Economy and foreign relations in Europe in the early inter-war period – The case of Hungary's financial reconstruction

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Abstract

All the measures taken by the different Hungarian governments in the period between 1920 and 1924 to cope with the financial consequences of the Great War did not record the expected success. At the beginning of 1923, it was quite clear for the leaders of Budapest that the possible benefits of the inflationist phenomenon had disappeared and the country's only chance to recover was the appeal to international financial aid. Consequently, after failing to get a loan from Switzerland, the only solution for Hungary was to ask for the help of the League of Nations, especially that this modality had been successfully used by Austria, who was confronted to a more desperate economic and financial situation than Hungary. Our paper is the story of that endeavour and its immediate outcomes.

Keywords: Hungary, financial reconstruction, League of Nations, inter-war period, war reparations, international relations

JEL Classification: F30, F50, N0

1. The European economic-political context in the early inter-war years

Although World War I led to considerable loss of life, destruction and devastation resulting in an extremely difficult situation for Europe at the end of 1918, we could however assert that the immediate consequences of the four years of hostilities were less important for Europe's future in the long run than the agreements and arrangements made in the aftermath of the war. John Maynard Keynes, in his famous diatribe against the Treaty of Versailles, denounced some of the unfortunate, in his opinion, outcomes of the peace with

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Germany for Europe's future (Keynes, 1920), but the post-war arrangements had much wider connotations than the ones the British economist had identified. The phrase "post-war arrangements" involves not only the peace treaties signed with the defeated states, but a whole series of issues concerning reparations, war bonds, aid operations in the countries in difficulty, actions of financial and economic reconstruction, the creation of the League of Nations, many of these problems being interrelated with the role the United States of America played in interwar Europe. That was a "New Europe" not only because the political geography of the continent had radically changed, but also due to the significant mutations that had occurred or were occurring at that moment at all levels, the economic one included.

One of the major failures of this new start was the incapacity to conceive an adequate programme of assistance and reconstruction on the continent (Silverman, 1982). A great part of Europe was dominated by food and raw material penury, while most of the countries did not have the necessary money to buy from abroad indispensable products (Aldcroft, 1977). Many of the continent's regions, especially Central and Eastern Europe, needed urgent external assistance, not only because of the famine, which was spreading really fast, but also in order to facilitate the reconstruction of numerous devastated areas. Besides consolidating new territories, many countries were faced with economic collapse and had to deal with famine and social disorder control. The situation was rendered even more serious by the continuation of military confrontations along some borders in dispute, as well as by the political and social instability that had taken over a number of countries.

In spite of the worrying situation in most of the European continent, the winning powers made only small-scale concentrated efforts to promote Europe's reconstruction. Unlike the situation after World War II, the United States were now little interested in getting involved in the European affairs, and the Allied cooperation disintegrated shortly after the finalization of hostilities, to a certain extent, as some authors assert, because of the Anglo-American rivalry (Artaud, 1973). Thus, besides the food aids for the regions havocked by famine in the armistice period, which were totally insufficient, very little was done to promote European reconstruction.

The aid operations were actually deliveries of food and small amounts of money for clothes, under the auspices of A.R.A. (*American Relief Administration*), an organism subordinated to the Allied Supreme Council, but depending on the Americans in terms of funding and logistics. About 20 European countries benefited from food assistance amounting to 1.25 billion dollars, a major part of this sum however being offered as loans to be paid back. Shortly after the peace with Germany was signed, the official aid programmes were suspended. Subsequently, in the next two or three years, the humanitarian actions were developed by private or semi-official bodies, who managed to distribute aliments amounting to 500 million dollars, generally as non-refundable grants (League of Nations, 1943, I).

Solving the problems related to famine and destructions was, of course, only the first step in the process of reconstruction. Many European countries had pressing needs of raw materials and equipment in order to restore their own capacity to meet the domestic necessities. But there was no equivalent for what the Marshall Plan would represent after World War II. There was actually no international coherent and consistent action aiming at a long-run reconstruction of Europe, though everyone admitted that something had to be done to encourage Europe's revival.

Until the first peace treaties were signed, there was little success in terms of economic cooperation, as the divergent interests of the different powers undermined the activity of the Supreme Economic Council, an organization of the Peace Conference of Paris, established in February 1919 (Aldcroft, 1997). The peace treaties did not bring forth many changes in the field either, dealing with the issue of the raw materials only incidentally, when it came to trade policies and reparations to be paid by the defeated countries. There was an attempt, within the international conference of Brussels in October 1920, to conceive a plan meant to conclude international loans for the acquisition of raw materials and basic needs. But the attempt failed and in 1920 it was already too late, as the situation had deteriorated to such an extent that any general plan of approach had become useless (Hill, 1946). Consequently, the European economic rehabilitation was seriously delayed, economy continued to regress, and inflation started to get alarming dimensions (Taşcă, 1922). Finally, the situation started to get so serious in some countries, that a "country by country" kind of approach was necessary, with loans included in a clear plan of financial reconstruction, under international surveillance. This type of approach was eventually adopted by the League of Nations in the case of several countries, mainly Austria and Hungary[1].

Due to lack of a general European plan in this direction, most of the countries had to make great efforts to ensure imports by private kind of credits, in spite of the fact that after 1920 the main source of loans - the United States - was almost empty (League of Nations, 1943, II). The poorest countries were the most affected by the strong imports competition during the essential years, 1919 and 1920. The data about the volume of imports in Europe indicate that Germany and Eastern Europe reached then only one third of the amount of imports in 1913, the most considerable fall being noticed in the field of raw and semi-finished material imports (Orde, 1990). Furthermore, the fact that in almost

[1] See "Résumé Mensuel des Travaux de la Société des Nations", Genève, Vol. II-V, 1922-1925. Many issues and supplements of this publication deal with the financial reconstructions of Austria and Hungary.

all countries customs taxes increased contributed to the trade decline too (Cusin, 1922; Gheorghiu, 1936).

We could therefore assert that the economic problems of many European countries in the early '20s could be partially ascribed to the lack of quick and effective international action, meant to approach the issues of the humanitarian aid actions and reconstruction. In addition, the aid tended to be deemed a form of charity, which could be extended upon some countries, but not upon others. Political considerations usually came first. Last but not least, the fact that the United States could not or did not want to contribute by means of a flexible system of loans to Europe's regeneration was a significant factor in the failure of a lasting peace in the European continent (Henig, 1995).

If the process of reconstruction was a slow, sequential phenomenon in the whole Europe, in the eastern part of the continent the situation was even more serious. Almost all the countries of the region were confronted with almost insurmountable difficulties, given that the revenues and resources were clearly lower here than in other parts of Europe. The list of problems was almost endless: physical devastation, economic disorganization, financial chaos, budgets in deficit, monetary instability, unemployment, agrarian reforms, political instability, ineffective and corrupted management, structural backwardness, etc. In many of these cases, one could not talk about attempts to return to normality as fast as possible, but simply about efforts to impede economic disintegration.

The monetary issues made the headlines of the European newspapers in the '20s, a lot of energy being dedicated at that time to the attempt to remake a functional system of international trade. The restoration of the ante-bellum liberal economic order – the removal of State control over economy, free trade and, above all, exchange rates established according to a gold standard system – was regarded by almost everybody as the major political priority (Arndt, 1944). The gold standard particularly exerted an almost mystical force on the contemporaries' minds, who thought that its reestablishment was the key for the recovery of European and international prosperity. The virtues of the gold standard were never doubted in the '20s. For instance, the international conferences of Brussels and Genoa in 1920 and 1922, respectively, underlined the urgent need to return to the gold standard parities (Fink, 1984; Kemmerer, 1944; Orde, 1990).

Unfortunately, the process of monetary stabilization in the '20s proved to be more complicated than it had been expected, and the monetary situation at the European level consistently deteriorated. A systematic plan to stabilize simultaneously the currencies of different countries missed in this case too, and no sufficient attention was paid to the structural mutations that had occurred in the world economy after 1914 (Aldcroft, 1997). Thus, the process of monetary stabilization had a prolonged evolution, some of the countries obtaining monetary stabilization only in the early ‘30s, so after the almost general renouncement of the gold standard, as a result of the world economic crisis. In Central and Eastern Europe, the monetary stabilization occurred like this: in Austria in 1922, in Bulgaria in 1924 (1928), in Czechoslovakia in 1923, in Greece in 1928, in Hungary in 1924, in Poland in 1926 (1927), in Romania in 1927 (1929), and in Yugoslavia in 1925 (1931) (League of Nations, 1946)[2].

After the end of World War I, for several years, a number of European countries experienced inflationist pressure to different extents and for various periods of time (Preston, 1931). In some cases, nightmare situations of hyperinflation took place, like in Germany, Austria, Hungary and Poland. From a technical point of view, the major inflations were due to the loss of control on the currency issues. But there were also other factors that played a role. In some countries, the economic, social and political conditions were so lamentable in the first years after the war, that the draconic measures meant to stop the inflation, that would have been immediately followed by unemployment and recession, would have probably resulted in the fall of the social edifice of the states in question (Einzig, 1931). Weak governments, ineffective administrations, extended public expenditures and limited tax basis, all rendered a strict control over the national currencies almost impossible in a context in which the needs of reconstruction and recovery forced the governments to observe active tax policies.

Although the ante-bellum mental pattern with regard to inflation had rather underlined the negative aspects of the phenomenon, with an emphasis on instability, the immediate post-war experience indicated that it had positive features as well, inasmuch as the opposite approach, deflation, involved unemployment, reduction of profits and possibly social agitation. Thus, it seems that inflation facilitated, to a certain extent, the process of reconstruction and recovery in several European countries in the first half of the ‘20s at least in the short run. Many of the countries that experienced sustained inflation recorded, compared to the countries that followed deflationist policies, a higher level of economic activity and a lower unemployment rate. But, on the other hand, in the long run, the financial stability of the states that eradicated inflation from the very beginning, mattered more than the initial stimulus enjoyed by the states who had adopted inflationist policies (Aldcroft, 1997).

One of the “hyper-inflationist” countries in the first years after World War I was Hungary. Inflation started as a spontaneous phenomenon and later became a conscious policy supposed to fund the reorganization of economy after the failure, in the summer of 1921, of the first attempt of monetary stability (Berend, Ranki, 1974). Only three years after, with the assistance of the League of

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[2] The dates are for *de jure* monetary stabilizations, while in brackets the dates are for *de facto* monetary stabilizations.

Nations, stabilization was achieved. The positive effects of inflation were concentrated in one year, 1922, and then industrial activity decreased. Thus, during the whole period between 1921 and 1924, the industrial production increased with only 5%. The real wages remained modest, while unemployment rose suddenly after the monetary stabilization in the summer of 1924. One could say that the benefits of inflation were of short duration, and could not solve Hungary's fundamental problem, or that of all the other countries in the region: the lack of capital. Furthermore, the recession after stabilization was a severe one, rendered even more serious by the Hungarians' difficulties to adapt to their new borders. On the other hand, Hungary's situation was never as serious as Austria's situation, for instance, due to a better balanced economy and to a clearly superior national cohesion (Boross, 1994).

2. Hungary's economic and financial situation after the Great War

When the war ended, Hungary was strongly shaken from an economic point of view and in a most precarious financial condition (Csöppüs, 1993-1994). Being in the group of the defeated countries, losing an important part of the surface and population it had had before the war, Hungary was whacked by the enormous effort it had made, as it had used all of its resources and credits in order to continue the war. The public debt had exceeded by far the means of payment and had completely unbalanced the budget. The short period of Bolshevism and the Romanian military occupation had also contributed to the economic difficulties of the country. Although it inherited a good part of the industry of Hungary before the war, the new Hungarian state lost the former markets and the domestic sources of raw materials[3]. Thus, the Hungarian industry was vulnerable to the trade policies of the neighbouring countries, especially that the implacable and extremely noisy revisionism of all the Hungarian Cabinets discouraged the attempts of cooperation[4].

The Hungarian state was actually unable to deal with the important tasks it had. The huge obligations towards the civil servants, whose number went much beyond the country's needs, as well as the subventions it granted to all the

[3] Hungary became in 1922 the main commercial partner of Romania, despite the fact that political relations were actually frozen in that time ("Import-Export", V, No. 2/1925, pp. 104-105). Afterwards, there was a relative decline (Gheorghiu, 1936), but during the entire inter-war period Hungary remained the main beneficiary of the Romanian exports (Cristodorescu, 1928).

[4] Because of the political tensions, there was no commercial treaty regulating the sector between Romania and Hungary in early inter-war years (see, e.g., Arhiva Ministerului Afacerilor Externe/Archive of the Ministry of Foreign Affairs/ henceforward A.M.A.E., *Fond 71/1920-1944*, Ungaria, politica internă, 1920-1923, Vol. 43, f. 183-185). Nevertheless, in April 1924 a "commercial arrangement" between the two countries was signed (Gheorghe, 1980, pp. 83-84; "Import-Export", V, No. 2/1925, pp. 151-152).

refugees who had left its lost territories, rendered even harder its obligation to balance the budget. Having no other choice, the authorities of Budapest appealed to the most comfortable, but also the most dangerous modality to create the pecuniary resources it needed: inflation. This expedient resulted, first of all, in the decrease of the national currency value, which moved the war and reconstruction costs on the shoulders of those who made a living of wages and pensions, whose real value collapsed.

At the same time, the issue of the debt that Hungary had to pay was not solved, as a significant part of it was in foreign currency. Subsequently, public debt increased more and more, reaching in the spring of 1923 the amount of 1,000 billion crowns[5]. The interest rates only for this debt absorbed almost the whole revenues of the State. All the measures taken by the different Hungarian governments in the period between 1920 and 1924 – the stamps, in March 1920, on the Austro-Hungarian banknotes; the attempt of deflation in 1921 (Hungary's attempt, in fact, to emerge from the slum by its own forces); the establishment of an autonomous bank of monetary issues in August 1921; the creation, in August 1922, of the Central Office of Currency, whose purpose was to establish State control on the exchange rates of foreign currencies[6] – did not record the expected success (Stătescu, 1922-1923). At the beginning of 1923, it was quite clear for the leaders of Budapest that the possible benefits of the inflationist phenomenon had disappeared and the country's only chance to recover was the appeal to international financial aid.

Consequently, Hungarian bankers tried to get a loan from Switzerland, but they failed (Orde, 1990). The only solution was to ask for the help of the League of Nations, especially since this modality had been successfully used by Austria (Zimmermann, 1927; Ránki, 1983), who was confronted to a more desperate economic and financial situation than Hungary.

3. Hungary and the scheme of financial reconstruction under the auspices of the League of Nations

Hungary was actually forced to appeal to the Leagues of Nations, but there were also quite significant obstacles in its way. First of all, government policies, at both the domestic and foreign levels, had to be changed. Secondly, there were some doubts related to the reparations due by Hungary, whose total amount had not yet been established. Thirdly, it was necessary to get the support of a great power from the winning group, who had to be a great financial power at the same time. The only country meeting the requirements of this pattern at the moment was, obviously, Great Britain. Fourthly, a French objection was expected (Dobrinescu, 1996), given that Germany could also appeal to a similar

[5] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 12.
[6] *Ibidem*, f. 13-17.

attempt, to postpone the payment of reparations, especially since the beginning of 1923 coincided with the occupation of the Rhenish area by the Franco-Belgian troops, as a repression measure for the Germans' non-payment of the reparations. Finally, Hungarians themselves were not so eager to accept foreign control, with a word to be said by the Little Entente, the organization founded in 1921 by Hungary's neighbours (Czechoslovakia, Romania and the Kingdom of Serbs, Croats and Slovenes), whose main purpose was to discourage the Hungarian revisionist and irredentist tendencies (Leuştean, 2003).

But Hungary had no alternative choice. In spite of all of these obstacles, not negligible at all, the Hungarian state, in order to avoid financial ruination, had to resort to the League of Nations, given that the British were ready to help[7]. Hungarians were suggested to go to the Reparations Commission, to ask for the suspension of the general jurisdiction, which guaranteed that reparations would be paid by Hungary. Premier István Bethlen appeared before the Committee on 23 May 1923, but the decision made on that occasion was not what Hungarians expected. Although the Hungarian plea emphasised the fact that the country's financial situation was deplorable[8], invoked the Bolshevik danger (Ciupercă, 1980) and promised all possible guaranties, by allotting safe State revenues to this purpose, the Committee was not convinced at the beginning. By the decisive vote of the (French) chairman (Dobrinescu, 1996), the decision was made that, theoretically, there would be no opposition to suspending the jurisdiction over certain revenues of the Hungarian State, but only if the loan obtained by Hungary was going to be supervised by the Reparations Commission, and if the money was partially destined to pay the reparations. This decision illustrated the fact that the states to whom Hungary had to pay reparations could not easily give up the guaranties they had on the fortune of their debtor[9].

Bethlen expressed his disappointment towards the decision of the Reparations Commission, threatened with resignation, but decided however to contest the decision by an appeal to the Allied governments, first of all the British one, of course[10]. Though the Foreign Office in London did not want to be

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[7] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Politica internă, 1920-1923, Vol. 43, f. 336. However the British asked the Hungarians to reach a rapprochement with the members of the Little Entente (*Ibidem*, f. 341).

[8] It seems that Hungarians exaggerated their financial difficulties to get the loan. For example, in a meeting of the Foreign Affairs Commission of the Hungarian Parliament (The National Assembly), the finance minister was asked to raise the deficit with 50% on « the paper », in order to offer the impression that it was quite impossible to pay war reparations (*A.M.A.E., Fond 71/1920-1944, Ungaria, Politica internă, 1920-1923,* Vol. 43, f. 301).

[9] Idem, *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 21.

[10] Idem, *Fond 71/1920-1944*, Transilvania, Propaganda revizionistă ungară în Anglia, 1921-929, Vol. 17, f. 54.

thought of as Hungary's patron, the British Treasury was decided to support the Hungarian solicitation (Orde, 1990). In the period between May-June 1923, the British put great pressure on the states of the Little Entente, so that these would suspend their objections regarding the loan wanted by Hungary (Ciupercă, 1980; Zeman and Klimek, 1997)[11]. Montagu Norman, the Governor of the Bank of England, stated in a letter from June 1923 to the Foreign Office: "We are decided to impede the Czechs and the Romanians to obtain money from London until Hungary's position is ensured. This is not a political, but rather a financial issue, and I do not hesitate to ask for your support for this political line I have adopted […] in the interest of Eastern Europe" (Orde, 1990, p. 270).

British pressure[12], exerted in particular on the Czechoslovakians, who had to take from the London banks the second instalment of a governmental loan established in 1922[13], proved effective since July 1923. During the reunion of the Little Entente at Sinaia the same month, the organization's policy with regard to the Hungarian loan issue started to change. After heated debates, it was acknowledged that the loan for Hungary was a necessity, but only if guaranties were taken for the money not to go to some directions that might trouble the application of the Treaty of Trianon or create some dangerous situation for the neighbours of the Hungarian state. While the idea that part of the loan should be used to pay the reparations was renounced, the participation of the Little Entente states was, on the other hand, required in the financial and military control upon Hungary[14]. This was a decision that the states of the Little Entente meant benevolent towards Hungary, but which Hungary regarded as a hostile gesture[15].

Under these circumstances, a Hungarian delegation made of the Premier István Bethlen, Foreign minister Géza Daruváry and Finance minister Tibor Kalláy, went to Geneva to the League of Nations Council, during the September 1923 session[16]. Fierce debates followed between the representatives of the Little Entente and those of Hungary, the former ones addressing a collective letter to the Council, on 29 September 1923, where they expressed their agreement in case the Reparations Commission would make a demand to the League of Nations to establish Hungary's plan of reconstruction, a plan that was to be elaborated by the Financial Committee and the League Secretariat, in agreement

[11] Idem, *Fond Mica Înţelegere*, Vol. 5, f. 69.
[12] Idem, *Fond 71/1920-1944,* Ungaria, Politica internă, 1920-1923, Vol. 43, f. 341.
[13] Besides, the British believed that there were real disagreements amongst the members of the Little Entente (A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 2). On the Czechoslovakian loan, see Orde, 1991.
[14] A.M.A.E., *Fond Mica Înţelegere*, Vol. 5, f. 123.
[15] An expected meeting between Benes and Bethlen (*Ibidem*, f. 157) was not possible anymore before September 1923 (see Idem, *Fond 71/1920-1944,* Transilvania, Propaganda revizionistă ungară, 1922, Vol. 3, f. 102).
[16] Idem, *Fond 71/1920-1944,* Ungaria, Politica internă, 1920-1923, Vol. 43, f. 430.

with the parties. The Little Entente also asked that in the meetings of the League of Nations Council that would discuss the plan, the representatives of Romania, Yugoslavia and Czechoslovakia should be present too[17].

The League of Nations Council accepted the proposition, and the Reparations Commission adopted, on 17 October 1923, a decision by which the League of Nations was invited to draw up Hungary's plan of financial reconstruction, manifesting availability to suspend the jurisdiction over some assets of the Hungarian state after the finalization of the reconstruction plan[18]. In November and December 1923, a financial committee of the League of Nations, after a visit to Budapest, and meetings in London and Paris, elaborated a report that was submitted to the League of Nations in its session in the French capital, on 20 December 1923. The text of the report was adopted by the Council unanimously, being destined to serve as a basis for the whole programme of financial recovery of Hungary. Then, in January 1924, the Reparations Commission gave a favourable answer regarding the definitive plan of financial reconstruction of Hungary, agreeing, on 21 February 1924, that the jurisdiction over the assets of the Hungarian state (only over the revenues of customs, tobacco, salt and sugar, for a 20-year span) be suspended[19]. The definitive protocols stipulating the obligations of the Allies, on the one hand, and of Hungary, on the other, resulting from the recovery plan, were signed at Geneva in March 1924[20].

The report of the financial committee of the League of Nations started by establishing the role played by the Society of Nations in Hungary's affairs. A distinction was made between the financial difficulties of the Hungarian state and the economic type of problems, asserting that the Society of Nations played no other role but to deal with the financial issues, while the country, by its own means, once the financial consolidation achieved, was supposed to recover the economic condition by normalizing the production and the other economic activities. In other words, the League of Nations aimed at financial recovery only, through three operations: the stoppage of inflation, the creation of a completely independent bank of issue and the balancing of the budget by June

[17] Idem, *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 22.

[18] Idem, *Fond 71/1920-1944*, Ungaria, presă, 1920-1923, vol. 25, f. 352-353, 355-356; "Résumé Mensuel des Travaux de la Société des Nations", Genève, Vol. III, No 4/1923, pp. 252-253.

[19] Being backed up by the British, Hungarians would have wanted to pay no war reparations, which, at least formally, was not possible due to the opposition displayed by the French and the representatives of the Little Entente. (A.M.A.E., *Fond 71/1920-1944*, Ungaria, Politica internă, 1920-1923, vol. 43, f. 336). The final decision was to decrease the annual payments made by the Hungarians and even to suspend payments for the first years (Nanu, 1993).

[20] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 23.

1926. To this purpose, a so-called loan of reconstruction was going to be concluded, amounting to 250 million gold crowns (14.2 million pounds). Of this loan, Hungary was to receive periodically a sum, to balance the budget.

In order to apply the recovery programme, a control was stipulated, according to the will of the Little Entente states, following the pattern of the one enforced in Austria. The League of Nations had to appoint a Commissioner General, whose mission was to check that the financial reconstruction programme was strictly applied. A Control Committee was also established, headquartered in Hungary and appointed by the Reparations Commission, a committee whose task was to ensure the observance of the rights and interests of the Reparations Commission, or better of the creditor successor states, according to article 180 of the Treaty of Trianon. It was the Commissioner General's duty to offer the Control Committee all the data and information referring to Hungary's situation. Finally, the Hungarian state was recommended to improve the relationships with its neighbours, and possibly sign trade treaties with them.

In the first of the two protocols signed on 14 March 1924, the allied and successor governments solemnly engaged themselves to comply with Hungary's sovereignty, political independence and territorial integrity, not to try to get any special or exclusive advantage that might compromise this independence, and, eventually to abstain from any action contradicting the spirit of the reconstruction conventions. Hungary, in its turn, engaged to strictly observe the provisions of the Treaty of Trianon and to refrain from any action contradicting the reconstruction agreements or damaging its creditors. The second protocol enumerated the obligations that the Hungarian government took on in accordance with the reconstruction plan and included the definitive text of this plan, resuming in fact the conclusions of the report presented above[21].

Romania, through Nicolae Titulescu, conditioned the signing of the Hungarian loan protocols on Hungary's renunciation to any kind of financial claims related to the military operations of 1919 and 1920. At the same time, the Romanian state gave up its claims regarding the expenditures of the Romanian occupation in Hungary[22]. Only after Bethlen and Titulescu signed a common declaration establishing the two conditions above, did the Romanian official agree to sign the Hungarian loan protocols[23]. Furthermore, Romania, Czechoslovakia and Yugoslavia demanded the participation in the military control on Hungary. Only in December 1924, did the great powers agree to the inclusion of a Czechoslovakian delegate, as a representative of the bordering countries, in the Inter-allied Committee of Control in Hungary. Moreover, in

[21] *Ibidem*, f. 23-27.

[22] Arhivele Naţionale Istorice Centrale/Central Historical National Archives (A.N.I.C.), *Fond Nicolae Titulescu*, dos. nr. 62, f. 31.

[23] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 1-3.

order to monitor the compliance with the military clauses of the peace treaties, a Permanent Consultative Commission was created within the League of Nations Council, which included a Romanian delegate as well, the General Toma Dumitrescu[24]. Finally, the states of the Little Entente also required – and obtained – the postponing of the payments they owed as ante-bellum Austro-Hungarian debts, as well as of the so-called “liberation debt”[25].

After the protocols were signed at Geneva in March 1924, an acceptable candidate for all the parties started to be searched for, to be appointed as the Commissioner General stipulated in the financial reconstruction plan. An American was chosen, Jeremiah Smith, who oversaw in the next years the enforcement of the plan. What turned out to be more difficult was to get the loan proper on the international bank market[26]. The British help was necessary again, without which the scheme of the League of Nations would have probably failed. One can notice that the English banks (Orde, 1990), appealed to by the same Montagu Norman (Peteri, 1992)[27], governor of the Bank of England, subscribed to the most important part (about 55%) of the loan the Hungarians obtained in July 1924, followed by the American participation (of about 15%), the Italian (about 12.5%), the Swiss (about 8.5%), the Czechoslovakian one (about 4%) and others[28]. We remark France’s absence. The reasons were probably not political ones, as the French Foreign Ministry did not oppose – on the contrary – to the participation of the French banks; it was rather a financial cause: the lack of money and the lack of interest from the Parisian financial institutions. The outcome of this absence was the decrease of the French economic and political influence in Central and Eastern Europe along with an increase of the British financial preponderance in the region (Orde, 1990; Ránki, 1983).

The scheme of financial reconstruction of Hungary enjoyed success, mainly. It included three essential elements: the establishment of the National Bank, the stabilization of the crown, fixing the budgetary deficits by foreign loan and then balancing the budget; a set of financial and economic reforms meant to consolidate the macroeconomic and budgetary stabilization. The National Bank of Hungary started its activity on 24 June 1924, and at the end of July the monetary stabilization was achieved, an operation that would have been impossible without a significant loan from the Bank of England. According to a Romanian diplomat accredited to Budapest, “the aid granted by the Bank of England had as a consequence the engagement Hungary took to stabilize the crown on the pound. We must say that this obligation offered advantages to both

[24] *Ibidem*, f. 4.
[25] *Ibidem*, f. 1.
[26] Idem, *Fond 71/1920-1944*, Ungaria, Politica internă, 1924-1925, Vol. 44, f. 13, 28.
[27] It also seems that Montagu Norman was a Francophobe, many of his decisions being influenced by that (Jacobson, 1983).
[28] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 35.

states. England's interest was, while it rehabilitated the pound, to extend its financial hegemony over a European state. Hungary, in its turn, was interested in placing its new bank under the protection of an institution as important as the Bank of England"[29]. Afterwards, in November 1925, the monetary reform occurred, the crown being replaced with a new currency, the pengö, which was put into circulation on 1 January 1927[30].

Hungary's budget deficit, which the country had to fix by 1926 with the sums received from the foreign loan, proved to be easier to solve than the authorities of Budapest had suggested in 1923-1924. Since the end of the budget year 1924-1925, the Hungarian budget went into surplus, one of the causes of this situation being the fact that "Hungary turned out to be richer than it was thought to be, or rather than it wanted to appear"[31].

In order to consolidate its success at the financial level, the Hungarian state was forced to enforce a programme of reforms: the drastic reduction of the State bureaucratic apparatus (the number of servants was much higher than Hungary's needs, representing a huge budget burden: about 60% of the total amount of public expenditure)[32]; the centralization of the State cash and revenues; the introduction of a system of public accountancy; the reorganization of the State main enterprises; supporting agriculture; supporting industry by means of protectionist customs tariffs, etc[33].

4. Conclusions

We could conclude that the activity of financial reconstruction of Hungary was really effective through the conjunction of internal efforts and foreign assistance. Paradoxically, the loan taken by the Hungarian state within the reconstruction scheme administrated by the League of Nations was not the determining element of the Hungarian finance's recovery. But the order imposed in the administration of public finance and the strict control exerted by the American expert Jeremiah Smith in relation to the application of the League of Nations' dispositions were decisive. Thus, the sums resulted from the loan could take a different destination than the one initially established. A major part of the loan was used for investments, for the development of the factors of production (Saizu and Tacu, 1997). In other words, "Hungary paid reparations to itself, instead of paying the reparations it owed, according to the treaty, to the winning countries, quite affected by the world war too"[34].

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[29] A.M.A.E., *Fond 71/1920-1944*, Ungaria, Vol. 53, f. 32.
[30] *Ibidem*, f. 33-34.
[31] *Ibidem*, f. 36-37.
[32] Vezi Idem, *Fond 71/1920-1944*, Ungaria, Politica internă, 1920-1923, Vol. 43, f. 334, 429.
[33] Idem, *Fond 71/1920-1944*, Ungaria, vol. 53, f. 38-40.
[34] *Ibidem*, f. 40-41.

At the same time, maybe the most important benefit Hungary had from the League of Nations' financial reconstruction scheme was the fact that it managed to penetrate the world capital market in a moment when other countries of the region had real difficulties to do so. Hungary succeeded in obtaining other foreign loans too by the end of the '20s, a fact that had significant outcomes. This meant that those who granted loans to Hungary trusted its domestic economic and political stability, and, on the other hand, from a Hungarian perspective, as Traian Stârcea, the Romanian minister to Budapest, noticed in June 1927, "all the loans that Hungary has taken by now, and intends to take in the future, are taken with the aim of linking the financial interests of the foreign creditors and, implicitly, of the great powers in question, to the interests of the Hungarian governments' policies of revenge"[35].

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[35] *Ibidem*, f. 10.

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