Chapter 4

Hungary’s Appeal to the League of Nations

4.1. The Postwar Situation

Hungary, part of the Austro-Hungarian Monarchy, was naturally fighting alongside the Central Powers and ended the war in defeat. After the conclusion of the war, it found itself among the newly created successor states, Czechoslovakia, Romania, and Yugoslavia, whose main aim was “a common policy against Hungary,” which “must be merely part of a broader political conception.”

To make things worse, on March 21, 1919, a bolshevist coup led by Béla Kun established communist rule in Hungary, which, from a political point of view, was a disaster for the country. The surrealistic aims of the bolshevist regime, spurred by the successful communist takeover in Russia in 1917, were never in accord with the domestic or international possibilities.

The Western powers obviously saw a grave danger in the new regime, the United States being no exception. Nicholas Roosevelt right after the communist takeover reported that the new situation represented the risk of spreading, first and foremost to Germany, the most important country in Europe for the United States:

> The great significance of this revolution is that [...] the precedent set by this action will offer an encouragement to the Germans which may be disastrous. [...] The conclusion of the matter is that unless immediate and vigorous action is taken the Allies will be met with a disastrous state of affairs in Central Europe which it may take years to straighten out. Hungary has defied the Peace Conference and allied herself with the Bolsheviki. It is Germany’s turn next.

266 Eduard Beneš, “The Little Entente,” Foreign Affairs 1, no. 1 (September 1922): 69. Later on, these three countries formed the Alliance called Little Entente. The treaties, in chronological order, were the following: convention between Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes, signed on August 14, 1920, fully blown into a treaty two years later; treaty between Czechoslovakia and Romania signed on April 23, 1921; and treaty between Kingdom of Serbs, Croats and Slovenes and Romania signed on June 7, 1921. Beneš called the first of these treaties a “‘defensive convention’ against the Hungarian menace.” Ibid., 68. Emphasis in the original text. See also, Thomas Garrigue Masaryk, The Making of a State. Memories and Observations, 1914–1918 (New York: Frederick A. Stokes Co., 1927).

267 Captain Nicholas Roosevelt to the Commission to Negotiate Peace, March 26, 1919, FRUS:1919, PPC (Washington, DC: Government Printing Office, 1947), 12:418–419. Substance of this report was transmitted to President Wilson by Secretary Lansing the next day.
Herbert Hoover recalled later that the United States could not “even remotely recognize this murderous tyranny,” for the danger it would represent for the whole of Europe.²⁶⁸ The American minister in Prague was of the opinion “that the Bolshevist revolution in Budapest in the interest of any stability in this country must be suppressed and suppressed soon.”²⁶⁹ The general sentiment in the West that the regime should be met by force was finally refused by Wilson and instead a blockade was established. While the principal powers hesitated in Paris, Romania attacked Hungary on the basis that Hungary had a larger army than the 35,000 stipulated in the armistice. This led to the collapse and defeat of the Bolshevist regime and Romanian occupation of half of the country.²⁷⁰ The threat of communism played against Hungary to a large degree in the international landscape and this sentiment was manifest at the wording of the peace treaty.

The Treaty of Trianon, signed on June 4, 1920, was a fatal blow to Hungary and sealed its fate for a long time to come.²⁷¹ Although the country expected harsh terms and more or less accepted the new realities of Central Europe, Hungarians all the way through had hoped and believed that Wilsonian principles would prevail and territories with Hungarian majorities would not be lost. To the shock of the whole nation, the treaty detached huge Hungarian ethnic blocs, which was due to nothing else but serving the wishes of the neighboring Slavic countries. Both the territory and population of Hungary was reduced to one third of its prewar size, and 3,000,000 ethnically pure Hungarian remained in the Successor States. Such losses had further consequences. Hungary was much weakened from an economic point of view having lost most of its raw

²⁶⁸ Quoted in Costigliola, Awkward Dominion, 51.
²⁶⁹ King to Allen Dulles, March 28, 1919, Series 1, Correspondence, Box 15, Folder 14, Czechoslovakia, 1919-1955, Allen W. Dulles Papers.
²⁷⁰ About the Romanian occupation and life during that period in general, see, Harry Hill Bandholtz, An Undiplomatic Diary (Safety Harbor, FL: Simon Publications, 2000).
material and industry. The devastated circumstances were furthered by the flood of refugees of Hungarians from the territory of old Hungary. Until the end of 1920 about 350,000-400,000 of them arrived, and this large extra population meant an enormous extra burden to the state. Moreover, based upon the German peace treaty, Hungary was guilty for the war and it was expected that financial obligations would also burden the country. The text declared that Hungary would have to pay reparations for a period of thirty years starting from May 1, 1921, although the sum of it was not specified. By the Financial Agreement of March 11, 1920, the Reparations Commission was to fix the amount of the reparation debt of Hungary. Article 180 declared that “the first charge upon all the assets and revenues of Hungary shall be the cost of reparation.” This in practice rendered any chance of borrowing money from abroad impossible and was a major source of runaway inflation in the coming years. The Hungarian Assembly reluctantly ratified the Treaty on November 13, 1920, but the wording expressed the whole nation’s sentiment: “it considers the peace document as being based on false data, unjust and contrary to the interests of humanity [...] the National Assembly assents to its ratification solely because of [...] irresistible pressure.” In fact, the next two decades of Hungarian foreign policy was riveted around the question of revision of the Trianon Treaty. For the next eighteen years, all flags were flown at half-mast.

When the Romanian occupation in the wake of the Kun regime came to an end, Admiral Miklós Horthy entered the capital and the National Assembly elected him overwhelmingly to be Regent on March 1, 1920, a position in which he remained until 1944. Judgment on Horthy was mixed. Harry Hill Bandholtz, the American member of the Inter-Allied Military Mission to Hungary, for example, characterized him as “a fine-appearing, intelligent-looking officer,” believed he


274 Ibid., 235.

275 Déak, Hungary at the Paris Peace Conference, 337. The Treaty came into force on July 26, 1921.

was “sincere in his desire and intention to do everything for the best,” and he had “great confidence in his ability and good sense.”

Ulysses Grant-Smith, who was appointed Commissioner to Hungary on December 4, 1919, and who often met with Horthy, liked him as a person, but was very disappointed and critical about Horthy’s responsibility on account of the ruling “White terror,” and thought that Horthy was lacking certain abilities.

A few years later, the British Consul General in Budapest described him as follows:

Admiral Horthy is a man of sterling honesty but of no great cleverness: he has no suppleness of mind, and when he gets hold of an idea, it crystallizes within him into a principle. He has [...] the views of an English country squire or naval officer of the sixties or seventies, and change and innovation are abhorrent to him. [...] I would limit myself to saying that he is incapable of adjusting himself to the new conditions in which the world finds itself today.

With a strong man at the helm, who for some time turned a blind eye to the white terror, Hungary’s problems were still grave. Under such circumstances Hungary had to rely on outside charity to a large degree.

Similarly to Austria and other Central and Eastern European countries, Hungary was provided with relief. In all likelihood due to the Bolshevik takeover, however, the country got only a fraction of what other recipient countries were given. Especially Austria was an exception. It received more than ten times more than Hungary between 1919 and 1923, and it was little wonder that children in Austria were, according to an American officer, “conscious of two factors today: ‘Food’-‘America.’”

277 Bandholtz, An Undiplomatic Diary, 172; General Bandholtz to the Commission to Negotiate Peace, November 19, 1919, FRUS: 1919, PPC, 12:724.
278 Zsuzsa L. Nagy, “Amerikai diplomáták Horthy Miklósról, 1920-1944,” [American Diplomats on Miklós Horthy] Történelmi Szemle 33, nos 3-4, (1990): 175-77. Grant-Smith served in various American legations during his illustrious career. Allen Dulles, who provided Grant-Smith with some facts about Hungary, wrote that “You certainly deserved it and no one is better able to take on the job than you.” Dulles to Grant-Smith, December 20, 1919, Box 29, Folder 19, Grant-Smith, U., 1917-1958, Series 1, Correspondence, Allen W. Dulles Papers.
almost $500 million, the sum given to Hungary was a meager $9.3 million.\textsuperscript{282} Not surprisingly, the main share of the relief was financed by the United States. When the issue of repatriation came to the fore, relief was also largely needed. When about 13,000 men were successfully brought back from the Soviet Union, the $1,200,000 needed for the enterprise was also largely provided by American sources.\textsuperscript{283} American relief was not restricted to material questions only. In 1922, when the worst was over, the United American Lines Inc. decided to give 1 million crowns (\textit{korona})\textsuperscript{284} to a Hungarian cultural institution.\textsuperscript{285} The Hungarian Historical Society was chosen as the beneficiary. With these outside efforts, Hungary slowly climbed back to a healthier status, but it was clear that without political consolidation the country would stand no chance of rehabilitation of any kind.

The real change came with István Bethlen becoming Hungary’s new Prime Minister on April 14, 1921.\textsuperscript{286} The son of a traditional noble Transylvanian family had been always close to the political events of the country, had studied in the best schools, and was destined to become one day the leading politician in Hungary. His political approach was very practical and realistic. As he put it, “What I say and what I do depend on the requirements of foreign and domestic policy. My policies are shaped by the circumstances.”\textsuperscript{287} Miklós Horthy, the Regent, found him “a man of outstanding mental power and of fine character.”\textsuperscript{288} An American diplomat characterized him as “a man of very unusual intellectual ability,” besides being “quite forceful and farseeing,” while the American minister in Budapest described him as “the real political pivot and barometer of political life.”\textsuperscript{289} When William Lampson, the head of the Central European Division in the British Foreign Office, visited Budapest in late 1922, he characterized Bethlen as “a serious and sensible statesman, fully conscious of the very difficult tasks,” who was “prepared to do his best to pull his country through present times of stress.”\textsuperscript{290}

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\textsuperscript{282} Kaser and Radice, eds. \textit{The Economic History of Eastern Europe}, 387. Glant gives the worth of supplies as $220 million and Hungary’s share as 1.3%. He adds that this small amount was still seventy times as much as what Hungary was given in the armistice period. Glant, "Herbert Hoover and Hungary," 99.
\textsuperscript{283} Grant-Smith to Hughes, December 10, 1921, 864.00/482, Roll 6, M. 708, NARA
\textsuperscript{284} Korona (crown) was the currency of the new monetary system created in Hungary in March 1920. It was succeed by the pengő from January 1, 1927.
\textsuperscript{285} Doroghi to Bethlen, July 11, 1922, 7/37, K 468, Bethlen Papers, HNA.
\textsuperscript{287} Romsics, \textit{István Bethlen}, 156.
\textsuperscript{288} Horthy, \textit{Memoirs}, 153.
\textsuperscript{289} Unidentified person to Lansing, November 3, 1920, 864.00/564, Roll 6, M. 708, NARA; Memorandum on Hungary in Brentano to Hughes, October 1, 1922, 864.00/517, Ibid.
\textsuperscript{290} Quoted in Romsics, \textit{István Bethlen}, 188.
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Bethlen already after the war tried to establish good relations with Great Britain, because he saw in that country the possibility of securing a counterweight against the successor countries, but despite the general good impressions he made on foreigners, his move got a “no action” from Foreign Office officers. His main reason for this policy was that he clearly perceived that France was trying to achieve hegemony in the Danubian basin, something that Great Britain would not let become a reality. Although right after the war the British diplomacy did not support him, after his becoming the prime minister of Hungary, the British minister in Budapest sent a report in which he praised Bethlen’s program speech for its liberal and realist character and wrote that “every effort should be made to help in the consolidation of the country.” Early in his premiership, he sent Count Pál Teleki, former and future Prime Minister and renowned cartographer, to Paris to size up the sentiment toward Hungary. The negative reception met there made Teleki conclude that the French orientation was no alternative and he traveled on to London to seek support. Here he also met with prominent figures and the idea of an Anglo-American loan was born in the City. This kind of attitude was what Hungary counted on. If Great Britain once decided that Hungary should be helped, it practically meant that help was within reach. Therefore, it was no coincidence that Hungary was trying to put emphasis on the Anglo-Saxon orientation. Naturally, Bethlen needed to deal with domestic problems in order to strengthen the sympathy he had earned.

His accession closely followed Charles IV’s first failed endeavor to regain the throne of Hungary. A second attempt in October the same year was similarly unsuccessful, because both Horthy and Bethlen opposed such a move. Bethlen tried to calm the international waters with the enactment of the dethronement in November 1921, which officially excluded the possibility of having a Habsburg king in Hungary again. The act made Hungary presentable to the western democracies, a fact that was crucial in achieving the consolidation with their help, but in order to enjoy British backing, Hungary first needed to become a member of the League of Nations. When the League of Nations was born in 1919, quite logically it was the victorious nations, their allies, and some

291 Ibid., 93–94.
292 Quoted in Romsics, István Bethlen, 153.
293 In Teleki’s words: “The overall picture is unfavorable. No matter how much we expose ourselves, with French orientation we cannot in a short time achieve that French policy should be openly pro-Hungarian… We will not get decisive help.” See Teleki’s report about his Paris trip in Teleki to Bánffy, June 12, 1926, 38/1921–266, K 58, The Cabinet of the Minister, HNA. His report about his stay in London is in Teleki to Bánffy, June 14, 1926, Ibid. 294 Ibid.
neutral countries that became members—the enemy states were not invited to the organization. Shortly after the peace treaties, when the Allies thought that the continent was ensured against a similar conflict like in 1914, the door of the League slowly opened to the defeated countries as well. The order in which these states were admitted reflected how much the principles members, or their involved allies, were satisfied with the attitude of such a country, and whether these states might have meant any political disturbance in the new Europe. According to this opinion, Austria and Bulgaria were admitted to the League already in December 1920. It seemed only a matter of time before both Hungary and Germany could also qualify for membership. When the question of Hungary’s possible admittance was on the agenda in the fall session of 1922, the situation was favorable. Out of the three members of the Little Entente, it was Yugoslavia that was the most opposed to the Hungarian membership. But the unofficial leader of the alliance, Eduard Beneš, the Czechoslovakian foreign minister, an influential diplomat in western countries, was against such an idea, because he knew that supposedly Hungary’s place was already assured. Beneš must have been informed from British sources that Great Britain wanted to see Hungary in the family of the League of Nations and would have taken issue if due to petty fussing Hungary had remained outside. So, on September 18, 1922, the Assembly voted unanimously to admit Hungary to the League. This was an important step from the point of view of Hungary’s political status. With becoming a member of the most important international political body of the day, Hungary stepped out of the political isolation it had been subjected to since the end of the war. This change was the key to significant possibilities: it meant an automatic protection against the Little Entente and Hungary could keep the minority question on the agenda.

Also, with belonging to the League, the door opened for Hungary to have the chance to try to find allies for its plans and causes. First of all, the Hungarian government sought British political backing on the continent. It was well known that within the League of Nations Great Britain and France vied for leadership.

297 In more detail about Hungary’s entry into the League of Nations, see, Mária Ormos, “Magyarország belépése a Nemzetek Szövetségébe,” [Hungary’s Entry to the League of Nations] Századok 91, no. 1 (1957): 235–49.
298 Hungary brought up already the question of the Hungarian minorities in the successor states during the Genoa Conference. Bethlen sent an urgent plea to the Conference to pass the Hungarian problem onto the League, which, thanks to the opposition of France and the Little Entente, led to no result. Meeting of the First Session of the First (Political) Commission held on April 11, 1922, at 10:30 a. m., DBFP, First Series, 19:360–61; Meeting of the Inviting Powers to the Genoa Conference held on May 10, 1922, at 11 a. m., at the Palazzo Reale, Annex N, Ibid., 836–37.
France was the principal supporter of the Little Entente, so it was also a necessity for Hungary to be on the best possible terms with the French. However, Hungary knew that if there was one country on the continent that could have sway over its antagonistic neighbors even more than France it was Great Britain. On the whole, the British must be said to have had the bigger influence, so it was all natural for Hungary to be attracted to Great Britain. In addition, Britain was of the opinion that it could not allow Hungary to “go under financially.”\(^{299}\) Naturally, Hungary was well aware of the fact that in the changing postwar world the most influential country was outside Europe. Thus it was only logical that Hungary tried to develop a good relationship with the United States.\(^{300}\)

Since during World War I Hungary and the United States found themselves on the opposite sides of the belligerent camps, it was important to put their relations on a normal footing in the hope of future cooperation. Charity came from the United States and American prestige was high in Hungary. Trade and communication were again authorized between the parties beginning September 2, 1919, and shortly after Ulysses Grant-Smith was appointed to Hungary.\(^{301}\) He was not accredited as a diplomatic representative since no peace treaty had been concluded between the two countries, but his main task was not altered by this lack of formality as he was to do everything in his power to help a representative government take root in Hungary.\(^{302}\) This was important for the United States after the bolshevist rule. Since the United State Senate refused to ratify the Paris Peace Treaty, America neither became part of the League of Nations, nor concluded peace treaties with its ex-enemies, that is why it was important to sign a separate peace treaty.\(^{303}\) As in other cases, the German treaty served as the basis for the other two countries. The United States made clear that it was willing to talk with Hungary concerning peace only if it was based on a similar peace treaty with Germany.\(^{304}\) The American government basically blackmailed Hungary, coated in nice diplomatic terms, that acceptance of the terms agreed to by Germany was the condition necessary reestablishing diplomatic relations.

\(^{299}\) Lampson’s note on February 22, 1923, C3081/942/21, 8861, FO371, TNA.

\(^{300}\) Both Horthy and Bethlen were Protestant, or rather Calvinist. This fact, at least on the subconscious level, must have helped their case in connection with the United States.

\(^{301}\) Notice Issued by the War Trade Board Section of the Department of State, September 2, 1919, FRUS: 1919 (Washington, DC: Government Printing Office, 1934), 2:410.

\(^{302}\) The Secretary of State to the Commissioner at Vienna (Grant-Smith), December 10, 1919, Ibid., 410–12.

\(^{303}\) The clear signal that the United States treated these countries as one group was evident when it concluded separate peace treaties with these states within a few days: on August 24, 1921, with Germany, on August 25, 1921, with Austria, and on August 29, 1921, with Hungary. The treaties came into force on November 8, November 11, and December 17, 1921, respectively.

\(^{304}\) Hughes to Grant-Smith, July 9, 1921, 711.64119/1, Roll 1, M. 709, NARA.
again. Grant-Smith pointed this out to the Hungarians, but he also alluded to “the advantages which would accrue to Hungary, both of political and economic nature, by their acceptance of the stipulations of the Peace Resolution, and the subsequent negotiation of an agreement with the United States.” Hungary had no real choice but to accept the offered treaty without reservations. The Hungarian Parliament passed the resolution on August 12, 1921, while the US Congress ratified the treaty on October 18, 1921, and ratifications were exchanged on December 17, 1921, when the treaty came into force. Finally, diplomatic relations were resumed, and Grant-Smith was replaced by Theodore Brentano in April 1922, who arrived as minister. As for the Hungarian side, Count László Széchenyi presented his credentials in January 1922 and became the first Hungarian Minister to Washington.

It is little wonder that Hungary sought Anglo-Saxon goodwill. Both from political and financial perspectives, the United States and Great Britain were the two countries that Hungary could expect the most help from. Obviously, Hungary needed to find help far from its geographical position, because its neighbors were its enemies, France was their quasi ally, Germany was burdened with its own problems, Soviet Russia was an ideological enemy, and Italy had not yet shown its interest in Central Europe. This meant that only Great Britain and the United States remained; both were far enough away to be friendly and powerful enough to help. And Hungary, despite the political consolidation after regulating its relations with the United States and becoming a full member of the League of Nations, was in need of effective help.

### 4.2. The Economic Situation and Attempts for a Loan

Hungary could not shake off the depressing conditions it found itself after the war and this long unhealthy financial and economic period started to maim the country more and more, both psychologically and physically. Prices kept rising relentlessly and compared to the prewar years showed scary differences. At the end of 1921, for instance, the price of first class pastry flour cost two hundred times its peacetime price, and similar ratio was true for potatoes and eggs. In October 1922 alone, prices in Budapest increased on an average of 23.8%, while the index number was 328.69 compared to prewar prices. The production of

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305 Hughes to Grant-Smith, July 23, and July 28, 1921, 711.64119/1 and /2, Ibid.
306 Grant-Smith to Hughes, August 3, 1921, 711.64119/15, Ibid.
307 Grant-Smith to Hughes, August 12, and December 14, 1921, 711.64119/8 and /36, Ibid.; FRUS: 1921, 2:258–59. The text of the treaty is in FRUS: 1921, 2:255–58.
308 Grant-Smith to Hughes, December 3, 1921, 864.00/472, Roll 6, M. 708, NARA.
309 Kemp to Hughes, December 5, 1922, 864.00/524, Ibid.
almost all of the industries sharply fell back. In the 1922/23 financial year, the production of sugar was 30%, of beer it was 15%, of alcohol it was 40%, and of coal it was 45% compared to ten years earlier. Since agricultural production was down, the volume in foreign trade was negative as well, between 200 and 300 million gold crowns ($40-60 million). The financial leverage of the state was diminishing year by year and the budget deficit was substantial. The new American minister to Hungary informed the State Department about the “gloomy” economic situation, the “alarming rate of increase in the cost of living,” and the general depression “in the hearts of most people.” Under such circumstances it was inevitable that Hungary needed to do something significant to abort the negative projectile it had been following. Although Hungary was in a better condition than Austria, to many it was clear that the remedy should take the form of a foreign loan. As Bethlen put it in a speech in Hungary, “Our financial situation is serious. From our revenues we cannot cover our expenditures. It will be a long time before we achieve this goal with hard work. In this work without foreign help we cannot reach the goal.” The Prime Minister knew exactly that the unsettled question of reparations would render such a course almost insurmountable. In fact, he hoped to avoid paying reparations somehow while enjoying a foreign loan.

The first tentative moves had been carried out already. The Hungarians tried to secure a British loan on various occasions, but the question of reparations made it impossible to deal with the issue in detail. Obviously, there was no

310 9/VIII/2/Appendix 12, Various Data on the Output of Hungary’s Industries, 56, K 275, The Semi-official Papers of Finance Minister Kállay Tibor (hereafter cited as Kállay Papers), 1901-1941, HNA.
312 “Annual Report on Hungary” in Balfour to MacDonald, May 23, 1924, C8423/8423/21, 9914, FO371, TNA.
313 “Memorandum on Hungary” in Brentano to Hughes, October 1, 1922, 864.00/517, Roll 6, M. 708, NARA.
314 The first comprehensive work of the surrounding of the loan, albeit with a political angle and chiefly relying on the sources available in Hungary at the time, was György Magos, Az amerikai imperialisták szerepe a Horthy fasizmus stabilizásában, 1924–1929. [The Role of the American Imperialists in the Stabilization of the Horthy Fascism, 1924–1929] Budapest: Akadémiai Kaidó, 1952. A decade later a somewhat more balanced work came out, Ormos, Az 1924. évi magyar államkölcsön megzavarása. The latest study on the League loan to Hungary with an emphasis on the British role is Lojkó, Meddling in Middle Europe, 81–126. The most comprehensive studies from the technical point of view are those of Péteri, Revolutionary Twenties and Global Monetary Regime.
315 Magyar Hírlap, March 28, 1922.
one in the world who would have been willing to lend money to a country that had obligation to pay first to someone else. With the question of reparations pending and a major block in the way of any possible loan, the Hungarian government first thought they would try to raise a loan outside the League of Nations through private channels. The notion of a private loan was clearly shaped in a Hungarian government memorandum in late 1922: “A favorable trend in our balance of foreign trade, therefore, can only be expected when, in the shape of advantageous loans, foreign capital starts flowing into this country making it possible for us to make investments inevitably needed for a powerful development of agriculture and industry alike.”317 With refusal on the continent, further attempts were made for outside money, this time in the United States. Several attempts resulted in only warm-toned replies making clear that there was no possibility for a Hungarian loan in the United States due to the budget deficit, the unsettled situation of Hungary’s foreign debts, the passive trade balance, the low price of any possible Hungarian loan, and the lack of understanding in the question of reparations.318 This list contained all the ills of Hungary, but everyone concerned was well aware of the impossibility of changing all these prerequisites in a very short time.

After the disappointments in America, Hungary knocked once more on British doors. In Great Britain, financial and political circles alike emphasized again that without the reassuring solution of the reparation issue there was simply no way for a long-term loan for Hungary, but these people also realized that Hungary’s situation needed to be tackled. Thomas Hohler, the British minister in Budapest, warned of a possible crisis on account of the tragic economic situation and thought that a loan would be “the only remedy,” because “it is certain that prevention is better than cure.”319 Even Beneš thought that Hungary was on the verge of bankruptcy.320 If Great Britain once thought that Hungary should be helped, they also believed that such aid ought to come through the League of Nations.321 This was the only forum at which the reparation question could have been solved and that was the precondition of a possible loan from either British or American financial circles. For some time, the idea of turning

317 Quoted in Péteri, Revolutionary Twenties, 144. The memorandum was written by Alajos Szabóky, who was at this time the director of the Central Statistical Office.
319 Hohler to Curzon, March 2, 1923, DBFP, First Series, 24:531–32.
321 Szapáry to Daruváry, March 28, 1923, 9/VIII/5/11, K 275, Kállay Papers, HNA.
to the League was unwelcome for the Hungarian government. Hungary did not want to submit its finances under any kind of supervision. After the Treaty of Trianon the ruling mood of the country was that of revision and not further weakening Hungarian sovereignty. Since a League loan would have meant strict outside control, Hungary wanted to see some other solution. As Bethlen said, “the Austrian recipe is good for reparation but not for a loan. Strong wailing is not good.”

But the country was not in a position to dictate and was anxious to have any help that might be offered. Since it seemed that only Great Britain took up the Hungarian problem, and British dominance was tangible in both the Financial Committee of the League and in the whole organization, it was therefore crucial for Hungary to have British backing.

It would be misleading to believe that the British were head over heels working for the Hungarian cause, but their overall policy needed a stabilized Central Europe of which Hungary was a key country. Otto Niemeyer, Controller of Finance at the British Treasury and member of the Financial Committee of the League of Nations, produced a since then often quoted line in connection with this policy that illuminates the British thinking very well: “If we could tie up another loose end in this way [League loan to Hungary along the lines of the Austrian scheme] we should I believe, extend and increase our consolidation in South East Europe. I hope the Foreign Office approve these notions and if so that you will do anything you can to push them.”

The Foreign Office and the Treasury agreed that without assistance Hungary would “fall into hopeless collapse.”

In the light of this it is not surprising that they were “prepared to support the scheme” and “genuinely anxious to set [Hungary] upon the right rails.”

The British recommended Hungary to turn to the League for advice, to be ready to accept a similar scenario to what had been going on in the case of Austria, and to go to the Reparations Commission first, since it was the key to freeing the liens for a possible loan. Hungary had no room for much maneuvering and by mid-April the Bethlen government was ready to accept League control if none of the Little Entente countries performed such a role; they also made it clear that they would not take any steps contrary to Britain’s wish. With this new attitude taken, the possibility of a loan was a realistic expectation, but first

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322 Quoted in Ormos, Az 1924. évi magyar államkölcsön megszerzése, 22.
323 Niemeyer to Lampson, March 16, 1923, OV33/70, BoE. Also quoted in Péteri, Global Monetary Regime, 51; Péteri, Revolutionary Twenties, 168; Lojkó, Meddling in Middle Europe, 83.
324 Note on Hungary by Niemeyer, April 26, 1923, C7514/942/21, 8861, FO371, TNA.
325 Butler’s minute, March 21, 1923, C4996/942/21, Ibid; Curzon to Hohler, April 13, 1923, DBFP, First Series, 24:583.
326 Summary of conversation between Lampson and Ruttkay, April 6, 1923, C6281/942/21, 8861, FO371, TNA; Curzon to Hohler, April 13, 1923, DBFP, First Series, 24:583.
327 Hohler to Curzon, April 17, 1923, DBFP, First Series, 24:591–93.
the Reparations Commission had to be convinced that Hungary should not pay reparation for the period of a loan.

According to this new course, Bethlen and Frigyes Korányi, future finance minister, representing Hungary appeared before the Reparations Commission on May 5, 1923. They tried to convince the Commission using statistical data that since the war Hungary had been in awful conditions, it was now near bankruptcy, and urgent financial help was needed. Bethlen emphasized that Hungary was in need of all sorts of raw materials and finished products but the country had an adverse balance of foreign payments. To give a good impression to the Commission and show that Hungary had already done what it had been able, he informed the Commission that in 1922 over 11,000 state employees were discharged and a further 20% was among the plans. All this culminated in the real point of the report: he asked the Reparations Commission to suspend the treaty charges and help Hungary financially by virtue of a loan in which case Hungary would be happy to follow the advice of the Financial Committee.328 With this step, Hungary handed over the decision to the League of Nations. Since in the Reparations Commission France and the Little Entente were in majority, it was little wonder that they did not assent to the Hungarian plea. William Goode, the unofficial financial adviser to Hungary, had done everything in his power to make the Commission agree to refer the question to the Financial Committee, but he predicted that the scheme was in all likelihood going “to prove an even more difficult situation than that of Austria.”329 Unfortunately for Hungary, the American unofficial representative had no right to vote. In all likelihood, Boyden would have cast his vote in favor of a positive decision for Hungary. He suggested conferring with bankers who were likely to be interested in a Hungarian loan as to what they thought the best method would be for Hungary to raise a loan.330 He also was of the opinion that the League should have the control, not the Reparation Commission. However, without the American, Chairman of the Commission Louis Barthou’s casting vote was needed to reach a decision and he helped the Little Entente. The following resolution was born: “Not to oppose, in principle, the request of the Hungarian Government that the charge be temporarily raised for certain revenues of Hungary, which may be needed as security for authorised loans, but [...] a fixed part of which would be assigned to reparation.”331 Aside from political considerations on the part of the

328 Speech of Count Bethlen before the Reparation Commission, May 5, 1293, Communiqués from Kallay and Bethlen. Doc. No. 28903, Registry Files, R. 296, LNA.
330 Reparation Commission Minutes, May 23, 1923, OV9/430, BoE.
331 Reparation Commission Minutes, May 23, 1923, Ibid. The text of the resolution of the Reparation Commission of May 23, 1923, can also be found in 122/ 6/706–707, K 69, Economic Policy Department, HNA.
Little Entente, another possible reason why the Reparations Commission did not want to go ahead with the plan was the fact that at this point the Austrian loan had not been issued yet and they might have feared to acquiesce with a shaky scheme. Whatever the cause, the Commission's condition that part of the loan should go to reparations would have rendered the whole plan undoable, which was obviously what the successor countries wanted to achieve.

Bethlen and the government found themselves in a difficult situation. With the Reparation Commission's decision, a possible loan became suddenly very distant. Although the Hungarian government issued a note in June to the governments that were represented on the Commission urging them to reconsider their decision, the only place they could count on help concerning the future was London. Here, as was mentioned earlier, both the political and financial spheres were inclined to help Hungary. Norman stood behind the Hungarian case and even before Bethlen appeared before the Reparation Commission, Norman had expressed to the British political elite what he thought about the Hungarian situation:

I do indeed think that the position of Hungary needs to be tackled without delay. Czechoslovakia is more or less standing on her own legs; great efforts are being made to arrange for the Austrian Loan to be issued in a month or so, after which Austria should be able to regain stability; so Hungary is the next country to tackle both from the standpoint of her geographical position and her needs. I do not suppose that her condition is as serious as that of Austria, but I daresay some sort of foreign control will be essential in addition to a release of all Liens. Will you give this business a push in the right direction, and we will then try to get the question taken up by the League or through some other channel.

Since the British influence proved insufficient this time, they started to use their financial clout too in order to achieve the desired outcome. All the successor countries needed financial help and this could be only provided by Great Britain, which would be no stranger to using hardball tactics with them. The key to the Little Entente was Czechoslovakia and its foreign minister, Beneš.

332 As a sign of how much Hungary was trying to involve the United States, it is important to note that the Hungarian Government also sent a letter to American embassy in Budapest on June 18, 1923, which was identical to the letter sent to the governments represented on the Reparation Commission. Shoecraft to Daruváry, June 20, 1923, 122/ 6/780, K 69, Economic Policy Department, HNA.

333 Norman to John Bradbury, April 28, 1923, G3/179, BoE. Also quoted in Péteri, Global Monetary Regime, 78. After his appearance before the Reparation Commission, Bethlen went to London, where he met not only the representatives of Rothschilds, Baring Brothers, and Schröder & Co, bit Norman as well.
Since the Czechs wanted to raise a loan in the City, the British knew they had "some sort of a hold over him" and through him over the other two members.\textsuperscript{334} The very diplomatic terms the British used notwithstanding, the Czechs, the Romanians, and the Yugoslavs were blackmailed by the British to support the Hungarian scheme.\textsuperscript{335} Norman made clear what these states had in store: "There is no money for the Czechs (or Roumanians) till Hungary has release from reparation—which was prevented last month by Little Entente. Beneš is free to come to London, but the City takes no part in his domestic politics and is not ready to talk future loans."\textsuperscript{336} His confidence had been boosted by Sir Eyre Crowe's letter that assured the Governor that the political leadership agreed with this line of policy.\textsuperscript{337} In fact, the British foreign policy establishment sent an ill-disguised message to the countries concerned when Lord Curzon said in the House of Lords on July 25, 1923:

\begin{quote}
We are giving our full support to the appeal of Hungary. [...] We desire to prevent the financial collapse of Hungary, with its incalculable consequences. We desire to see in force a complete scheme of reconstruction. [...] We earnestly hope, therefore, that the Reparations Commission will reconsider their decision of May last and will refer the question without delay to the League of Nations.\textsuperscript{338}
\end{quote}

The pressure on the Little Entente worked to some extent and the three countries held a meeting at Sinaia, Romania, at the end of July. Here they agreed to raise the liens, but they still held to the belief that part of the long-term loan should be devoted to reparations.\textsuperscript{339}

\begin{flushleft}
\textsuperscript{334} Record by Cadogan of a visit to the FO by Goode and Niemeyer, May 24, 1923, DBFP, First Series, 24:668; Lampson to Sargent, June 26, 1923, Ibid., 737.
\textsuperscript{335} Foreign Office Memorandum on Hungary, August 24, 1923, C14677/942/21, 8865, FO371, TNA; Dering to Curzon, October 18, 1923, and Treasury to Foreign office, November 13, 1923, DBFP, First Series, 24:884; Memo of conversation between M. Milojevics, Yugoslav minister at Budapest and Sir William Goode at the S. H. S. Legation, Budapest, June 30, 1923, 9/VIII/5/95, K 275, Kállay Papers, HNA.
\textsuperscript{336} Norman’s Diary Entries, July 5, 1923, ADM34/12, BoE. See also Norman to Gaspard Farrer, May 25, 1923, OV33/70, BoE; Norman to Niemeyer, June 7, 1923, Norman to Eyre Crowe, June 27, 1923, and Norman to Niemeyer, July 5, 1923, G3/179, BoE.
\textsuperscript{337} Crowe to Norman, June 28, 1923, OV112/1, BoE.
\textsuperscript{338} British Parliament Diaries, 32\textsuperscript{nd} Parliament, 2\textsuperscript{nd} Session, vol. 54, House of Lords, London: His Majesty’s Stationery Office, 1922, 1364–65. Curzon also warned Hungary to follow a more reconciliatory policy toward its neighbors. Ibid., 1365–66.
\textsuperscript{339} Curzon to Clerk, July 20, 1923, DBFP, First Series, 24:776; Millington-Drake to Curzon, July 30, and August 1, 1923, Ibid., 782–85, and Howe to Curzon, August 2, 1923, Ibid., 786; Clerk to Curzon, August 4, 1923, Ibid., 794. In more detail about the Sinaia Conference, see 122/ 6/82430–85457, K 69, Economic Policy Department, HNA.
\end{flushleft}
After some wrangling, Beneš agreed to meet Bethlen in early September in Geneva, and at the headquarters of the League of Nations agreement was hammered out. The most important element was that Bethlen accepted the idea of a reduced time of reconstruction and money, and of a controller of the League, while the Little Entente became more cooperative in the questions of reparations.340 Naturally, the other two members were being convinced by the British to help the Hungarian cause.341 All this ended in the favorable decision of the Council on September 29th that the Financial Committee should start working out a plan for the Hungarian financial reconstruction after hearing from the Reparation Commission. The latter body itself made the decision on October 17th that it agreed in principle later to raise the charges on reparation and invited the League to draw up a plan.342 Despite the fact that the reparations question was not closed, this represented a major positive result for Hungary, because in the Financial Committee it was the British view that prevailed, and from this point on it seemed that the scheme could be drawn up and carried out with little difficulty.

In November, a League delegation arrived in Budapest for ten days to study the local situation before making any final suggestion regarding the loan. Despite the efforts of Bethlen and Tibor Kállay, Finance Minister of Hungary, the League was not inclined to give either as much time or as much money as in the case of Austria.343 The Hungarian government had to swallow this bitter pill. Upon the work of the delegation, the Financial Committee submitted its report to the League Council in which they suggested the following: inflation must be stopped, a point of which was achievable with the setting up an independent Bank of Issue; balance of the budget must be reached by June 30, 1926; and all this by the help of a reconstruction loan of 250 million gold crowns ($50 million), the control of which would be practiced through a Commissioner-General as

340 Goode to Niemeyer, September 26, 1923, 8/VII. The Material of the Negotiations of the League Loan. VII/3/20, K 275, Kállay Papers, HNA; Ormos, Az 1924. évi magyar államkölcsön megszerzése, 71–81.
342 Török to Daruváry, September 29, 1923, 8/VII/3/31, K 275, Kállay Papers, HNA; LNJ, 4th Year, No. 11, November 1923, 26th Session, 1356; Decision No. 2665, October 17, 1923, Doc. No. 28362, Registry Files, R. 296, LNA.
in the case of Austria. One of the most important suggestions was that the loan should enjoy priority over Relief Bonds and reparation. With this list of recommendations the final outcome was not at all insured despite the hopes of the Hungarians, and Salter was realistic when he thought that failure was still possible. On December 10, the Council created the Hungarian Sub-Committee with representatives of Great Britain, France, Italy, Hungary, Czechoslovakia, Romania, and the Kingdom of Serbs, Croats and Slovenes. This small body was to decide on the final points of the scheme of the Hungarian reconstruction. The five meetings in December produced the two Protocols to be signed later. Instead of reparations, Treaty Charges got in the wording, which was not to exceed 10 million gold crowns ($2 million) on an annual average during the amortization of the loan, and in the first 5 years after 1926 was to be substantially less.

However, the idea of reparations was not eliminated, and France and the Little Entente countries kept pushing for such a course under which some reparations would be paid from the loan. The British were quite upset about the French and Little Entente demands for reparation. Niemeyer’s anger was aimed at the French: “We should certainly resist any Gallic attempt to go further. Apart from legal and practical impossibilities a further parade of Reparation nonsense would put the lid finally on any loan.” The main fear of the French was that if Hungary got out of the reparation hold, the same might happen in Germany’s case. Since they proved adamant on this point, Great Britain needed to assure them that the Hungarian case would not be cited as a model in the German case.

In the meantime, the Hungarian domestic situation did not provide much basis for hope. Besides the continuous depreciation of the crown, which may have been intentional on the part of the government, there was a crash in the stock exchange in August and only slight recovery followed. Moreover, the cost of living started

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347 Niemeyer to Kemball Cook, January 2, 1924, OV9/430, BoE.

348 Memorandum by Cadogan respecting the meeting of the Hungarian Committee of the Council of the League of Nations on February 9. February 11, 1924, DBFP, First Series, 26:77; FO Memorandum, February 4, 1924, Ibid., 73; Crewe to MacDonald, and MacDonald to Crewe, February 22, 1924, Ibid., 100–01;

349 Ormos states it as a fact that Bethlen was behind a deliberate devaluation of the crown. In any way, the numbers are curious. From the end of 1923, the crown suffered almost 300% devaluation in two months’ time. Ormos, Az 1924. évi magyar államkölcsön megszerzése, 104-07.
to approach that of the United States. Ofﬁcials were hardly able to live on their salaries and there was “an amazing increase of corruption.” In addition, there was a sizeable opposition to the loan. These voices lamented the allegations that such a small amount the domestic arena could have provided and with foreign borrowing the Little Entente would have a controlling role in Hungary’s internal affairs. Still, Bethlen was successful overall in having the concept accepted that only a foreign loan could help the country, and the opposition shrunk to a narrow political segment that antagonized the government on principle. This was very important, because his government might have fallen on this issue, an opinion Hohler shared. The British feared such a course, because in their view Bethlen’s fall would mean the rise of “the most undesirable extremists [...] If this forecast should be true it would portend a period of inexpert adventure and experiment, which would be full of danger to the peace of Europe.” Thus for the British the battle was one regarding the future of the whole continent. Without the Hungarian piece, the Austrian scheme was almost useless. They used all of their influence to win this fight and they were not moved by certain Hungarians, such as Gyula Peidl, Ernő Garami, Rusztem Vámbéry, and former prime minister Mihály Károlyi, who tried to undermine the possibility of the loan and asked the British government to force the Hungarian government to ensure liberal civil rights, most prominently a general election and the repeal of the numerus clausus law.

After varying hardball tactics and friendly discourse, the British were ﬁnally triumphant. The decision on February 21 was a victory of diplomatic skill and perseverance. The compromise reached declared that certain speciﬁed assets for the Hungarian loan were released, and the reparation question was agreed. According to the decision by the Reparation Commission, Hungary was to pay a sum of annually 10 million gold crowns in a twenty-year period starting after the reconstruction period. For the time being, this prospect was acceptable for the Bethlen government as well, which hoped that eventually they would be able to avoid paying reparations. The timetable of the reparation payments was drawn up in the progressive fashion, starting with 5 million gold crowns ($1,000,000) in 1927 and reaching 14 million gold crowns ($2.8 million) in the last two years each, 1942 and 1943. The now ﬁnalized Protocols also said that ﬁnancial control would be reestablished if Hungary did not pay according to the scheme.

350 Brentano to Hughes, January 2, 1924, 864.00/568, Roll 6, M. 708, NARA.
351 Hohler to Curzon, January 3, 1924, DBFP, First Series, 26:9.
352 Ibíd., 8; Brentano to Hughes, January 2, 1924, 864.00/568, Roll 6, M. 708, NARA.
353 Hohler to MacDonald, January 21, 1924, DBFP, First Series, 26:98.
354 Hohler to Curzon, January 3, 1924, Ibid., 10.
355 Romsics, István Bethlen, 235.
356 For the detailed timetable, see Appendix 2.
This formula seemed at last to satisfy every party and it was only a matter of time before all the signatures were given. The British was the first to sign it on March 5, while typically it was the Little Entente that was the last party to put its signature on the Protocols on March 14, 1924.\footnote{Minutes of the meeting on March 14, 1924, Doc. No. 34921, Registry Files, R. 299, LNA.}

The two Protocols provided for every possible aspect of the loan. Protocol No. I. was a political one in which the parties undertook to “respect the political independence, the territorial integrity and the sovereignty of Hungary,” while Hungary undertook “strictly and loyally to fulfil the obligations contained in the said Treaty, and in particular the military clauses, as also the other international agreements.”\footnote{League of Nations, The Financial Reconstruction of Hungary, 80–81.} Protocol No. II. contained the technical details. The fifteen Articles touched upon every important aspect of the reconstruction period: the amount of the loan; the required minimum sum to be reached by taxation, the maximum possible expenditure and deficit in every half year; concluding commercial agreement especially with the neighboring states; the powers of the Commissioner-General, the Committee of Control, and the Trustees; the possible reestablishment of control if the balance of the budget or the revenues assigned to the loan were in danger; the gross revenues from the customs, the sugar tax, and the tobacco monopoly, and the net revenue from the salt monopoly served as first charge for the service of the loan, and all these, together with the yield of the loan, would be paid into a special account under the control of the Commissioner-General; and a new Central Bank of Issue must be opened with such statutes that would ensure its independence from the government.\footnote{Ibid., 81–92.} In March another League delegation visited Hungary, which talked to all political parties and they approved of the reconstruction law, the bank act, and six monthly budgets that were to come before the Hungarian National Assembly.\footnote{The delegation consisted of Henry Strakosch as Chairman, Avenol, Giuseppe Bianchini, C. E. ter Meulen, Vilem Pospíšil, and Marcus Wallenberg. Janssen and Salter, who had also been appointed, could not visit Budapest on account of other duties. Ibid., 25.}

All that remained now was the necessary legal act of the National Assembly passing the reconstruction bill, which contained the bill for the new National Bank, too. On March 27, Bethlen submitted the package to the National Assembly, where debate, sometimes fierce in tone, lasted three weeks often in 16-hour sessions before it was passed on April 18.\footnote{National Assembly Diary, 1922–27, Budapest: Athenaeum Nyomda, 1924, vol. 22: 60–68, 237, 268–89, 299–315, 317–41, 343–97, 399–452; 23:1–153, 163–241, 243–333, 335–426, 437–510.} The package contained six separate bills: 1. to balance the state budget; 2. to establish the Hungarian National Bank; 3. issuing a domestic loan; 4. postponing the Hungarian debt concurred
toward French creditors; 5. financial and debt agreement with Czechoslovakia; and financial agreement with Italy. The political opposition criticized the whole scheme. A recurrent point during the debate was that the government would have powers that the National Assembly had been titled to. Another was that Hungary allowed foreign countries to interfere with Hungary’s domestic policy. A further point was the question of control and that it could be reestablished. Since the phrase was not absolutely clear this point might have been understood in a wide arrange of interpretations and could be harmful to the country. Despite such voices, the passing was never in danger due to the majority of Bethlen’s Unified Party. With the Protocols signed and the reconstruction bill passed, three outstanding issues were on the agenda. One of them was to find the right person for the position of the Commission-General.