplomatic negotiations conducted by the members of this community on the city's status. Their primary concern was continuity in the commerce of the city. As Constantini's study shows, the Jewish community not only had large-scale representation in Thessaloniki (with members from diverse social groups, such as factory workers and industrialists), it also used connections with the Jewry of the Great Powers and various international organizations to exert an influence on policy makers.

Bernard Lory analyses the historiographical reception of the Albanian and Macedo-Bulgarian insurrection of 1913 and provides an attempt to reconstruct the events of the rebellion as well. Lory relies primarily on Bulgarian secondary literature in his study, making use also of the memoirs of Hristo Matov, one of the leaders. However, he does not use excerpts from the diary of one of

Matov's rivals, Petar Chaulev, which has also been published. Thus, significant holes remain in his reconstruction of the internal structure of the insurrection.

An essay by Vojislav Pavlović adds little to our understanding of the conflicts, as it provides barely more than an overview of the ideas of the Serbian national historiography in French. Much better is the study by Traian Sandu on the Romanian stance regarding the political situation in the Balkans. His inquiry is impartial and free of political overtones concerning the versatility of the Romanian aspirations and the principles on which they rested. Similarly, Gabriel Leanca's essay on the Romanian acquisition of Southern Dobruja and the French-Russian alliance is a highly useful work that draws on sources in Romanian, Bulgarian and French.

The second half of the volume deals with the various ways in which other countries intervened in the conflict, but most of the essays offer little more than overviews. The essay by Fabrice Jesné and Mathieu Jestin, which offers an analysis of the roles played by the Great Power consuls during the war, give the collection a refreshing dash of color. It addresses the acts and functions of the consuls with due consideration of their humanitarian, diplomatic, and economic interests. Nadine Akhund's essay on the scholarly and political work of the Carnegie Commission, which was established in the wake of the war with the task of inquiring into its causes, is similarly useful. Akhund provides a detailed account of the goals of the people who organized the commission, the manner in which the people who participated in the writing of the report were selected (the leader of the commission asked personal acquaintances and confidantes to serve, most of whom, however, arranged to have someone else represent them), their networks of relationships, and their attitudes towards one another. Of the six people who put together the report, two never even made it to the actual site of the conflict, or rather left the group early. The sentimental attachments of Pavel Miliukov, an expert on Macedonia, and Englishman Henry Brailsford to the Bulgarian national cause are palpable in the report (which was also published as a book). Miliukov and Brailsford knew each other well, and given their biases, the report, on which they exerted a significant influence, can hardly be considered objective. But it was the first account prepared by civilians of the costs of the war and the atrocities that had been committed. Odile Moreau analyses the accounts of the fighting by Stephane Lauzanne, a reporter for the French newspaper *Matin*. The essay is significant in part because there were relatively few Western journalists active on the Turkish side, and it provides a systematic analysis of the chaotic political situation in the Ottoman Empire.

It is thoroughly footnoted and draws on recently published Turkish sources on the war.

The third section contains studies of reports, memoirs, and historiographical analyses dealing with the conflict. The essay by Daniel Cain merits particular mention. A main street is rarely named after a journalist. James Bourchier, at one point a reporter for the *Times*, earned this distinction, as a busy street in Sofia bears his name. Bourchier worked hard to build up the Balkan League and eventually came to serve as a self-appointed diplomat. As an Irishman, he was perhaps particularly sensitive to the plights of “oppressed peoples.” Claudiu Topor examined the role of national rhetoric in the Romanian press during the Second Balkan War, an interesting question in the case of a war in which Romania could hardly appeal to the ethnic principle.

In contrast with some earlier volumes, this collection contains no contributions by nationalist historians representing extremist views, and this is one of its indisputable merits. It is surprising, however, that one finds hardly any Austrian, Hungarian, or Russian authors among the contributors (not to mention the works cited), in spite of the fact that these countries were dramatically affected by the events (Anglo-Saxon authors are only found in the footnotes). As the volume contains essays based on presentations of a conference held in Paris, it is perhaps not surprising that most of the authors are French or Italian, but fortunately representatives of smaller states have also been included. The international network of French historiography is quite palpable. One can sense an attempt to maintain a safe distance from the events (Bulgarian politics are analyzed by a Romanian contributor, the Albanian-Macedonian uprising of 1913 is examined by a French author). While the essays may well have been carefully selected and make use of recent secondary literature (one can reconstruct, on the basis of the works cited, the network of relationships), one notices a kind of circular process of citation, which itself demonstrates how a scholarly community can be constructed. One also notes that Romanian historiography remains well-connected on the international scene. The volume is perhaps interesting reading for specialists familiar with the wide-ranging historiography on the conflicts. The dozen or so well-conceived and thoroughly documented essays offer some compensation for the dozen or so weak essays, the generally uneven standards, and the regrettable typos.

Gábor Demeter

A régi Magyarország utolsó háborúja 1914–1918 [The Last War of Old Hungary 1914–1918]. By Tibor Hajdu and Ferenc Pollmann. Budapest: Osiris, 2014. 416 pp.

This volume, authored by two doyens of Hungarian military historiography, fits well into the series of publications aiming to meet public demand on Hungarian history during the Great War. In contrast with earlier attempts, this book aspires to provide a complex and holistic summary of Hungary's role in World War I. It is divided into six main chapters, out of which the first presents the international and domestic preludes to the war, followed by a balanced analysis in five consecutive sections of every year of the war. In these chronological chapters, the authors focus mostly on the political and military aspects of the Hungarian participation, but they occasionally also discuss the economic consequences of the conflict and the cultural history of the era.

The first part examines the international context leading up to the war with consideration of the main political aims of the great powers. The authors contend that the war was not inevitable, but the unwise behavior of the European political and military elite, together with rising nationalism in Eastern Europe, led to the outbreak of conflict. Although—in accordance with trends in contemporary scholarship—the book emphasizes the responsibility of actors other than Germany during the July crises, it unfortunately fails to engage with the most current “Sleepwalkers” debates (Christopher Clark, *The Sleepwalkers: How Europe Went to War in 1914* [2013]).

The second chapter focuses on the problematic nature of mobilization and the strategic dilemmas of the Austro-Hungarian military leadership in the summer of 1914. It discusses the first military encounters, particularly the background and the conduct of the ill-fated Potoriék offensives on the Serbian front, and explains why the Austro-Hungarian mobilization plans failed to function during the first month of the war.

The third part not only focuses on the political and military developments of 1915 (including the successful Gorlice-Tarnów offensive), but also provides insights into other aspects of the new industrial warfare. The authors analyze the economic consequences of the war for Hungarian agriculture and industry, explaining these phenomena in an imperial framework. They also present the ways in which the most important technological developments, for example

the use of gas weapons, made an impact on warfare both on the Western and Eastern Fronts.

Alongside the operational history of 1916, the fourth chapter gives an overview of the experiences of civilians and the changing mood on the home front during the war. Here Hajdu and Pollmann discuss both the intellectual responses and the popular reactions to the conflict, using mostly already published first-hand accounts.

In the chapter on 1917, the focus shifts to diplomatic history. The authors attempt to make a contribution to the long-lasting debate on how the Hungarian elite could have avoided the great territorial losses of the country after the war. Besides presenting the operational history of this year, the authors also argue that the vast majority of Hungarian politicians were too blind to assess the consequences of an alliance with Germany that had become too close, and this led to the very weak position of Hungary after the inevitable defeat in 1918.

In the final part the authors analyze the last desperate attempts of the military and political leadership to change the course of war. They discuss Emperor Charles' relationship with the civil-military leadership of the empire and they also present how wishful thinking and strategic miscalculations led to the disastrous offensives on the Piave River. In this chapter the authors are generally very critical of the last vague efforts of the Austro-Hungarian political elite to negotiate peace and transform the Empire into a federal state.

*A régi Magyarországnak utolsó háborúja* is undoubtedly a well-written analysis of Hungary's participation in the Great War. It provides in many respects a far better overview than similar books published earlier in Hungary. The authors manage to write a focused national history, which also demonstrates the Hungarian developments in a wider geographical context. For example, Hajdu and Pollmann present the military and diplomatic history within an imperial framework and provide good insights into the personal relationships between the leading actors of Budapest and Vienna. The volume also discusses briefly the most important military and political developments outside the Austro-Hungarian Monarchy, demonstrating their effects on the Habsburg Empire. Furthermore, the book is very well structured and the arguments are clearly formulated, so it successfully achieves a balance between the demands of the academic audience and the wider readership. However, in some cases it would have been preferable to have included more references for the academic audience.

In spite of the fact that *A régi Magyarországnak utolsó háborúja* is a balanced summary of Hungary's participation in the Great War, it also reflects the main

problems of the current Hungarian military history scholarship. Over the course of the past few decades, World War I has been a relatively neglected topic in Hungary, and the vast majority of studies have restricted their focus to the operational and political history of the conflict. Consequently, the book's chapters in which these issues are discussed provide far better and more cutting-edge analyses than the chapters on the social, economic and cultural aspects of the war.

Contrary to the case of operational history, in these fields Hajdu and Pollmann can only rely on a handful of up-to-date studies. It is therefore not surprising that the authors were not able to present any complex analyses of such significant issues, like the memory of the conflict or the transformation of gender roles between 1914 and 1918. The absence of these two topics from the volume is acute, because they are probably the most widely discussed problems in the international scholarship of the past several decades.

No doubt Hajdu and Pollmann, who were both keen on using modern methodology in their earlier works, made a huge effort to involve some other fields (fields which in Hungary have not been given adequate attention) in their investigation. For example, they write relatively extensively about the brutalizing effects of the war, particularly with regards to such technological developments as gas warfare. Unfortunately, mostly due to the outdated secondary literature, they are not able to engage with the ongoing international debate and present the long-term consequences of the war on domestic and political violence in Hungary. Similarly, the absence of up-to-date studies prevent the authors from providing a cutting-edge analysis of the economic and social aspects of the conflict.

In spite of these problems, *A régi Magyarország utolsó háborúja* is probably the best and most complex summary of Hungary's participation in World War I so far. It draws on many findings in the current historiography, especially in the chapters discussing the operational history of the conflict. Unfortunately, due to the lack of basic research, it does not live up to the same standards in the fields of social, economic and cultural history. Hajdu and Pollmann's book, with all its pros and cons, reflects well the present stand of Hungarian scholarship on World War I.

Tamás Révész

*KL. A History of the Nazi Concentration Camps.*

By Nikolaus Wachsmann. London: Little, Brown, 2015. 880 pp.

Synthesizing the main findings of a vast corpus of secondary sources and drawing extensively on the author's own primary research as well, Nikolaus Wachsmann's *KL* aspires to offer nothing less than the first comprehensive and integrative history charting the development of the Nazi concentration camps. The book's integrated approach to the altogether twenty-seven main camps and their over 1,100 satellite camps combines a macro analysis of Nazi terror with micro studies of individual actions and responses. It compares conditions and developments between and within individual camps while also putting them into their wider political and cultural contexts.

The author repeatedly emphasizes that "the KL acted much like seismographs, closely attuned to the general aims and ambitions of the regime's rulers" (p.626). Accordingly, his *KL* explores the various incarnations of these flexible instruments of lawless repression over time. The book exemplifies the changing functions of the concentration camps, for instance by discussing how, between 1933 and 1945, Dachau was variously meant to serve as a "bulwark of the Nazi revolution, model camp, SS training ground, slave labor reservoir, human experimentation site, mass extermination ground, and center of a satellite camp network" (p.593).

In accordance with its key agenda of thorough historicization, the over 800 meticulously researched pages of *KL* (the notes alone fill some 158) proceed in a largely chronological fashion. They trace the non-linear escalation of "terror" in excruciating detail. While Wachsmann highlights that "periods of rising terror" in the camps could be followed by moments of relatively greater "moderation," such as in the mid-1930s and even in 1943 (p.188), he also explains that absorbing change and adapting without losing its core mission proved to be one of the most terrifying features of the institution (p.192). Alongside its key agenda of historicization, another central ambition of the book is to show how a singular focus on the SS's attempt to demonstrate its absolute power oversimplifies SS policy, which was in fact also guided by considerations of a more ideological, economic, or simply pragmatic nature (p.158).

The first three chapters of the book chart the origins, formation and expansion of the KL system between 1933 and 1939. Here, Wachsmann shows that the primacy of political terror set the Nazis on the road to absolute rule

already in 1933, when up to 200,000 political prisoners were detained. However, there were neither detailed blueprints, nor a coordinated national network of Nazi camps at the time. The many hundreds of new sites could hardly have been more varied. By the mid-1930s, it even seemed likely that the KL system, which held some 3,800 inmates at a time when regular prisons in Nazi Germany held well over 100,000, would simply wither away.

As we know, precisely the opposite happened. The camps expanded, even as domestic political opposition diminished, and by 1937/38, measures related to them were centralized and escalated. Potentially boundless camps, such as Sachsenhausen, Buchenwald, Flossenbürg, Mauthausen, and Ravensbrück were opened, characterized by “a uniform administrative structure, a common architectural ideal, a professional corps of SS men, and a systematic brand of terror” (p.134). As Wachsmann shows, they emerged as “firm fixtures of the Third Reich, outside the law, funded by the state and controlled by a new agency,” the Inspectorate for Concentration Camps (p.134). The main function of these camps soon shifted from browbeating political opponents to terrorizing social outsiders. The twenty months prior to the outbreak of World War II then brought the first huge rise in the death rate, as 2,268 people lost their lives inside the camps (p.169).

Subsequent chapters on the early years of World War II examine wider developments of the camp system as well as daily life in individual camps to thereby explore the descent of the camps into sites of mass death and executions. Arguing that the lethal turn of the KL system had begun as early as between 1939 and 1941 (p.191), the author shows that many key features of the wartime camps, such as “bigger compounds, new camps outside the German heartland, masses of foreign prisoners, lethal living conditions, murderous everyday violence, and planned executions” emerged early on (p.238). By the fall of 1941, the Nazi war of extermination also entered the KL: “with the killing of infirm inmates with poison gas still in full swing, the Camp SS embarked on an even more radical program”, the murder of “tens of thousands of Soviet POWs” (p.242). As Wachsmann rightly highlights, this was “a cataclysmic moment dwarfing all previous killing campaigns” (p.262). By this time, the concentration camps had developed a dual function. As *KL* asserts, the systematic murder of exhausted, weak, and ill prisoners had become one of their permanent features, and “many structural elements” of the Holocaust had emerged inside the camps before the SS crossed the threshold to genocide in 1942 (p.287-8).

*KL* focuses on the experience of altogether around 2.3 million registered inmates who were dragged into concentration camps between 1933 and 1945



and of whom over 1.7 million lost their lives. The story it tells thus only partially overlaps with that of the Holocaust. At the same time, the book fully acknowledges that systematic mass killing turned into genocide as the Holocaust entered the KL in 1942. It in fact traces in detail how the Auschwitz-Birkenau complex, a focal point for SS economic ambitions *and* a center of the Nazi Final Solution, was transformed into the largest and most lethal camp by far and became the central location of the Holocaust by 1943. On the other hand, while pointing to institutional and organizational connections between the KL system and the three Globocnik death camps, Wachsmann discusses the latter sites only briefly. (The Globocnik death camps admittedly did not function as concentration camps. As Wachsmann puts it, in them, terror was compressed to its very essence.) However, *KL* does highlight that 1942 was also the year in which a shift in power between legal and SS terror could be observed as, for the first time, camps held more inmates than German prisons.

The KL prisoner population grew exceptionally rapidly the following year, shooting up from an estimated 115,000 to around 315,000 by the end of 1943 (p.414-5). Over the course of the year, the SS started to press more and more prisoners into the war economy. By the autumn of 1943, a veritable scramble for KL prisoners started, which also meant that the Camp SS could exert less control over them (p.453). Even if concentration camps were admittedly never turned into significant hubs for the German war economy and their main “product” remained the misery and death of their prisoners, Wachsmann argues that their “dramatic descent into squalor and death, which had begun with the outbreak of war in autumn 1939” was thereby “temporarily arrested and reversed”(p.427).

One of the last chapters of the monograph is devoted to the spread of slave labor and satellite camps, whereas others analyze prisoner communities and the final phase of violence. 1944 meant “the climax of the Holocaust in Auschwitz,” when, upon the arrival of Hungarian Jews, “the largest extermination program the KL system had ever seen” was implemented (p.458-9). At the same time, Wachsmann diagnoses a partial erosion of the importance of ideology as a determining factor in 1944, as economic pressures started to dilute the full impact of Nazi racial policy (p.474). Even if there were very clear limits to flexibility, the new policy meant a U-turn in the deployment of Jews, implying a mass influx of Jewish prisoners far into the territory of Nazi Germany. The rapid rise of satellite camps also led to the recruitment of tens of thousands of new guards, among them elderly soldiers, women, and even non-Germans. However, terror continued even as the SS presence diminished. Frighteningly,

the everyday operation of the KL apparently did not require a vast army of political soldiers (p.471).

Regarding the inmates, more generally, *KL* suggests perseverance, solidarity, and defiance as key perspectives from which to analyze their behavior (p.499). Wachsmann explains that the KL provided the most barren grounds for the growth of defiance, and those aiming to violently oppose their tormentors faced terrible dilemmas (p.527). While he emphasizes that inmates retained a sense of right and wrong within the warped world of the camps, he essentially argues that for the most part, theirs was a tale of degradation and despair with few heroic and uplifting moments.

Last but not least, *KL* dissects how the climax and collapse of Nazi concentration camps went hand in hand. As we learn, at both chronological ends of the Third Reich, the camps were characterized by a high degree of improvisation: in 1933, the KL system had not yet formed and by 1944, it was already starting to fray (p.465). However, as camps increasingly turned into disaster zones, the final months of the KL system proved to be among the most lethal. In early 1945, there was a record of 714,211 registered KL prisoners in all (by comparison, 80,000 men and women were locked up in 1942). When the war ended a mere four months later, an estimated forty percent of them had already died.

*KL* is likely to remain the definitive overview of its subject for many years to come. However, as is the case with any book aspiring to be comprehensive, some of *KL*'s emphases may also be debatable. Gender-related issues and questions of memory and remembrance receive rather brief treatment, while the biographical analysis of perpetrators might have been extended too. In terms of the main interpretative thrust of the book, Wachsmann depicts the Nazi concentration camps as a highly distinctive system of domination and contextualizes them almost exclusively within a national framework. Instead of expanding on their comparative and transnational dimensions, *KL* argues that the sources of their inspiration were German disciplinary discourses and practices rather than foreign precedents and that their manner of transformation made Nazi camps significantly distinct from other "totalitarian camps," notably the Gulag. Such somewhat debatable choices and contentions aside, *KL* offers meticulous scholarship and a largely convincing interpretation of how murderous orders from the top and local initiatives from below radicalized each other and ultimately plunged the KL into a maelstrom of destruction.

Ferenc Laczó

*The Nation Should Come First. Marxism and Historiography in East Central Europe.* By Maciej Górný. Translated by Antoni Górný. Editorial assistance Aaron Law. (Warsaw studies in contemporary history 1.) Frankfurt am Main: Peter Lang, 2013. 302 pp.

For a long time, the scholarship of historians who were working behind the Iron Curtain during the Communist period was mostly regarded by the “international” (i.e. predominantly the “Western”) community of scholars as part of propaganda efforts and was not taken seriously. In the few cases when it was given due consideration, for instance the works of the internationally renowned Hungarian historians György Ránki, Iván T. Berend, and Péter Hanák, the explanation for this lay in the fact that they had at some point abandoned the gray-suited army of those who falsified and manipulated history behind the Iron Curtain and joined the bright, colorful, “free” world of Western scholarship. So why should the small field of the history of historiography care about this group of pseudo-historians (in the eyes of the West), who did not even speak the right languages, and this not only in the literal sense (since they published their writings in Polish, Hungarian, Czech or Russian instead of English, French or German), but also in the sense of a language that consists of different assumptions and concepts, taken mostly from Marxism-Leninism? But in the 1990s, a few German and other Western historians began to become interested in the historiography of East-Central Europe for two essential reasons: because it concerned seemingly foreign countries, more foreign than their own pasts, and because it was part of the culture of State Socialism, a new field that suited the necessities of post-totalitarian perspectives, which had begun to take an interest in how the world of ideas, attitudes, understandings of Communism worked. And they found, of course, exactly what they were looking for: historians who represented the inner logic of the communist party state.

Now, two decades later, we are well beyond these earlier misunderstandings of the historiography of East Central Europe. *The Nation Should Come First* is one of the best introductions to this new knowledge. Maciej Górný’s book is the English translation of a text that was first published in Polish (2007) and then in German (2011). Górný’s main thesis is that historical writing in Poland, Czechoslovakia, and even East Germany in the first two decades of State Socialism was marked by strong continuities with pre-war traditions, or, to put it negatively, the influence of Marxism-Leninism and the “manipulation”

of historical scholarship by the Communist party and by ideologically “brain-washed” historians had a much weaker impact than is often assumed. In other words: the nation was supposed to “come first” in most history books, not the party. Maciej Górny presents his argument in five chapters.

The first chapter introduces the main questions and debates in the field. The history of historiography is treated as “a broad panorama of concepts and events shaping an image of the past” (p.23). This is, to some extent, an affirmation of the project of the cultural history of historiography of the 1990s, especially regarding the GDR, but, and this is emphasized by the author, the perspective of “postmodernist” *Diskursgeschichte* has often neglected the study of the content of historiography by almost completely focusing on institutions, forms and styles of discourse and ultimately arriving at the conclusion that historical professionalization was somehow distorted to the east of the Elbe River (p.19). This is a critique of studies by Martin Sabrow and others, though Górny does not include Siegfried Lokatis’ study (which was published within the same Potsdam school), which explicitly shows how the form *and* content of the history of the German labor movement was shaped by historians embedded in a dense web of institutions of the SED. (Siegfried Lokatis, *Der rote Faden. Kommunistische Parteigeschichte und Zensur unter Walter Ulbricht* [2003].) Admittedly, this concerns the most political and most controlled part of GDR historiography, but *Geschichte der deutschen Arbeiterbewegung* (eight volumes of which were published before 1966) was not just one history book among others. It represented a model for the whole area of modern history.

In contrast to the “postmodernist” school, Górny tries to look at institutional and political dimensions, but also at “interconnections between historiography and historical tradition, the imaginings of the national past, the history of ideas and collective memory, and finally, historical myths” (p.24). Chapter 2 examines the institutional changes and continuities and the “creation of early postwar narrations” in the four cases (East German, Czech, Slovak and Polish historiography). He acknowledges that there were numerous personal changes and discontinuities after 1945, although less so in Poland and Czechoslovakia, where universities managed to keep more of their independence than in East Germany (p.39). Similarly, the production of new, Marxist national textbooks of history was less successful in Poland and Czechoslovakia than in Germany, and thus the conclusions of Lokatis’ work cannot be extended to other East Central European countries.

Chapter III, the central part of the book, describes how historians were searching for “progressive” traditions that could be used in the context of the new national historical narratives and how they mostly had little choice but to return to earlier established themes, topics, and heroes already cherished by nationally minded historians of earlier periods. Here, Górný convincingly shows how national narratives, especially in Poland and Czechoslovakia, celebrated their comebacks garbed in new “Marxist-Leninist” language, but with little actual change regarding content and interpretation. In the 1950s, the older historiographical traditions came under attack from “progressive” historians, but their defenders profited from the problem of providing a clear definition of “progressiveness” (p.250). In the end, the fierce debates concerning which traditions were more “progressive” than others only revealed the central dilemmas of Stalinist Soviet-style centralized historiography, which was marked by an attempt to limit the multiplicity of interpretations, which is precisely what keeps the work of historians from becoming dead letters completely detached from reality. The last chapter provides a brief comparison of the four historiographies with other Communist cases (Hungary, Romania, Bulgaria).

Árpád von Klimó

Otthon és haza. Tanulmányok a romániai magyarság történetéből  
[Homeland and Home: Essays on the History of the Hungarians of  
Romania]. By Nándor Bárdi. Csíkszereda: Pro Print, 2013. 607 pp.

Nándor Bárdi's *Otthon és haza* is a summary of more than two decades of intense research on the history of Hungarian minorities. Nevertheless, the book is not a synthesis in which the author adopts one of the two typical approaches to this issue, narrating it either as a story of tragedy, decline and heroism or as a sober, rational and resigned account of inevitable loss. Its nine chapters, each of which would qualify as a separate book on the basis of its richness, take different perspectives on the question of how a minority community was constructed out of a group of people separated from Hungary and attached to Romania. Bárdi understands the term “construction” in a very practical way. In the various chapters of the book, he analyzes the means and mechanisms of establishing the institutions of a(n imagined) community and seeks to further an understanding of how different actors from Budapest, Kolozsvár (today Cluj in Romania) and Bucharest gained or lost agency mainly at one another's expense. As one might expect, the vision of such a newly emerging community was hardly stable, and this created another field of contestation between the actors, namely contestation over different representations of the minority Hungarians.

The chapters give a detailed analysis of the transition that took place at the end of World War I in the remote city of Székelyudvarhely (today Odorheiu Secuiesc in Romania), a community which was almost entirely Hungarian-speaking. In the wake of the war, revolutionary passions were fading away as the struggle against the Romanianization of the administration became more prominent and intense. The zig-zagging of Hungarian politicians in the first few years of the existence of Greater Romania would have been impossible had they not been able to find allies, for they were compelled to navigate between the expectations of Budapest that they would preserve the loyalty of Hungarians to the Hungarian state and the necessities of finding a place in the Romanian political system. Bárdi discusses in detail the methods with which they secured a level of autonomy vis-à-vis Budapest while also maintaining the unity of a fragile party. Bárdi also shows how and why the members of the first minority generation abandoned the idea of the equality of nationalities based on a vision of organic nations living side by side in harmonious internal unity. They sought instead to establish Hungarian supremacy and regional devolution in Northern

Transylvania between 1940–1944 in order to avoid the supposed mistakes of liberal Hungary, which allegedly had led to the dismemberment of the country after World War I.

Two further chapters introduce the reader to the complex and secretive world of pseudo-civic and governmental organizations in Budapest, which channeled funds and information between Romania and Hungary after 1920. These organizations also aimed to control Hungarians abroad to the point of devising social research and identity building projects. The two closing chapters in turn set out a typology of minority political strategies on the basis of their relationship with Hungary and Romania. Bárdi discusses the sequence of generations and their visions of the community, which were formed under the impact of extraordinarily different circumstances following the fall of dualist Hungary and the creation of Greater Romania, including the communist takeover and its consequences.

The author focuses on the ways in which this community was built in the minds and designed on the desks of government bureaucrats, experts, old fashioned noble politicians, young visionaries and calculating political technicians in a fervent search for stability and authentic social organization that was meant to solidify a group thought otherwise to be doomed. In its effort to dissect various relevant trends, the book lacks an overarching argument apart from a modest proposal to complement Brubaker's famous triadic nexus model with a fourth field of international organizations and international law. This additional dimension is meant to reinterpret the relationship between mutual expectations, fulfilment or non-fulfilment and permanent adaptation. The various perspectives are also bound together by the author's emphasis on underlying processes of differentiation. Such differentiation was the gradual result of the involuntary and forced separation of Hungarians from Hungary who found a new balance in an altered, more distant relationship with their kin-state, even acquiring a sense of moral superiority over inhabitants of the "motherland," who, according to some narratives, were (and are) in need of a kind of "national salvation" originating from the Hungarians of the minority community.

Bárdi is unquestionably in his element when he is setting out the details of the politics and policies, the connections between personalities, institutions, the past relationships and present animosities and how the actors used one another while they were attempting to create something called the "Hungarian minority of Romania." He can account for the last penny spent on Hungarian-language theater brochures, and he describes how these sums were requested, authorized,

disbursed and taken to Romania, a process involving plenty of maneuvering on the part of almost everyone concerned. Albeit seemingly insignificant, such minutiae convey details of politics and its mechanisms would never have been discovered in the traditional sources on political history. This abundance of detail helps one deconstruct the typical narratives and makes palpable the concept of “minority construction.” One should note the inflexibility of Bárdi’s model of three distinct elites, which neither allows for a realignment of forces nor can it take into account regional level actors from the majority. It is, however, eminently capable of revealing how fragile the very construct of the Hungarians of Romania as a community and its representations as a unitary group were. This construct remained limited, despite the best efforts of all kinds of social actors, to a dwindling set of institutions, the nationally educated middle-class, and the larger part of the peasantry. The invention of this new society in fact implied a strange existence between two nation states. This conclusion inevitably raises another question: how best to study such a limited and fragile—from a certain perspective almost non-existent—subject?

Gábor Egry



Revolution with a Human Face: Politics, Culture and Community in Czechoslovakia, 1989–1992. By James Krapfl. Ithaca–London: Cornell University Press, 2013. 292 pp.

The historical phenomenon of the 1989 revolutions in East-Central Europe is a prominent topic of historiographical research in the field of contemporary history and Slavic studies. (See Padraic Kenney, *A Carnival of Revolution: Central Europe 1989* [2003].) Regarding the Czech and Slovak part of the story, an impressive array of books and articles has been published over the course of the past two decades. However, this literature was published mostly in Czech and Slovak and was concerned with rather particular issues, such as regional aspects of the Velvet Revolution or the memory of prominent actors of 1989. (See Milan Otáhal and Miroslav Vaněk, *Sto studentských revolucí: studenti v období pádu komunismu - životopisná vyprávění* [1999]; Pavel Marek, *Prostějovská „sametová revoluce“: příspěvek k počátkům demokratizace české společnosti v letech 1989–1990* [2009]; Ivana Koutská, Vojtěch Ripka, and Pavel Žáček, eds., *Občanské fórum, den první: vznik OF v dokumentech a fotografiích* [2009].) Apart from the monumental monograph *Labyrintem revoluce* (Through the Labyrinth of Revolution, a political history of the Velvet Revolution written by Czech historian Jiří Suk, there has been no attempt to publish a comprehensive or at least empirically and intellectually more ambitious history of 1989 in Czechoslovakia. (Jiří Suk, *Labyrintem revoluce: aktéři, zápletky a křížovatky jedné politické krize: (odlistopadu 1989 do června 1990)* [2003].)

In 2009, Canadian historian James Krapfl published a Slovak version of the book under review. (James Krapfl, *Revolúcia s ľudskou tvárou: politika, kultúra a spoločenstvo v Československu 17. novembri 1989* [2009].) It was a significant development to have, in the year of the 20<sup>th</sup> anniversary of the Velvet Revolution, a fresh and pioneering account of the events of 1989 in Czechoslovakia finally be made available for readers in Slovakia and the Czech Republic. The English edition of this book is thus a kind of culmination of Krapfl's research project, which was launched already in the late 1990s. Its publication was preceded by the publication of several case studies. (James Krapfl, "Revolution and Revolt against Revolution: Czechoslovakia 1989," in *Revolution and Resistance in Eastern Europe: Challenges to Communist Rule*, ed. Kevin McDermott and Matthew Stibbe [2006], 175–94; James Krapfl, *Poetický základ politiky: Dějiny významu roku 1989*, in *Kapitoly z dějin české demokracie poroče 1989*, ed. Adéla Gjuríčová and Michal Kopeček [2008], 134–57.) The Slovak edition of the book was praised as a path-breaking historiographical

account of 1989, as Krapfl's book was the first historical narrative of the Velvet Revolution that aimed to analyze the events "from below" and with respect for both the Czech and Slovak cultural and political contexts.

The narrative of *Revolution with a Human Face* is based on an extraordinarily impressive source base. The author pursued extensive research in more than forty Czech and Slovak archives and gathered a unique collection of historical documents. The majority of the archival materials used by Krapfl were produced by local activists and revolutionary enthusiasts. Rather than reading numerous official statements produced by Prague and Bratislava revolutionary elites, Krapfl analyzed declarations, posters, leaflets, bulletins, articles and complaints which were formulated in numerous regional hubs of the revolution. These sources enabled him to write a cultural history of the Velvet Revolution that focuses on the Czechoslovak revolutionary community. Whereas the majority of available histories are concerned primarily with the agenda of the highest metropolitan representatives of the Civic Forum and Public against Violence, Krapfl lets the rank and file of revolutionary movements speak, who have been portrayed by the vast majority of historians as well as by the post-socialist political and media elites as an anonymous mass rally in the streets and squares of Czechoslovak cities. In this book, these local protesters and activists are finally portrayed as genuine historical actors aiming to push their political agendas based on their specific sets of revolutionary ideals and values.

The first part of the book analyzes narratives of the Velvet Revolution. Krapfl distinguishes between four discourses of revolution: revolution as romance, revolution as comedy, revolution as tragedy and revolution as satire. These four narratives are in fact major interpretations around which the controversy about 1989 was structured since the very first days of the Velvet Revolution. This shows how this revolution was understood by its actors and how its outcomes were evaluated by the Czechoslovak revolutionary community. Although there was an ongoing conflict of interpretations, the fact that all four competing narratives characterized the events of late 1989 and early 1990 as a revolution makes the debate concerning whether 1989 was a revolution, a regime change, or something else seem quite pointless. According to Krapfl, in Czechoslovakia 1989 amounted to a revolution because it was understood as a revolution by those actively involved in the events.

The most important and intellectually most exciting part of the book consists of the chapters analyzing the constitution of the revolutionary community and portraying a specific set of values characterized by the author as the "ideals of

November.” Krapfl carefully describes collective symbolic practices and public acts, such as happenings, which helped create the new sense of community. His aim is to analyze the ways in which the revolution was experienced by its actors and how the “system of signs and symbols enabled citizens to communicate with one another in new ways and to make sense of the world in ways that had scarcely been imaginable before” (p.70). Thanks to the sophisticated study of numerous texts produced by revolutionary activists, Krapfl managed to define essential values and ideals of the Velvet Revolution. He is able to reconstruct the mental horizon of 1989 in Czechoslovakia in a coherent and convincing way. The book mentions the following crucial ideas and values shared by the members of the revolutionary community: nonviolence, self-organization, democracy, fairness, socialism and humanness. Among other important ideals of the revolution were liberty, human rights, informality, criticism of corruption and emphasis on dialogue. Such “revolutionary idealism” was driven by emphasis on the necessity of overcoming the failed state socialist system, which had produced various inequalities and was corrupt, alienated from the citizenry, excessively centralized, highly bureaucratic and essentially anti-human.

Krapfl’s account of the “ideals of November” is explicit polemics with thinkers like Jürgen Habermas or François Furet, who claimed that the 1989 revolutions did not invent any new or substantial ideas and were essentially backward-looking revolutions of regional importance with rather modest ambitions to restore liberal democracy in East-Central Europe. Krapfl argues convincingly that such interpretations are fundamentally mistaken and flawed by a lack of insight into the original thought that was characteristic of 1989. The originality and novelty of the 1989 revolutions lay in the centrality of ideals of humanness, respect for human dignity and nonviolence. According to Krapfl, the conviction shared by members of the revolutionary community that non-violence and humanness were driving forces of their revolution and more important than any conventional political ideology was a fundamental contribution of the 1989 revolutions to the long tradition of European democratic politics and political thought.

However, the aim of the book is not to create an idealized picture of the “revolution with a human face.” Krapfl also describes the conflicts that arose with the emergence of new power relations and hierarchies after November 1989. The inner dynamics of revolution gave birth not only to an insistence on and assertion of the aforementioned humanist ideals and values, but also to more controversial aspects of public debates, such as regionalism and nationalism. Of significant importance was also the conflict between the centralist aspirations

of revolutionary elites and local activists aiming to preserve certain levels of political autonomy. Krapfl collected plenty of evidence showing that local activists were increasingly upset and frustrated by the fact that the metropolitan leaders of the revolution ignored their complaints and appeals. There was a growing suspicion on their part that leaders of the Civic Forum aimed to slow-down the revolution or even bring it to a standstill. This conflict between the pragmatism of new political leaders, who aimed to consolidate power and begin to govern the country, and local enthusiasts and activists, who called for more far-reaching changes, was, according to Krapfl, a chief source of political controversies in the early 1990s. The pressure from below led to the gradual dissolution of the Civic Forum and Public against Violence and the subsequent formation of new powerful political parties, such as the Civic Democratic Party in the Czech Lands and the Movement for a Democratic Slovakia. These political subjects arranged the dissolution of Czechoslovakia and played a pivotal role in the further development of the Czech Republic and Slovakia in the 1990s.

Ironically, the initial struggle of local activists for direct democracy and a general deepening of revolutionary transformations led in the longer perspective to the establishment of two post-socialist national regimes whose functioning was in many respects in sharp contrast with abovementioned “ideals of November.” In the course of the 1990s, it was increasingly evident that the “ideals of November” had not been incorporated into the political culture and political economy of post-socialism. Krapfl’s book thus not only offers an insightful, balanced and highly innovative history of the Velvet Revolution. His analysis of the revolutionary community, its ideals and its internal contradictions also opens new perspectives for reflection on the developments in East Central Europe in the last 25 years. It is worth posing the question to what extent the recent rise of populism and distrust in politics in the region has been influenced by the fact that the “ideals of November” were not further developed or at least adopted by the majority of citizens or the post-socialist political elites. *Revolution with a Human Face* could thus also serve as the starting point for further critical examination of the developments from the “revolutionary idealism” of the 1989 to recent popular disenchantment with post-socialist democracy.

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