

THE HISTORY OF A HUNGARIAN REARMAMENT (?) PROGRAM – THE HISTORY OF THE ECONOMIC AND POLITICAL BACKGROUND OF THE GYŐR PROGRAM IN 1938

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KOVÁCS, Tamás. The History of a Hungarian Rearmament (?) Program – The History of the Economic and Political Background of the Győr Program in 1938. In *Studia Historica Nitriensia*, 2025, vol. 29, no. 2, pp. 439-456, ISSN 1338-7219; e-ISSN 2585-8661; DOI: <https://doi.org/10.17846/SHN.2025.29.2.439-456>.

The speech delivered by Hungarian Prime Minister Kálmán Darányi in Győr on March 5, 1938 has been usually considered as a milestone in Hungarian economic history. We, however, must be aware that the announced „investment program of a billion”, besides direct military investments, also included civilian projects. What later became widely known as the „Győr Program” was not only the idea of the military lobby of the time, which was meant to be implemented by the General Staff and the Ministry of Defense. Leading actors of the Hungarian economic community agreed that the Hungarian economy was in need of a substantial program of incentives, in which obviously the state should have been the primary consumer. While, on the one hand, the leadership of the National Confederation of Industrialists was clearly motivated only by economic considerations, leaders of the governing party and of the Government, on the other, also saw the Program as an opportunity to resolve the increasingly pressing issues that emerged in the area of social policy and „racialism”. Although the Program, which undoubtedly delivered some specific short-term results, was originally designed to be implemented during a five-year period, but what was actually completed in two years, even in the beginning of its implementation experts raised several doubts, the majority of which then became reality. Because of World War II defense expenditure finally and openly obtained clear priority in 1944 and 1945.

Keywords: the “Győr Program”; Economy of Hungary; the National Confederation of Industrialists (Hungary); Defense Expenditure;

KOVÁCS, Tamás. Dejiny maďarského programu opätovného vyzbrojenia (?) – história ekonomického a politického pozadia Győrského programu z roku 1938. In *Studia Historica Nitriensia*, 2025, roč. 29., č. 2, s. 439-456, ISSN 1338-7219; e-ISSN 2585-8661; DOI: <https://doi.org/10.17846/SHN.2025.29.2.439-456>.

Prejav premiéra Kálmána Darányiho v Győri 5. marca 1938 sa všeobecne považuje za mílnik v maďarských hospodárskych dejinách. Ohlásený „miliardový investičný program” zahŕňal nielen priame vojenské, ale aj civilné investície. Vládny program, všeobecne známy ako „Győrský program”, nebol len myšlienkou vtedajšej vojenskej lobby. Poprední aktéri maďarského hospodárskeho života sa zhodli na tom, že maďarské hospodárstvo potrebuje rozsiahly stimulačný program, v ktorom by štát mohol byť najväčším zákazníkom. Zatiaľ čo vedenie Národnej konfederácie priemyselníkov bolo motivované čisto ekonomickými úvahami, lídri vládnucej strany a vlády videli v návrhu aj príležitosť na riešenie čoraz aktuálnejších otázok sociálnej politiky a rasovej

ideológíe. Program, plánovaný na päť rokov, bol nakoniec realizovaný v priebehu dvoch rokov. Vykazoval početné krátkodobé výsledky, avšak už od začiatku vyvolal u odborníkov viacero pochybností, z ktorých sa väčšina potvrdila. Po vypuknutí druhej svetovej vojny sa v roku 1944 a 1945 vojenské výdavky stali jednoznačnou prioritou.

Kľúčové slová: regionálne disparity; periféria; longue durée výskum; hGIS+databáza; Uhorské kráľovstvo; 1330 – 1910;

The economic background

The defeat at the end of World War I and the consequent turbulent period, as well as the Treaty of Trianon fundamentally determined the following period of almost a quarter of a century highlighted by the name of Governor Miklós Horthy. In almost every sense of the word, Hungary's room of maneuver was very limited in the beginning of the 1920s. The Treaty of Trianon had limited the freedom of armament of Hungary as well as the size of its army.¹ Besides the annexation of two-thirds of Hungary's territory and that of a huge proportion of its population, the Treaty also included other serious economic sanctions. Hungary's international isolation further exacerbated the problems caused by disputes over the implementation of prescribed compulsory compensations and by issues concerning refugees returning to Hungary from the annexed parts of the country.

Only Hungary's accession to the League of Nations and the consequent loan provided by the League offered some leeway for the country. The establishment of an independent and autonomous central bank was an important step, which at the same time was a condition required by the League for the disbursement of the loan. Thus, the Hungarian National Bank (HNB), established in 1924, was in fact capable of stabilizing economic life. Then, from January 1, 1927, the HNB introduced the *pengő* as the new official payment instrument of Hungary. Two things, however, must be emphasized in this connection. First, at that time the Hungarian central bank functioned as a limited liability company. The reason behind it was that the Hungarian state was only capable of establishing the central bank by raising external capital assets. And second, that the HNB was indeed independent from the Government and from the daily politics of the political parties. Besides the provisions of national law and the ownership structure, the fact that Mr. Jeremiah Smith, a lawyer from Boston, who was the High Commissioner of the League of Nations, acted as a supervisor over Hungary's public finances.²

In the middle of the 1920s, particularly after the successful introduction of the new currency, there was a surge of inflow of foreign capital into the country, and for a short period of time it might as well seem that Hungary had a great future ahead of its economy.³ Then the agricultural crisis in 1928, then the global Great Depression between 1929 and 1933

¹ See: Article XI. of Law 1922, The military provisions of the Trianon Peace Treaty On the Implementation of Certain Prohibitions and Restrictions [Online]. Available online: <<https://net.jogtar.hu/getpdf?docid=92200011.TV&targetdate=&printTitle=1922.+%C3%A9vi+XI.+t%C3%B6rv%C3%A9nycik&referer=1000ev>>; 23. 04. 2025.

² PETERECZ, Zoltán. *Royall Tyler and Hungary: An American in Europe and the Crisis Years 1918-1953*. Reno 2022.

³ TOMKA, Béla. *Gazdasági növekedés, fogyasztás és életminőség. Magyarország nemzetközi összehasonlításban az első világháborútól napjainkig*. Budapest 2011, pp. 108-111. (Economic Growth, Consumption and Quality of Life. Hungary in International Comparison from the First World War to the Present).

revealed how vulnerable Hungary was. It should have been realized that the structure of the Hungarian economy had been distorted, Hungarian agriculture was uncompetitive not only on a global scale, but in Europe as well. However, the powerful agrarian lobby has fundamental vested interests in maintaining the support to the existing structures, and they were ignorant to introduce a more modern structure. Also, similarly to Germany, the Great Depression strengthened the positions of the extremist political movements in Hungary, where primarily the political parties of the extreme right moved into the forefront. It needs to be pointed out that the programs of the Hungarian extreme right parties always put special emphasis on social and economic issues, therefore, it was easy for them to attract supporters.⁴

The Great Depressions caused changes in global politics. Prime Minister István Bethlen, who had been leading the country with expertise and who had been also recognized by the West, resigned in 1931. His successor, Prime Minister Gyula Károlyi, was unable to control the steadily worsening economic situation, and several of his measures were only meant as symbolic. Gyula Gömbös, who became Prime Minister in 1932, in a stark difference from Bethlen's British-French orientation, wanted to build closer relations with Italy, Austria and Germany. Of these countries, Germany had long-term potential, and let us also admit, had interests in the region that Gömbös was able to utilize in Hungary's benefit under the II. Additional Trade Agreement signed in February, 1934. Under the Agreement, Germany pledged to purchase a significant amount of Hungarian agricultural products at prices higher than the price on the global market.⁵ This arrangement, on the one hand, further strengthened the position of agriculture within the Hungarian economy and, at the same time, continued to increasingly solidify the distorted economic structures. On the other hand, the Agreement strengthened Hungary's German orientation in general, and in the field of economic cooperation in particular.⁶ Political and military rapprochement with Germany had actually started to unfold from 1933. The Trilateral Agreement with Italy and Austria signed in 1934 also ensured significant agricultural export to these countries. It goes without saying that after 1938, Austria's position was taken over by Germany, which further enhanced Hungary's dependence on Germany. At the same time, the League of Nations ended Hungary's financial supervision in 1938, and the position of the Royal Tyler as the financial supervisor of Hungary was also terminated.⁷

Although the Great Depression hit the Hungarian economy hard in general, the real economy started to show promising signs from the middle of the 1930s. For example, national income, industrial production, foreign currency revenues of the HNB and the volume of foreign trade increased, the amount of deposits also rose to a moderate extent (it was 1600 million *pengő* in 1937.)⁸ But in parallel to this, we also should note that the amount of state debt continued to increase after 1935 (foreign and domestic debt amounted

⁴ HONVÁRI, János. XX. századi magyar gazdaságtörténet. Budapest 2006, pp. 33-35. (20th Century Hungarian Economic History).

⁵ HONVÁRI, p. 49.

⁶ RÁNKI, György: A Harmadik Birodalom árnyékában. Budapest 1988, pp. 301-343, especially on pp. 324-329. (In the Shadow of the Third Reich).

⁷ See: PETERECZ, 2022.

⁸ KATONA, Béla. Magyarország közgazdasága. Közgazdasági Évkönyv 1938. évről. Budapest 1939, p. 107. (Hungarian Economy. Yearbook on Economics about 1938.)

to 1.860,2 million *pengő* in 1937-38) and, against certain promising indicators, agriculture continued to face severe challenges.

Participants in Hungarian economic life themselves sensed the economic downturn, or even its possibility. For them, the ideal solution would have been to see the state become the largest consumer of industrial production when it turned out that it was unable to support the export of industrial output. Hungarian economic actors also indicated through both official and informal channels their readiness to take even sacrifice in order to launch a program with the aim of stimulating the economy. A close examination of international trends reveals that substantial public military expenditures will likely exert a profound influence on economic activity. The military's development is not merely an end in itself; it also serves as a catalyst for economic growth.⁹

Plans for rearmament programs – the military background

Members of the General Staff of the Hungarian Royal Armed Forces entertained the idea that if there had been a war in Europe around 1940, the Kingdom of Hungary, due to its geopolitical situation, simply would not have been able to remain out of it. Consequently, the development of the Hungarian armed forces was unavoidable. Chief of Staff of the Hungarian Armed Forces Lieutenant General Jenő Rátz instructed his subordinates to compile a redevelopment and modernization program based on development considerations of the military posture, formulated between 1932 and 1935. Under this scheme the establishment and equipment of 21 infantry divisions, 4 fast divisions and 1 aviation division was envisaged. A sum of 1.7 billion *pengő* was appropriated for this purpose.¹⁰

The plan was completed by May 1937, Rátz presented it to Minister of Defense Colonel General Vilmos Róder, with the hope that the plans on paper would soon become reality. The Minister's quick response did not arrive, Rátz's patience started to run out. In July 1937, Rátz turned directly to Governor Horthy to have his approval, but Horthy, at least at this time, was himself the supporter of a more carefully considered foreign policy. In November 1937, however, Rátz was invited to a private meeting with the Governor, during which this plan was also discussed. The original purpose of the meeting was the preparation for the Prime Minister's upcoming visit to Berlin in order to adopt a coordinated position in several issues scheduled to be on the agenda of the discussions. This provided Rátz the opportunity to present his plan, the budget of which at that time was "only" 1.500 million *pengő*, but it was clearly considered as practically unfeasible by Minister of Finance Tihamér Fabinyi. According to Fabinyi, the maximum budget for this purpose could have been 10 million *pengő* in every second year as an additional line item. It was obvious that this amount would have been hugely unsatisfactory for the envisaged development. However, President of the Hungarian National Bank Béla Imrédy considered the plan worth more profound studying. According to him, the improving economic situation might as well provide an annual 100 million *pengő* additional financing for the expansion of the Hungarian armed forces.¹¹

⁹ DOMBRÁDY, Loránt. *A magyar hadigazdaság a második világháború idején*. Budapest 2003, pp. 5-7. (Hungarian Military Economy During World War II)

¹⁰ DOMBRÁDY, p. 8.

¹¹ Hungarian National Archives Country Archive (MNL OL) Minutes of the Session of the Council of Ministers on 72. agenda item, March 11, 1938. [Online]. Available online: <<https://www.eleveltar.hu/digitalis-tartalom?source=preservica&ref=preservica::cebdb640-e009-437f-afb4-7c47c0db310d>>; 21. 04. 2025.

The international background

The international political situation had already changed, or was in the process of changing, substantially by the middle of the 1930s. The foreign policy objectives of Germany led by Adolf Hitler were clear, and also that he was determined to achieve them by whatever means it took, even if by the use of force. Although the European great powers, primarily France and Great Britain, did their utmost to preserve the peace in Europe by all means, in parallel to this they started to expand their armed forces. The Soviet Union acted similarly, because it felt threatened from everywhere. Global military developments during this period were demonstrated by the advance in various areas of biological and chemical experiments. But it was also obvious that besides the great powers, smaller European countries like Hungary, Romania and even Belgium also started to develop their armed forces, as well as their military industries. In Belgium, for example, the Eben-Email Fortress was built with the aim of becoming a part of a larger system of fortifications, but in the end only two of the originally planned six forts were built. This was simply what the Belgian budget was capable of financing.

It seemed that the Spanish Civil War sort of justified that a new world war would be decisively different from World War I, which was otherwise called as the Great War. It was also clearly demonstrated that the expansion of the armed forces and the development of the military industry were inseparable.

Czechoslovakia, Romania and Yugoslavia (the latter was known as the Serbian-Croatian-Slovenian Kingdom until 1929) essentially considered Hungary as an enemy. The prevention of revision by Hungary and the restoration of the Habsburg Empire constituted utmost significance in the foreign political strategies of the three countries, although they had basically different political systems and cultural traditions. In order to achieve their common goal, they cooperated to their utmost to prevent the rearmament plans of Hungary, but they also limited their economic interaction with Hungary in order to prevent any benefit from that for Hungary. It is also important to note that the Hungarian armed forces would neither have been able to fight with success against any of the three countries, nor to fight against their united armed forces.

After the Great Depression, the international situation started to change, particularly as a result of the increasingly more active engagement of Germany in Eastern Europe and in the Balkans region. By the end of the 1930s, it was obvious that Germany had clearly determined the economic situation in the region, and attempted to gain advantage also in the areas of political and military relations. The situation of the industrially developed Czechoslovakia was especially sensitive, because some three million Sudeten Germans lived in Czechoslovakia practically forming a single ethnic block along the common border with Germany. Almost from the moment of his emergence as a political leader, Hitler was tempted to attack Czechoslovakia. He thought that Hungary might have been a partner in such an endeavor. However, Hungary clearly rejected the German proposal for providing assistance to Hungary in case a war between Hungary and Czechoslovakia broke out.¹²

¹² PRITZ, Pál. A magyar diplomácia tevékenysége a Közép-Kelet-Európával kapcsolatos német elképzelésekkel szemben a második világháború előestéjén, (The Activities of Hungarian Diplomacy in the Face of German Ideas about Central and Eastern Europe on the Eve of the Second World War) [Online]. Available online: <http://www.grotius.hu/doc/pub/BCGIBD/2012_78_pritz_pal_a_magyar_diplomacia.pdf>; 21. 04. 2025.

Besides the potential international complications, the leadership of Hungary was aware that its armed forces would have been unable to wage a successful war without modern weapons, military equipment, supplies and training. Many experts, however, clearly realized that 1.) sooner or later a war would break out in the region and in Europe, and 2.) any Hungarian interests could be realized only by a strong army.

In 1936 and 1937, the states of the Little Entente had been explicitly looking for possible ways and means of reconciliation, or if you will, of compromise. In the beginning of 1937, they proposed that in return for Hungary's giving up its revisionist goals, they would have recognized Hungary's military equality. This proposal was actually a tacit admission of the realization that the successor states of the Monarchy were unable to prevent the rearmament of Hungary, therefore they wanted to obtain at least some kind of, even if uncertain, guarantee. The most ardent supporter of such an agreement was the Prime Minister of Czechoslovakia Eduard Beneš, who by mid-1938, eagerly wanted to normalize the relations with Hungary. Romania and Yugoslavia gradually came under German influence, and Germany also exerted increasing pressure on Czechoslovakia over the issue of the Sudeten Germans living in Czechoslovakia. For this reason, Beneš wanted to see at least the southern borders of his country secured in order to become able to concentrate on Germany in the field of foreign policy. Finally, Hungary and Czechoslovakia agreed in Bled (located in Slovenia today) on August 29, 1938 that the Kingdom of Hungary would have given up the forceful revision of its territories lost under the Treaty of Trianon, and in return the states of the Little Entente would have recognized Hungary's military equality.¹³ Although this was only a *post actem* development, Hungarian diplomacy acknowledged the agreement as a great success, and the Hungarian military leadership interpreted it as a clear confirmation of the validity and necessity of the "Győr Program".

The announcement and codification of the Győr Program

On March 5, 1938, Hungarian Prime Minister Kálmán Darányi delivered a major speech about the situation of the country.¹⁴ Besides the general assessment of the state of affairs and ideological premises, Prime Minister Darányi also briefly touched upon the foreign policy of Hungary.¹⁵ His speech has already resolutely stated that "*There is a Jewish issue.*"¹⁶ At the same time, his long speech mainly focused on issues related to the economy and social policy. Darányi provided a detailed list of economic achievements, continuous growth of production, and the audience sometimes might have thought that they were listening to an annual economic report...¹⁷ The message of the speech, in line with any well-formulated speech, was concentrated in its closing remarks. According to this message, the Government would launch a major economic program.

¹³ ROMAN, Eric. Munich and Hungary: An Overview of Hungarian Diplomacy during the Sudeten Crisis, In *East European Quarterly*, 1974, Vol. 8., No. 1, pp. 71–97.

¹⁴ KEREPESZKI, Róbert. Darányi Kálmán (1886 – 1939). *Pályakép, személyiség, korrajz*. Pécs 2018, p. 109. and pp. 175-177. (Darányi Kálmán (1886 – 1939). *Career Image, Personality, Biography*)

¹⁵ KEREPESZKI, pp.156-160.

¹⁶ Stenciled news and daily reports of the Hungarian News Agency, March 5, 1938. [Online]. Available online: <https://library.hungaricana.hu/hu/view/NapiHirek_1938_03_1/?pg=201&layout=s&query=zsíd%C3%B3k%C3%A9rd%C3%A9s>; 21. 04. 2025.

¹⁷ KEREPESZKI, pp 142-148.

“The overall amount of the program is one thousand million, or to be more precise, exactly one billion. The majority of this amount will directly and partly indirectly be used for national defense, including the necessary expenditures on air defense. When I say indirectly, I mean that the development of the transportation infrastructure, railways, shipping, road construction as well as the modernization of postal and telegram services, are also essential for national defense. I also would like to specifically underline that every procurement related to national defense will create jobs. Thousands of workers work in factories in order to ensure the supply of materials, hundreds of state employees will earn their daily bread, so these purchases will greatly contribute to the emergence of a more stable situation from the perspective of social policy as well as to calm the soul, in which guaranteed bread always plays a huge role.”¹⁸

The Government envisaged 600 million pengő for direct military expenditures, while 400 million were to be invested in civilian developments related to national defense. Although this speech basically outlined general principles, the question of where these amounts would come from could not have been avoided:

“The Government had the understanding that this plan cannot be based only on taking out loans and we need to ensure to raise special underlying assets. Let me tell you clearly upfront, what we do not intend to consider as underlying assets. We need to avoid all means of ensuring these underlying assets which would result in unrest and disturbance of the economy, because we want to build something, and for construction a calm atmosphere is necessary. We will not pursue any forceful action as far as money and deposits in domestic financial institutions are concerned, and we also will refrain from limiting proprietary rights. So where can we try to find the necessary financial resources? Today these resources can only be found in accumulated wealth. We considered it as reasonable to ensure the required financial resources from wealth. We are talking about a one-time large-scale effort, the fruits of which will be enjoyed by all citizens of our country.”¹⁹

Later in his speech, the Prime Minister also mentioned that besides the taxation of wealth, the Government would be forced to borrow (new) money as well. We must emphasize in this context that the Program was originally meant to be implemented over a five-year period. The announcement was received by standing ovation. The Hungarian society and key actors of the economic community largely agreed to the objectives and the assumed benefits of the Program. Some critical voices were raised from the beginning, but they were hardly audible even within a very limited circle of experts.²⁰

Events started to gather momentum right after the delivery of the speech. It can be assumed that at the time of delivering his speech, Prime Minister Darányi had been already aware of details²¹ of the pending legislation, because Law XX. of 1938, adopted on

¹⁸ Stenciled news and daily reports by the Hungarian News Agency, March 5, 1938. [Online]. Available online: <https://library.hungaricana.hu/hu/view/NapiHirek_1938_03_1/?pg=222&layout=s&query=milli%C3%B3>; 21. 04. 2025.

¹⁹ Stenciled news and daily reports of the Hungarian News Agency, March 5, 1938. [Online]. Available online: <https://library.hungaricana.hu/hu/view/NapiHirek_1938_03_1/?pg=224&layout=s&query=milli%C3%B3>; 21. 04. 2025.

²⁰ HONVARI, pp. 49-51.

²¹ This was confirmed by the fact that the Ministry of Defense had already issued procurements , 1 million pengő for enlarging a production facility and 1,5 million pengő for procuring production materials. MNL OL K-269, Vol. 214, Item 181, 64665/1938 PM.

July 2, 1938, titled “Law on the development of national defense and of the economy, on certain investments in national well-being and on their financing”, practically codified everything included in the Győr Speech by Darányi, who had been Prime Minister when he delivered his speech, but who lost his position by the time of the adoption of the above Law²². When the Law was adopted, Béla Imrédy was Prime Minister, who also gave wholehearted support to the Program. Of course, this is not surprising, because he had been one of its authors when he was the head of the central bank. In connection with him it should be noted that although he used to be a renowned economic authority of his time, but later he adopted the First Anti-Jewish Law (Law XV. of 1938) and he also was part of the preparation and the adoption of the Second Anti Jewish Law (Law IV. of 1939). He firmly believed that the Hungarian economy had to be “Aryanized”, and “*Christian factor*” had to be brought into position²³.

But what was in fact included in the Law consisting of 22 articles and based on the Győr Program? Actually, all that Darányi detailed in Győr, legislators managed to summarize it in 1.§ as follows:

“The Ministry (of Defense) is hereby authorized to use, beyond amounts specified under national appropriations, for the purposes of national defense and air defense, constructing roads and bridges, developing and modernizing the equipment of the national railways, shipping as well as that of postal, telegram and telephone services, helping deployments and acquiring construction lots for houses, supporting agricultural production and sales, facilitating irrigation in accordance with the provisions of Law XX. of 1937 aimed at the planned implementation of works and other water management investments, building and equipping schools, lecturing halls and other institutions for agricultural and public education, enhancing the health and social well-being of the agricultural population, establishing health service organizations, providing healthy drinkable water, research in mining and raw materials, and the promotion of the utilization of raw materials, as well as implementing other public work projects, and finally facilitating agricultural credits, altogether about One Thousand million (1.000.000.000) P”²⁴

2.§ described and regulated those conditions and modalities under which the State would be allowed to take out a loan of 400 million *pengő*. The top financial management of the time utilized the possibilities contained in this paragraph for issuing government bonds with various terms of maturity.

The legal regulation of the tax payable after wealth was much more complicated, which contained a precise regulation covering all details of the tax as contribution to investment (3.§-20.§). The Law set 50.000 *pengő* as the lower limit of the value of wealth. However, establishing the value of a property often raised problems, particularly when it was a mortgaged property. Similarly, several provisions covered the wealth of agricultural producers and the method of establishing the value of land estates.

²² See the full text of the Law at: <https://net.jogtar.hu/ezer-ev-torveny?docid=93800020.TV&searchUrl=/ezer-ev-torvenyei%3Fpagenum%3D41>>; 21. 04. 2025.

²³ See in detail in UNGVÁRY, Krisztián: „Árjásítás” és „modernizáció”. Adalékok Imrédy Béla miniszterelnöki működéséhez és zsidótörvények geneziséhez. In Századvég, 2002, Vol. 26, No. 4, pp. 3-37. (“Aryanization” and “Modernization”. Additional Thoughts Concerning the Actions of Béla Imrédy and on the Origins of the Anti-Jewish Laws).

²⁴ See: <https://net.jogtar.hu/ezer-ev-torveny?docid=93800020.TV&searchUrl=/ezer-ev-torvenyei%3Fpagenum%3D41>>; 21. 04. 2025.

21.§ regulated that revenues generated from these sources had to be managed in a separate fund, which was due to their easier supervision. This fund started to operate on July 1, 1938, and it was officially terminated only on November 30, 1944 (!).

The above is of particular interest when we recall that based on the initial success of the operation of the Program, the Highest Military Council decided in 1939 (!) to reduce the term of implementing the program for 2 years and increased its volume by 60%.²⁵

Reactions and criticism

This is of particular interest because at that time the President of the National Confederation of Industrialists was Ferenc Chorin, who was of Jewish origin. The regular meeting of the Confederation was held in July 1938, when the Governor's birthday was also celebrated, and the opening remarks were delivered by President Chorin himself. He mentioned several times Saint Stephen, the doctrines of the Catholic Church as well as Hungary's 1000-year-old boundaries and he also made a reference to the already adopted Law based on Program.

*"We cannot give up the means of our defense. This poses huge challenges for us, and these challenges demand great sacrifice from us, which were unthinkable in the past. I am convinced that these sacrifices will be made by all segments of the community of Hungarian producers, including the most affected Hungarian industrialists, with a sense of patriotic commitment. But its condition is that the continuity of economic activity and the calm atmosphere of work should be guaranteed, and as its important element, Hungarian workers should domestically produce every asset required for our preparedness."*²⁶

What could have been the motivation of President Chorin when he wrote these words in the summer of 1938? To meet the expectations? The First Anti-Jewish Law, which had already been adopted? The hope of great business deals? It is difficult to provide a clear explanation of his motivation. However, a partial response can be found when we look at the distribution of the investment contribution as contained in the Law on the Program. First, the agrarian lobby functioned very effectively.²⁷ In response to the serious tax burden already imposed on the agricultural sector, which amounted to 1.600 million *pengő*, and to the lower profitability of this sector, 6.§ of Law XX. of 1938 set the rate of taxation for the industrial sector at a higher level. Land owners were also offered the possibility to pay their tax in kind with landed estates (16.§). However, they usually offered lands of lower quality for this purpose.

Therefore, industrial and financial entrepreneurs paid higher taxes and it was also well-known that among them the proportion of those with Jewish descent was high.²⁸ According to preliminary calculations made in 1938, out of the total 400 million *pengő* imposed as tax after wealth, 320 million was to be covered by industrialists and only 80 million by agrarian magnates.²⁹

²⁵ DOMBRÁDY, pp. 17-19.

²⁶ STRASSERNÉ CHORIN, Daisy – BÁN, András. Az Andrássy úttól a Park Avenue-ig. Budapest 1999. p. 88. (From Andrássy Boulevard to Park Avenue).

²⁷ UNGVÁRY, Krisztián. A Horthy-rendszer és antiszemitizmusának mérlege – Diszkrimináció és társadalompolitika Magyarországon, 1919–1944. Pécs 2016, pp. 210-215. (The Horthy Regime and its Anti-Semitism – Discrimination and Social Policy in Hungary, 1919-1944).

²⁸ See detailed analysis in UNGVÁRY, 2002.

²⁹ MNL OL K-27, Box 194, March 11, 1938, Item 64.

As we mentioned above, voices of criticism were raised. At the 1938 Annual Meeting of the Hungarian Economic Society, József Judik, who was the Head of the Economic, Analytical and Statistical Department of the Hungarian National Bank, delivered a major speech, which justified the real economic and financial foundation of the Program. József Tóth, however, questioned this argument and challenged this justification by pointing out the danger of increasing inflation, and in general considered Judik's position on the potentials and growth outlook as overoptimistic. Tóth's position was commented by Ákos Domanovszky, instead of Judik, who although agreed to the inflationary potential of the Program, all in all shared Judik's overall argumentation concerning the Program and sharply criticized Tóth's views. No other Hungarian economist criticized the Program. Swedish economist and Nobel Prize winning Berthil Ohlin also formulated doubts concerning the Program. He referred to the inflationary danger inherent in the Program in the first place, because according to him the central bank could easily find itself under pressure to issue money. This might lower the gold backing of the money in circulation. He also considered as problematic the term of maturity of the already issued, or planned to be issued, state bonds. He was on the position that instead of short-term bonds, the issue of longer-term bonds should have been more favorable. Ohlin also pointed out the serious danger that too much and too expensive investments would drain financial resources from other sectors of the economy, which could result in a shortage of capital. The resulting situation could only be resolved by printing more money, that is, introducing more *pengő* into the system, which would lead to a higher rate of inflation. Another remedy could have been the substantial reduction of the foreign currency reserves. According to him, strict monetary control was required, which could have included even interference in importing or exporting *pengő*. All in all, Ohlin saw risks instead of potential benefits in the announced investment plan under the Győr Program.

There was another element of the Program, which could have invoked criticism, but experts somehow failed to pay attention to it. This was the issue of professional and financial supervision, which should have been carried out by the Court of Auditors. But we can only find two letters in the Archives of the Ministry of Finance dated September 1, 1938 and December 18, 1938, both referring to a note dated October 6 covering the same issue, according to which the President of the Court of Auditors resolutely information on the detailed plans and justifications of the Program and other related analytical documents concerning the investments.

“With reference to my notes dated September 1, 1938, under registry number 890/Pres and October 6 under registry number 1037/Pres, I respectfully request you to forward me as soon as possible the Decisions adopted by the Council of Ministers concerning the detailed utilization of investments under Law XX. of 1938, together with the explanation and justification of the above-mentioned investments, as well as their possible impact on other sectors.

I also respectfully request you to forward to me at your earliest convenience the 1937/1938 Annual Closing Report of the “Investment Contribution Fund” established in connection with the investments under reference.”³⁰

Unfortunately, there is no information available about any response by Minister of Finance Lajos Reményi-Schneller.

³⁰ MNL OL K-269, Vol. 221, Item 226, 140140/1938/PM and 819901/1940/PM files.

It is justified to raise the question of what sort of amount this 1 billion *pengő* represented at that time? There are two ways to respond to this question. First, to compare it to the national income of Hungary at that time, and second, to analyze it in the international context. The national income of Hungary in 1936/37 was 4.417 million *pengő*, which was 22% higher than in 1935/36. In this context, the sum of 1 billion *pengő* represented 22-23% of the country's national income.³¹ Financial experts might have been of the opinion that provided the annual growth rate of the Hungarian economy was so dynamic, then, particularly in the mid-term, this amount could be made available. This means that in the Hungarian context, we are talking about a significant amount in the context of the national economy.

In the international context, it is worth making the comparison in terms of USD. We also need to find an appropriate basis of comparison. Hungary, which had not become a great power even after the Vienna Awards, therefore there is no point to compare Hungary to a traditional or even to an aspiring other great power, because their objectives and perspectives were quite different. Let us recall that the US spent “only” on the Manhattan Project that produced the atomic bomb USD 2 billion, expressed in 1945 prices.

At the same time, Romania was officially considered as an allied country at the end of the 1930s and the beginning of the 1940s, but in reality, it could have been very well listed among the enemy states. The Romanian leadership started to develop the country's defense capabilities from the mid-1930s. First, in the mid-1930s, it spent serious amounts on weapon procurement, then between 1937 and 1940, it began to build the so-called Charles Line. This construction project consumed almost two-third of the budget of the Romanian Army: it amounted to 18 billion Lei, which in those years was about 132.401.618 USD (1 USD=135,95 Lei). This means that Romania spent an annual 44.133.873 USD from the Romanian defense budget on the Charles Line. As compared to this expenditure, the 1 billion *pengő* planned for 5 years under the Győr Program amounted to 149.320.591 USD (1 USD=6,697 *pengő*) in 1939 prices, which (in theory) would have constituted an annual investment of 29.864.118 USD.

In the Interwar Period, Czechoslovakia's army was well equipped, modern, and well trained. It was also widely recognized that the Czechoslovak government placed significant emphasis on the development of its armed forces, including measures such as fortifying its borders. By the late 1930s, the four fast battalions, which formed the core of the Czechoslovak army, were already equipped with LT vz. 35 (Lehký tank vzor 35 (Light Tank Model 35)) tanks. It can be surmised that the Hungarian military high command was cognizant of the fact that the Czechoslovak army was more contemporary and well-equipped. This is just one example of the stark difference in the financial capabilities of the two countries, Hungary and Czechoslovakia. It is also well known that the Škoda factory produced weapons as well. Its total turnover value of this kind of business in 1938 reached 1,977,015,298 Czechoslovak Crowns (= ~ 342 000 000 *pengő* = ~ 51 067 642 USD).³²

³¹ KOVÁCS, György. A bankrendszer és stakeholderei történeti megközelítésben, avagy az állam szerepvállalása az ipar banki finanszírozása előmozdításában a magyar gazdaságtörténetben. In BOTOS, Katalin (ed.). A bankszektor és stakeholderei. Szegedi Tudományegyetem Gazdaságtudományi Kar. Szeged 2006, pp. 54-109. (The Banking System and Its Stakeholders in a Historical Perspective, or the Role of the State in Promoting Bank Financing of Industry in Hungarian Economic History).

³² SKŘIVAN, Aleš JR. On the Nature and Role of Arms Production in Interwar Czechoslovakia. In Journal of Slavic Military Studies, 2010, Vol. 23, No. 4, p.633.

Financing the investments of the Program

Based on the available sources, it is difficult to obtain a clear picture about the issues related to the financing of the Program, particularly in view of the changes that had occurred. The total income of the previously mentioned investment fund was 1.259.500.000 pengő, its expenditures amounted to 1.311.900.000 pengő. The difference was obviously financed by the Government. It is also worth noting though, that 822.400.000 pengő from this fund was spent directly on national defense. But when we look at these figures with more attention, then we can realize that they failed to meet the level to which the original amount was raised by the Highest Military Council, and there is a “gap” of 137.600.000 in the area of expenditures on national defense.

As it was mentioned earlier, the State was allowed to take out a loan of 400 million pengő by issuing state bonds. A background document prepared for the peace talks in 1945 provides an almost full picture of the execution and important conditions of this loan. This document mentioned the following about the long-term loans:

“Taking into consideration that the loan was taken on a 96% issuing exchange rate, the issue had a 416,5 million pengő in real terms, because this ensured the realization of 400 million pengő. The treasury bills were purchased by financial institutions, pension funds and postal saving banks.

The loan was issued in three tranches. In 1938, the first tranche of 125 million, in 1939 the second tranche of 150 million and in 1940 the third tranche of 141 500 000 pengő was released.

Although the first tranche was taken in 1938, that is, one year before the beginning of the period we discuss, it is worth talking about it here in this context. This tranche, in fact, due to the objectives of its release, the threat of war already sensed in 1938 and also the integral connection of payment of dividend to the payment of dividends issued in 1939 and 1940 can be considered as part of the loans released during the war period.

*All three tranches of the loan had a 5% interest rate to be repaid by draw in 30 years. However, the Treasury is entitled to repay the loan by buying it back under the market price”.*³³

At this point, it is worth comparing the above-mentioned note on Treasury Bonds and also to recall Ohlin’s critical comments concerning the term of maturity of Government Securities issued in order to finance the implementation of the Győr Program!

“... in 1939 a loan of 50 million and in 1940 a loan of 150 million pengő was taken at nominal value, with an annual 4% interest rate and ½% commission. Both loans were prolonged without repayment for the next six quarter years, and from the 7th quarter in a way that the 1939 amount will be repaid in 5 million pengő installments for 10 quarters, and the 1940 amount in 10 million pengő repayments for 15 quarters.

*The 50 million pengő loan of 1939 had been fully repaid during 1943, and the Treasury fully paid back the remaining amount of the loan of 150 million pengő taken in 1945”.*³⁴

As opposed to this, state securities issued for a 30 year duration fully lost their value by the end of 1945.

However, it was an open question as to who can subscribe to these vouchers and how. It turned out soon that the HNB had to be indirectly available for the participants of the

³³ MNL OL XIX-L-1-k. Box 19, pp 17-18.

³⁴ MNL OL XIX-L-1-k. Box 19, pp. 25-26.

financial market. Therefore, some 15 million *pengő* had to be made available to the Center of Financial Institutions through the Financial Center of Foreign Credits (on a favorable 2,25% interest rate), in order to give loans for daily refinancing to financial institutions applying for it, with a 4,75% interest rate fixed by the HNB. This credit for refinancing exerted a positive impact on the purchase of state securities, because on the occasion of the first subscription only one, but at the third round of subscription in 1940, eight financial institutions announced their subscriptions. Then about 54.593.000 *pengő* credit for refinancing was provided in order to release a loan of 26.080.000 *pengő*...³⁵

It was obvious that the role of the HNB was, from the start, essential for the financing of the Program. Therefore, although after some debate, the high council of the central bank approved a line of credit of 45 million *pengő* at its meeting on June 30, 1938 for the institution established to regulate the Hungarian Monetary and Capital Market, and also an additional 40 million for executing open market operations (collateralization of stock exchange securities). On October 1, 1938, in accordance with the provisions of Law XX. of 1938, this institution became the Institution Established to Regulate Monetary and Capital Markets in Hungary, and out of its 20 million initial capital stock 11 million was subscribed by the HNB, 4,5 million was subscribed by the Center and Financial Institution and the Treasury, respectively.³⁶

Furthermore, the HNB offered dozens of individual credits even in cases when doubts emerged in connection with the creditworthiness of a firm to be financed. Here are only a few companies that received such credits: Ganz Inc. Co. (42,6 million *pengő*), Gamma PCL Co (13,5 million *pengő*), Hungarian Carriage and Machine Factory (8 million *pengő*), and Weiss Manfred Aircraft and Engine factory (7 million *pengő*).

It is also worth looking at the trend of investments and the related expenditures:

Revenues:

<i>Investment loan</i>	400-
<i>Advance on Investment contribution + interest revenue</i>	200,4
<i>Investment contribution</i>	
1938. VII. 1. – 1939. VI. 30.....	126,6
1939. VII. 1. – 1940. XII. 31.....	192-
1941. I. 1. – 1941. XII. 31.....	127,5
1942. I. 1. – 1942. XII. 31.....	115,8
1943. I. 1. – 1943. XII. 31.....	85,7
 <i>Total revenues until 1943. XII. 1</i>	 1248-
<i>Investment contribution from 1944. I.1. until 1944. XI. 30</i>	1,5
<i>Total</i>	1259,5

³⁵ BOTOS, János. A Magyar Nemzeti bank története II. Az önálló jegybank 1924-1948. Budapest 1999. (History of the Hungarian National Bank II. The Autonomous Central Bank 1924-1948).

³⁶ BOTOS, p.214.

Expenditures

Credits released for investments

1938. VII.1. – 1939. VI. 30.....	372,8
1939. VII. 1. – 1940. XII. 31.....	529-
1941. I. 1. – 1941. XII. 31.....	118,1
1942. I. 1. – 1942. XII. 31.....	57,6
1943. I. 1. – 1943. XII. 31.....	50,8
<i>Total investments until 1943.XII. 1.....</i>	<i>1128,3</i>
<i>Credits released for investment 1944. I.1. – 1944. XI. 30.....</i>	<i>13,6</i>
<i>Total:</i>	<i>1141,9</i>
<i>Repayment of credits obtained for investment contribution 1941-1944... 170-</i>	
<i>Altogether:.....</i>	<i>1311,9</i>
<i>Deficit of the investment fund at the end of November 1944:</i>	<i>52,4³⁷</i>

From the above it is obvious that the „accounting” related to the implementation of the Program was precisely recorded until the end of 1943, and in certain cases even until November 30, 1944.

Instead of passing a judgement...

It is not prudent to formulate a brief opinion on any economic program, or to underline only certain of its elements, should they be a success or a failure. Accordingly, we have to be careful not to pass a judgment in connection with the great investment program of 1938. It is a fact that participants of the economic life were eager to see a program for reinvigorating the economy, just as leaders of the armed forces were keen to launch a program of rearmament. These two considerations coincided in a turbulent historic period, and the resulting Law became part and parcel of the country’s corpus iuris, and not only that of the history of economy. However, the shortening of the Program’s tenure and the elevation of its objectives were not based on any rational figures or concept. When the Law II. of 1939 was adopted, which enhanced the role of the General Staff in all areas of life, economic rationality had started to be relegated into the background.³⁸

It is undoubted that we can support the objectives contained in the Győr Program as well as in 1.§ of the Law XX. of 1938.³⁹ But it is questionable whether it was the Program itself, or the outbreak of World War II that brought about the visible economic results? Although industrial production reached its peak in 1943, we still need to recall that at that time Hungary was safe from bombardments. Unemployment almost disappeared. The German labor market that suffered from a shortage of workers absorbed a lot of working hands, and the Hungarian armed forces had several hundreds of thousands of soldiers in arms. We should also keep in mind that the anti-Semitic laws forced the emergence of a system of straw men, which also created opportunities of work. The Program and the Law

³⁷ MNL OL XIX-L-1-k Box 20, File entitled „The 1938 so-called billion pengő investment program”.

³⁸ KOVÁCS, Tamás. Az 1939. évi II. törvénycikk, és annak történelmi háttere. In *Katonai Jogi és Hadijogi Szemle*, 2023, Vol. 2, No. 2, pp. 83-110 (Article II of Law 1939 and its Historical Background).

³⁹ For further details of these investments see: KOVÁCS, Tamás. *Milliárdos fegyverkezési program?* In *Archivnet*, 2011, Vol. 5. [Online]. Available online: <https://www.archivnet.hu/gazdasag/milliardos_fegyverkezési_program.html> ; 21.04.2025 (A Rearmament Program worth of a Billion?).

undoubtedly exerted a positive impact on the situation and living conditions of workers, which was not necessarily the result of the humanism of the governing party, but more of a means to neutralize the extreme right.⁴⁰

It was a fact that there was a significant proportion of foreign (German, Italian, American) ownership in the largest mining companies. Following 1941, the Hungarian state took over the property of countries that were not aligned with the Axis Powers. The procurement of raw materials also faced a lot of problems, and although Hungary approached the Soviet Union, the series of tragic events on June 26, 1941, that is, Hungary's entry into the war against the Soviet Union, naturally annulled all previous results of this relation, which was in its infancy at that time. The situation was further aggravated by the increasingly narrowing market access, which almost exclusively meant access only to the German market by 1939, and this country, in turn, over time, proved to be increasingly less capable and willing to pay...

Life, however, soon overwrote those provisions of the Law that related to military industry and the armed forces. In 1939, almost all countries in Europe had been preparing for the war, which eventually broke out in September 1939. Investments and expansion of the armed forces accelerated in Hungary. Further investments led to the increase of wages and to the almost achieved disappearance of unemployment. Industrial output was 22% higher than in the previous year. In view of this visible progress, the Highest Military Council reduced the term of the implementation of the Program from the original 5 years to 2 years, and also increased its volume by 60%. The term and the outstanding significance of the “Győr Program” had become a common expression in public discourse.⁴¹

The sum of 600 million *pengő* envisaged for direct investment in national defense were spent on the so-called “Huba I” and “Huba II” plans.⁴² The implementation of the former started on October 1, 1938, with the objective of creating an armed force of 107.000 troops in peacetime and 250.000 troops for war time circumstances. They, of course, increased the personnel of the Armed Forces, but also decreased its effectiveness and readiness, because due to the lack of military equipment, the arming of the new troops was only possible to the detriment of other military units. The “Huba II” plan was aimed at creating armored capabilities and air defense, which actually meant the qualitative expansion of the armed forces.⁴³ The III phase of the plan, which was launched in 1943, also focused more on qualitative developments, primarily on that of the air force, in cooperation with the Messerschmitt program.⁴⁴

Out of the 400 million *pengő* of related development financing, 210 million was spent on infrastructure, 20 million on agriculture and 19 million on promoting the sales of agricultural products as well as on improving related services, 75 million on agricultural credits, 30 million on public education, 36 million on providing drinking water supplies and other social developments, and the remaining 10 million on supporting mining and raw material research.

⁴⁰ See: UNGVÁRY, 2002.

⁴¹ DOMBRÁDY, pp. 7-19.

⁴² HORVÁTH, Csaba. A m. kir. honvédség felderítő rendszerének alakulása az elmélet és a gyakorlat tükrében, 1938-1940. In *Hadtörténelmi Közlemények*, 2005, Vol. 118, No. 1-2, pp. 188-190. (The development of the reconnaissance system of the Hungarian Royal Army in the light of theory and practice, 1938-1940).

⁴³ HORVÁTH, p. 189.

⁴⁴ HORVÁTH, p. 190.

In May 1939, during the Parliamentary election campaign, Minister of Trade and Transport Antal Kunder visited Győr and in his remarks he did not only recall the speech by Prime Minister Darányi a year earlier, but according to a report in “Pesti Napló” (Pest Diary) he also said that “...*economic activity is not an objective in itself, but it is a means, its task is not to achieve the greatest possible individual profit, but the planned enrichment of the nation and through this the promotion of national goals. All assets of the national economy must be subordinated to these objectives. The Győr Program represented this philosophy, and in accordance with the demands of the time, elevated the development of national defense into the forefront of these higher national endeavors.*”

Speaker of the National Assembly András Tasnádi-Nagy, in his remarks delivered in his constituency at Hajdúszoboszló in the first days of June 1941, outlined the transformation of Darányi’s Győr Program originally planned to be implemented with a budget of one billion *pengő* into a Program worth two billions *pengő*.

The October 24, 1942 edition of the newspaper “Új Magyarország” (New Hungary) emphasized that “*instead of the 600 million originally envisaged under the Győr Program, in fact 4,5 million was spent on the Hungarian army.*” The same article, however, quoted Minister of Finance Lajos Reményi-Schneller’s statement that “*the debt of the state will increase from 3.545 million in 1942 to 4.869 million in 1943, that is, by 1.324 million, as a result of the annual debt payment of 165 million pengő.*”

This proves that from the end of the 1930s, the engagement of consecutive Hungarian governments in the modernization of the Hungarian armed forces and infrastructural development exceeded the country’s capabilities. Besides short-term economic advantages, there were also worrying indications of warning from the beginning of the 1940s, like the danger of inflationary pressure or the possibility of lack of raw materials.⁴⁵

From 1941 to 1944–45, the Hungarian military manufacturing industry produced a total of 324,000 rifles, 20,000 machine guns, 635 tanks and assault rifles, 3,000 grenade and mortar launchers, and 807 guns. Hungarian arms production achieved notable success, primarily through collaborative efforts with the German Empire. A number of Hungarian factories produced aircraft engines and kites on a contract basis, the importance of which grew steadily due to the Anglo-American air offensives. Hungarian munitions production was also of significance. However, Germany received negligible compensation for these products, which resulted in a substantial accumulation of public debt in Hungary.⁴⁶

To what extent did the Hungarian armed forces benefited from the Győr Program? It is undoubted that the level of equipment and the number of troops improved, and previously banned brands of arms reappeared again. The officers and the military planners imagined an armed force capable of engaging with the armed forces of the neighboring states of the Little Entente, but not with great power. The hurried and often inconsiderately implemented, then suddenly halted, developments seriously backfired. It is enough to recall the losses of the “Rapid Reaction Corps” deployed in the Eastern front in the summer of 1941, and then the later sacrifices of the “Carpathian Corps”, not even mentioning the fate of the II. Hungarian Army in January 1943.

These irreplaceable losses in human lives finally failed to produce any political advantage in the medium run for Hungary. The Paris Peace Treaty that followed World War II

⁴⁵ UNGVÁRY, pp. 213-214.

⁴⁶ DOMBRÁDY, p. 278.

was even more severe regarding the borders of the country than the Treaty of Trianon. This means that those developments and civilian investments into the now eternally annexed territories served the benefits of other countries. The inflation of the *pengő*, which started in the beginning of the 1940s, then accelerated with tragic consequences into a hyperinflation in 1945 to reach a sad endgame. So how did Chorin, who supported the idea of the Győr Program in 1938, look back on it?

“Unproportionally high amounts were spent on building barracks all over the country, when there was a shortage of construction materials due to the lack of coal supplies. Large number of unnecessary factories were constructed... This was the result of spontaneous and desultory decisions, or may I say of individual actions, when a certain young genius started to entertain dreams of becoming an industrialist... They decided to build a new iron furnace in Győr, although everybody was aware that coal, iron and caking coal were impossible to obtain, and even the production capacity of factories operated in peacetime very much exceeded the actual needs of the country.”⁴⁷

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Word count: 9 561

Number of characters, including spaces: 62 756