

---

## PROBLEMS

---

### *The Compensation Question of Hungary after World War One*

István Csöppus  
University of Budapest

In the summer of 1914 when world war one broke out neither the politicians nor the generals reckoned with the grave consequences that might follow their decision in the next three decades, not to mention the issues of the economic world crisis shaking even the mightiest countries all over the world.<sup>1</sup> The Hungarian government was not responsible for the outbreak of the war in any case. The Hungarian Prime Minister Count István Tisza took a definite stand in his statement presented to the sovereign Francis Joseph I on 1 July 1914 expressing his objection to the aggression of Serbia — «we would be taken for enemies of peace all over the world and would start this great war under the worst conditions —» it read.<sup>2</sup> He even suggested to the monarch in his memorial that the monarchy should stay clear of possible war events already being severely threatened by Russia and Serbia.<sup>3</sup>

<sup>1</sup> The assassination of Francis Ferdinand and his wife in Sarajevo on 18 June 1914 was the reason for the outbreak of WW I.

<sup>2</sup> Quoted by Lajos JÓCSIK, *A Közép-Dunamedence közgazdasága*. [Economy of the Central Danubian Basin], Budapest 1944, pp. 273-274.

<sup>3</sup> Russian political ambitions against the monarchy had already become evident from 1901 onwards. Leaflets and booklets printed by Serbian emigrants and backed by the Russian envoy to Bucharest had already printed maps at that time on which the southern territories of Hungary were marked as being annexed to Serbia and Roumania. The facts were denied at first but later in the memorandum Thomas Masaryk submitted to the British Government in 1915 it turned out to be true. According to this memorial, by dismembering the monarchy the territories of Serbia (founded in 1878 out of the Turkish Balkan territories) and Roumania were to be extended. This view was mostly represented in Western Europe by French political writers visiting Moscow after 1901 and from 1905 on by the British historian Seton-Watson and Noel Buxton. — HORVÁTH, Jenő: *Magyarország helyzete a háborús Európába* [Hungary in Wartime Europe], Budapest 1943, p. 16. This Russian policy also came to light in the so-called schism suit

Now, the question might arise about the possible reason for changing his mind later and giving way to events. The answer lies in a report of the border guards (4 July 1914) giving an account of the unofficial visit of Sasanoff the Russian Foreign Minister and Bratianu the Roumanian Prime Minister to Transylvania. The Hungarian government was unaware of the visit but the intelligence bureau reports also announced at the same time that the Russian Council of Ministers which met on 24 July 1914, presided over by Tsar Nicholas II, had decided on mobilisation and as a result the Russian and Serbian troops were already on the move.<sup>4</sup> These were the main points which made Count Tisza believe that the war against Russia seemed to be inevitable.

	1911-1915 average production m. qtrs	1918 m. qtrs
Crops	81	50
Maize	42	24
Potatoes	52	31
Sugar beet	37	22

Already in the first year of the war the economic and military weakness of the monarchy had become evident. As for Hungary, the insufficiency of the labour force was an unsolvable problem.<sup>5</sup> Agriculture suffered most from

1913-1914 arising from a Russian East Church propaganda campaign in northern Hungary led by the Holy Synod and other Russian social organizations to persuade Greek Catholic Ruthenians to convert to the Greek Orthodox Church and thus to become the subjects of the Russian sar. (For the slogan in Russia "the way to Constantinople leads through Vienna" was not an idle one). MISKOLCZY, Ágost: *A máramarosi skizma per 1913-1914. (Adatok azon väd megdöntésére, hogy Magyarország részese volt a háborü előidézésében).* [The Schism Suit, 1913-1914. Data for refuting the charges that Hungary had a part in provoking the war]. *Magyar Szemle /Szemle/*. [Hungarian Review]. /Review/. 1928. No. 4, 8, 9.

<sup>4</sup> The Russian priority in the declaration of war was acknowledged by Raymoun Poincare 1930. HORVÁTH, Jenö, *A háborus felelőség kérdése.* [The responsibility of War]. *Külföldi Szemle.* [Review for Foreign Affairs] 1931 p. 145-156. — In connection with the declaration of war on Serbia, Count István Tisza the Hungarian Prime Minister's letter to his niece: "My conscience is already calm, the noose was already around our neck and if we didn't cut it now we would get strangled later at a more convenient time. We couldn't do anything else and, yet, it's distressing we had to do so". (26 Aug 1914). Quoted by ANGYAL, Dávid: *Még egyszer Tisza István háborus felelőségéről.* [Once More about the War Responsibility of István]. *Szemle.* [Review]. 1929. No. 4.

<sup>5</sup> BEREND, T. Iván-SZUHAY, Miklós, *A tőkés gazdaság története Magyarországon 1848-1944.* [The History of the Capitalist Economy in Hungary 1848-1944], Budapest, 1978.

manpower shortage: nearly half of the male population was called up. The supply of draught animals was no better and the very few agricultural machines existing in Hungary could not be put to work because of the petrol and parts shortage<sup>6</sup>.

As a result of these shortages the daily flour ration decreased to 210 gr by 1918 in comparison to the consumption of 384 gr per capita of the prewar years and the daily meat and fat ration per head was not more than 3.4 d.<sup>7</sup>

The inflation rate was considerably high; the value of banknotes was 38.3 billion in Oct 1918 in contrast to 2.5 billion in July 1914 reaching 931 billion at the end of 1923. The cost of living advanced exorbitantly too.<sup>8</sup>

---

The cost of living index (except for rents) estimated on the basis  
of paper crowns /1913 = 1/

---

1914	1.1
1915	2.2
1916	3.3
1917	4.2
1918	6.0
1919	14.1
1920	45.0
1921	51.0
1922	174.1
1923	2,782.0
1924	18,535.0
1925	18,892.0
1926	16,954.0

---

But above all apart from the deprivation of the war Hungary had also to face the problem of casualties because these losses were far more extensive than any she had suffered previously: 1.5 million dead, missing, wounded.<sup>9</sup>

p. 146.

<sup>6</sup> On the basis of the Hungarian Statistical Yearbooks.

<sup>7</sup> BEREND, T. IVÁN-SZUHAY, Miklós, *op. cit.* p. 164., and *Yearbooks*.

<sup>8</sup> Cost of living index 1914-1926. *Magyar Statisztikai Szemle*. (Statistical Review), 1927, No. 6. p. 590. — With regard to depreciation, POPOVIC, Sándor: *A pénz sorsa Európában*. [The Fate of the Currencies in War]. Budapest 1926., SZENTIVÁNYI, Dezső, *Bankuralom Magyarországon*. [Bank Regulation in Hungary]. Budapest.

<sup>9</sup> MIKE, Gyula: *A Magyar Birodalom és a mai Magyarország vérvésztése a világháborúban*. [The Hungarian Empire and its Casualties]. *Statisztikai Szemle*. [Statistical Review]. No. 7. pp. 627-633.

	Dead	Wounded	Missing	Prisoners of war per 1,000 person	Sum total
Hungary	18.48	36.07	19.36	29.83	103.74
Austro-Hungarian Monarchy	17.99	36.53	16.64	29.40	100.56

Exhausted by war and suffering the Hungarian masses turned toward radicalism which resulted in the proclamation of the civil democratic revolution on 31 Oct 1918 and culminated in the proletarian dictatorship on 21 March 1919.

The grave situation became even more desperate if not disastrous when the occupation of a considerable part of Hungarian territory took place, carried out by the Roumanian, Czech, French and united Serbian-Croatian-Slavonian (afterwards Yugoslavian)<sup>10</sup> troops followed by a turbulent but short-lived victory of the counterrevolution in August 1919<sup>11</sup>. The final act of the tragedy was the signing of the Peace Treaty on 4 June 1920 leaving the country 92,963 km<sup>2</sup> of its prewar 325,411 km<sup>2</sup> territory (Croatia and Slavonia included) which crowned the fatal events of WW I for Hungary<sup>12</sup>. One third of the Hungarian speaking population was escluded from Hungary!

When the Great Powers decided on the elimination of the monarchy by

<sup>10</sup> The occupation costs were 26,216,063.000 crowns for the dismembered country (estimated value of the crown 1 Aug 1919. 100 crown = 12,68 sfr). Patterns of costs: Roumania 93.23%, Czechoslovakia 1.22%, Yugoslavia 5.43%, France 0.12%. The last Serbian occupation forces left Hungary in 1922. LAKY, Dezső: *Csonka-Magyarország megszállásának közgazdasági kárjai*. [Economic Damages of the Occupation of Dismembered Hungary], Budapest 1923, p. 465; Harry Hill, BANDHOLTZ, *An Undiplomatic Diary by the American Member of the Inter-Allied Military Mission to Hungary 1919-1920*. Ed. by Fritz Konrad Krüger New-York 1933.

<sup>11</sup> After the fall of the Commune Miklós Horthy, former Admiral of the Monarchy, backed by the Allies assumed power as Governor of Hungary.

<sup>12</sup> Yearbooks 1939. On the basis of the peace treaty more territory was annexed to Roumania (103,093 km<sup>2</sup>, 31.6% of the devolved territories) than to Hungary itself (92,963 km<sup>2</sup>). Further annexations: Czechoslovakia 61,633 km<sup>2</sup> (18.94%), Yugoslavia 63,092 km<sup>2</sup> (19.39%) Austria 589 km<sup>2</sup> (0.18%), Italy 21 km<sup>2</sup>. — With regard to the annexations it is worth mentioning the view of the Prime Minister of the victorious Italy: "The dismemberment of Hungary is quite disastrous and there will be never a Hungarian... to agree with it. It was such an infamy that nobody takes the responsibility for it. The French politicians, above all, are permanently sorry in their speeches and books for what had happened to Hungary. To an almost similar extent the English and the Italians disowned what had happened. But if so, who wanted Hungary to be dismembered in such a terrible and unfair way and was ashamed to hear about it now?" Francesco NITTI, *A béke*. [The Peace], Budapest, p. 70. — The USA did not

signing the Peace Treaty in Paris they also put an end to the economic unity of the Danube Basin and the 400-year coexistence of 11 ethnic groups.<sup>13</sup> They decided on setting up a new system of small Central European countries being perfectly unaware of the danger that might follow their step e.g. that these small countries might fall prey to any big and dynamically developing country in the future. History justified all those who were against the dismembering of the monarchy, among others Woodrow Wilson, the USA president. These politicians were for the political and economic modernisation of the monarchy.<sup>14</sup> As a result of the peace treaty a series of crises was to follow in the countries of Central Europe leading to World War II and from 1945 on to the setting up of the two spheres of interest.

	Oct. 1920	Oct. 1921 Crown	Feb. 1923
Bread flour, kg	2.50	6.10	182.00
Fat, kg	120.00	190.00	1,000.00
Sugar, kg	119.00	87.30	405.00
Salt, kg	9.50	11.88	26.00
Fork, kg	104.00	98.00	840.00
Egg, kg	4.90	5.50	32.00
Men's clothing	3,500.00	5,000.00	40,000.00

The series of misfortunes befalling Hungary in two short years (1918-1920) caused unsolvable problems. Production became totally disorganised,<sup>15</sup> the lack of fuel and goods, the exhaustion of all financial resources, the half a million refugees from the dismembered territories who had to be looked after<sup>16</sup>,

approve the peace treaty, it was signed only in 29 Aug 1921. — *A magyar királyi kormány működése, 1919-1922.* (Működés). [The activity of the Hungarian government 1919-1922]. (Activity), Budapest, 1926, p. 191.

<sup>13</sup> «This mighty monarchy... from a historical point of view it was perhaps the most interesting experiment on how to govern so many and different people in the same territory while acting on the same principles». Francesco NITTI, *Nincs béke Európában.* [There is no Peace in Europe], Budapest, 1922, p. 17.

<sup>14</sup> ÁDAM, Magda: Egy amerikai terv Közép-Európáról 1918. [An American Plan on Central Europe 1918]. *Historia* 1987, No. 4.

<sup>15</sup> Reduced to being a dismembered country industrial production was 53% less in 1921 than before the war. BETHLEN, István, *Beszédei és írásai.* [Speeches and writings], Budapest, 1933, Vol. I. pp. 267-273.

<sup>16</sup> *Magyar probléma.* [Hungarian Problem], Budapest, p. 5. Because of the lack of flats hundreds of refugee families were living in freight cars on the shunt lines of the railway stations.

coupled with famine<sup>17</sup> and inflation created a disaster. By way of illustration one may cite the prices of some goods in the capital.<sup>18</sup>

In order to avoid the collapse of public supply, which was the direct result of the Roumanian occupation, the Hungarian government raised a 1.7 million loan at 6% annual interest rate for flour imports from the USA at the beginning of 1920. Instalments should have started on 1 June 1925 but because of Hungary's insolvency a new agreement was signed on 25 April 1924. According to this agreement the sum of the accumulated and unrealised interest payments (1,939,000 crowns) had to be paid back in rising annual instalments in 62 years. The interest rate on the capital was 3% in the first 10 years, which was raised to 3-5% later.<sup>19</sup>

### 1. *The Compensation*

In this hopeless economic, political and social situation Hungary started to meet its commitments in compliance with the obligation imposed on the country by being forced to sign the peace treaty. It had to acknowledge its responsibility for all losses the Allies and the other countries of the coalition had suffered respectively, all the damages sustained by their populations which "the war imposed on them as a consequence of the aggression of Austria, Hungary and their allies" (Peace Treaty, Part VIII. I. 161.§/).<sup>20</sup> And because Hungary's income sources could not cover the full payment of its

<sup>17</sup> To help the children of the badly-off families Wilhelmina, the Dutch Queen, urged the Dutch Red Cross to evacuate Hungarian children. Thousands of children were also evacuate by the Belgian and the Swiss Red Cross. The American Red Cross, the Hungarian Relief Committee of Cincinnati and the Dutch Red Cross had sent clothing and food worth 13,403.460 and 417,473 crowns in 1921. CSORNA, Kálmán, *A szegények gondozása Budapesten*. [Care of the Poor in Budapest]. *Budapesti Statisztikai Szemle*. [Budapest Statistical Review], Vol. 62/1, p. 178.

<sup>18</sup> Zürich 1924 100 crown = 0,03 sft. *Magyarország külkereskedelme 1919-1945*. [The Foreign Trade of Hungary 1919-1945], Budapest, 1961, p. 13.

<sup>19</sup> *A magyar hitelpolitika az 1920-1944. években*. [The Hungarian Credit Policy 1920-1944]. Budapest, 1946, p. 7. — The government was forced to import 2,854 tons of sugar 1921. BETHLEN, István, *op. cit.* pp. 267-273.

<sup>20</sup> With regard to the question of responsibility the Italian Prime Minister was of the following view: "...Nothing can be more ridiculous than to see the politicians of the late Austro-Hungarian Monarchy among the politicians of the Allies who had their part in the outbreak of the war and becoming only later Poles, Romanians, Czechoslovaks and Yugoslavs". As for the war, "only the Germans of Austria and the 14 million Hungarians were responsible; the other 30 million were friends of the Allies". Francesco NITTI: *Európa hanyatlása*. [The Decline of Europe]. Budapest, 1923, p. 179., John Maynard KEYNES: *A Revision of the Treaty*, London, 1922.

debts arising from the demands of the peace treaty the compensation duties were limited to the compensation of the losses suffered by the civil population (162.§).

Compensation was also to be paid for the damages sustained by the Allies and their citizens if their property had been damaged, demolished or seized.<sup>21</sup> The pensions for casualties of the victorious countries had to be settled, the allowance to the family members of the people serving in the army had to be paid, the aid for the repatriation of prisoners of war and the compensation to people made to work without pay during the war all had to be met. But in the course of the armistice talks Hungary had also to meet the expenses of the occupation of the country as well as the charges of the committee controlling the terms of armistice and the peace treaty.<sup>22</sup>

Hungary also became the principal debtor for pre-war private debts. The citizens of the former hostile countries could not raise claims for losses on their behalf and neither could the Hungarian population because the victorious states ordered the seizure of their property. The value of their confiscated properties was reckoned in the commitments of the compensation.

The sum total of the compensation was not fixed in any of the Paris peace treaties because a Compensation Committee (henceforth Committee) was in charge of presenting a draft plan in order to settle this problem. According to this plan only the timetable and the level of instalments were fixed for Hungary, starting 1 May 1921 and lasting for 30 years. The sum total was only to be set when the amount of the German compensation had been fixed because it depended on "whether Germany and its allies would be able to

<sup>21</sup> Greece informed the Hungarian government that for the damages suffered by its citizens before the neutrality of the country (30 June 1917) the Greek government would make a claim to Hungary on the basis of paragraph 232 appendage 4 of the peace treaty. Greece proposed a friendly agreement which was accepted by Hungary. But the compensation of losses suffered by Greek Danubian shipping and the damage caused by German U boats flying the Austro-Hungarian flag had to be made clear-cut as well as the question of responsibility. *Crszágos Levéltár. Minisztertanácsi jegyzőkönyvek*. [State Archive]. (SA). [Protocols of the Ministry Council]. (*Protocols*). K-27. 6 Apr 1923, 14 Oct 1927, 22 March 1929. — The Netherlands also made claims against Hungary for its expenses in safeguarding interests during the war and for the repatriation of prisoners of war. SA. Protocols. K-27. 19 Nov 1926.

<sup>22</sup> The cost of the allied missions was 1.9 mill g.c. (gold crown) for Hungary in the fiscal year 1922/23. The members of the missions were living in the best hotels and received their salary in the currency of their country. On 22 Feb. 1922 the Council of the Ambassadors ordered the Hungarian government to pay extra to the members of the missions in Hungarian currency. A general received e.g. 209,732 crowns per month, a colonel 154,539. The salary of the head of state was 250,000 crowns, the prime minister got 152,000. BETHLEN, István, *op. cit.*, pp. 267,273, also Francesco NITTI, *The Decline of Europe, op. cit.*, pp. 182-183.

compensate the remainder of all claims advanced by the Allies and coalition members and supervised by the Committee" (163.§). Thus, as far as the defeated countries of WW I — Germany, Austria, Hungary, Bulgaria and Turkey — were concerned a *universal liability* was brought about by the peace treaty.

The peace treaty also declared the general right of pledge for the payment of the compensation: "All property and income of Hungary answer (priority in order of rank) for the payment of the compensation claims". (180.§).<sup>23</sup> Not even by 1 September 1921, when the obligatory coking coal transported to Yugoslavia had to be delivered, had the grand total of the compensation been fixed (Part VIII. I. Rider. V. Paragraph 1). In five years up to Sept. 1926 124,822 tons of coal was delivered to Yugoslavia, which was equivalent to one and a half year's production of the only black coal field of the country.<sup>24</sup> The exchange value was deducted from Hungary's compensation account but this amount had to be of the same value as the subsidised prices in the Hungarian market.<sup>25</sup>

In a note of 8 March 1922 the Committee ordered Hungary to deliver 80,000 head of cattle and horses as "prompt payment in advance".<sup>26</sup> At the end of March the Hungarian government informed the Committee about the impossibility of the demand, saying "should a considerable amount of foreign loan be made payable" the Hungarian government would return to the issue of animal compensation.<sup>27</sup> Jean Herbert, secretary to the Committee, while

<sup>23</sup> Considering this loan mentioned earlier the creditors agreed that Hungary's income would get priority in the instalments of the compensation duties.

<sup>24</sup> Hungary's coal production:

1921.	7,255,947	1924.	7,443,941
1922.	8,565,767	1925.	8,050,499
1923.	7,930,746	1926.	8,269,061

The Yugoslav authorities, ignoring the Belgrade military agreement (4 Nov. 1918), had also occupied the coal field of southern Hungary transporting 310,000 tons of coal as a free gift to Yugoslavia in 1919 and 473,000 tons in 1920. PAPP, László, *A écsi szénmedence teremtése*. Production of the Coal Field of Pécs]. [Statistical Review], 1928, No. 4, pp. 411-418. — The compensation agreement was signed on 3 Feb. 1924. 30 steam engines and 140 freight cars were also delivered by Hungary in 1927-8. Budapest 1929, p. 37. However it has to be mentioned that the Hungarian government did not fulfil its compensation duties in coal transport worth 1.9 mill pengő. *Képviselőházi Napló*. [Parliamentary Journal] 16 May 1930. The Prime Minister's speech.

<sup>25</sup> SA. Protocols. L-27. 29. Sept 1922, 31 May 1924.

<sup>26</sup> SA. Protocols. K-27. 17 March 1922. "Not being able to find anything to take away, the victorious states demanded from Hungary all animal stocks that the Roumanians had not yet taken away". Francesco NITTI, *Európa hanyatlása*, [The Decline of Europe], op. cit., p. 180.

expressing disapproval in his answer, also reminded the Hungarian government of the serious nature of the situation saying "the Committee is compelled to hand over the matter to the countries concerned who will enforce the delivery of the animals and decide on the measures to be taken by them in order to settle the transportation"<sup>28</sup> should the delivery of the animals not take place by 12 May. The Hungarian government resisted the threats and decided to await the possible retribution.<sup>29</sup> In the end the Committee approved the respite in its final decision (19 May 1922).

The head of the Committee in Budapest estimated the solvency of the dismembered country at 2,000 million g.c. but the plan of the Committee, comparing the Hungarian economic data with German facts and figures, estimated it at 4,803 m. g.c.<sup>30</sup> The English chairman of the Committee fortunately considered these assessments nonsense and proposed that Hungary should make an offer of 550 m. g.c. in order to come to terms with the Committee.<sup>31</sup>

Despite all efforts it was impossible to stabilise the Hungarian economy through its own resources and foreign capital kept aloof because of the right of pledge on all Hungarian state income and property declared by the peace treaty.

To avoid total collapse the Hungarian government asked the Committee (6 April 1923) to grant a 40 m. short-term and 550-600 m. g.c. long-term loan, also insisting on the suspension of the declared right of pledge.

At the talks in Paris (2 May 1923) France and the Associated Danubian States (Czechoslovakia, Roumania, Yugoslavia) refused the Hungarian request.<sup>32</sup> The negotiation continued in London and later in Paris with the intensive support of Britain so the Committee agreed, although only in principle, to raising a loan to Hungary (23 May 1923). But the credit to be put at disposal was

<sup>27</sup> SA. Protocols. K-27. 11 April 1922. The Foreign Minister's report on the note sent in reply to the Compensation Committee (27 March 1922). The report referred among other things to the link between the measures taken by the Compensation Committee and the devaluation of the crown. Francesco NITTI was of the same opinion in his book "*The Decline of Europe*", *op. cit.*, p. 180.

<sup>28</sup> SA. Protocols. K-27, 14 April 1922. The Finance Minister made clear that the animal stocks demanded could only be bought from abroad but Hungary could not afford it. All animal exports were cancelled at once.

<sup>29</sup> *Idem*.

<sup>30</sup> KORÁNYI, Frigyes, *A jövátétel kérdésének fejlődése az 1929. évi párizsi békekonferenciáig*. [The Course of the Compensation Issues until the Paris Peace Conferenc 1929]. [*Review for Foreign Affairs*], 1930, No. 3, p. 288. 1 gold crown = 0.304878 gr. fine gold.

<sup>31</sup> KORÁNYI, Frigyes, *op. cit.*, pp. 288-290.

<sup>32</sup> France was for developing its influence in the Central-European region, also extending its control over these countries and over the former German Balkan sphere of interest. For stabilising the region credit was granted to Austria, Roumania, Poland and Bulgaria in the period 1922-1928.

to be under the control of the Committee and a considerable amount of the credit was to be transferred to the compensation account of Hungary. Of course, these conditions could not be accepted either so the Hungarian government appealed to the Committee in a note expressing the wish that the control should be carried out by the League of Nations and all issues concerning the credit should be separated from the issue of compensation commitments (13 June 1923).

The Associated Danubian States also had talks on the matter in Sinaia (Roumania) and they too agreed on separating the issue of credit from that of compensation duties. However, they rejected the request for control by the League of Nations and they insisted on the supervision of the Committee (28-30 July).<sup>33</sup>

At the meeting of the League of Nations in September 1923 the atmosphere towards Hungary was much better than at any time earlier; moreover, a delegation of the League of Nations was to arrive in Budapest the following month. At the same time, at the London talks of the Financial Committee (20-28 Nov.), the preliminary and later (20 Dec.) the final financial reorganization plan of Hungary was also accepted.

On the basis of the London talks the Economic Committee of the League of Nations fixed the conditions for granting credit in two protocols (16 Jan. 1924). Protocol One was of a political character, in which the Allies acknowledged the sovereignty of Hungary, declaring their wish not to take any economic advantage of the situation that might contradict or frustrate the reorganisation of Hungary. Hungary on the other hand declared its readiness to comply with the conditions of the credit (16 Jan. 1924). Protocol Two concerned the conditions of the credit. The Hungarian government was obliged to give an account of its programme for reorganisation to the League of Nations including the reforms to be introduced and the efforts that had to be made to rationalise the public finances as well as the obligation to submit a half-yearly statement revealing the maximum and minimum of receipts and expenses.

Cover for the credit was to be provided by the total tax income of the country, the sugar tax, the net income of the tobacco monopoly and the full income of the salt tax.

While credit was being granted to Hungary (21 Feb. 1924) the Committee's second decision was made public, too, disclosing the sum total of the compensation and other debts, and setting out the terms by which Hungary was compelled to pay 10 million g.c. annually from 1 Jan. 1924 to Jan. 1943 i.e., 200 million g.c. altogether.<sup>34</sup> In the first three years (1924, 1925, 1926) the sum was

<sup>33</sup> At this meeting Roumania applied for membership to the Military Control Committee station in Budapest.

<sup>34</sup> SA. Protocols. K-27, 18 March 1925. The so-called Dawes plan was made public in order to stabilise the German currency, the mark (1924). Germany received a loan, first of all from America, worth 800 m. gold marks.

fixed at 7.7 million g.c. but because the sum to be paid to the coalition members (Czechoslovakia, Roumania, Yugoslavia) exceeded the amount of the annual compensation commitment, the government was compelled to ask the Committee yearly to decide on the order of priority concerning the compensation and other instalment duties.<sup>35</sup>

The protocol about the financial reorganisation of Hungary was signed 5-6 March 1924 with England, France and Italy and the lifting of the right of pledge was announced by the Committee.

In order to protect the interest of the creditors the protocol declared that Hungary could not be obliged to make any other payments over 10 million gold crowns per year arising from its compensation duties up to 1942. Were the creditors still to demand more payment in 20 years this total was to be discounted from the amount of the yearly compensation.<sup>36</sup> Hungary on the other hand reiterated its earlier pledge to pay the state debts of the monarchy reduced to its dismembered territory, amounting to 161,526,850 g.c.<sup>37</sup> It also declared its intention to set up the central bank (issuing bank) with its right of

<sup>35</sup> Activity... 1923-1925, Budapest, 1928, p. 66, — order of the Compensation Committee, 12 March 1925, No 213/19. The Hungarian embassy in Paris was informed by the Compensation Committee that only the expenses of the Border Control Committee, the Military Control Committee and transport compensation could be settled from the amount of the compensation account.

<sup>36</sup> With regard to the 10 m. gold crowns only those amounts that had been approved by the League of Nations could be paid from the instalments. KORÁNYI, Frigyes, *op. cit.*, p. 294. — The written note of the Conference of Ambassadors sent to the Hungarian envoy in Paris 16 June 1925, No. 127. Hungary and the successor states were compelled to pay £ 3,714 14s. Id. for the journey of the Hungarian King and the Austrian Emperor Charles IV to the island of Madeira paid in advance by the Allies and now to be adjusted by Hungary and the successor states. Hungary's 1/7 share was £ 530 12s. The exile of the King was ordered by the Allies because the King, backed by Briand, the French Prime Minister - tried twice to return to Hungary on 26 March and 20 Oct 1920. The Hungarian government expected the successor states to pay the amount but the Hungarian envoy to Paris warned the government not to oppose it because of the possible and severe consequences. Sa. Foreign Ministry (FM) Economic-political Department (ED) K-69. 1928, 1- 291., and ADÁM, Magda, A "Királypuccsok" és a kisantant. [The "Kingcoups" and the Little Entente], *Historia*, 1984, No- 1-2.

<sup>37</sup> Hungary's national debt without the debts of the ministries was 8,124,145,680 gold crowns in July 1914. SZABÓKY, Alajos, A háború előtti állam-adósságok. [National Debts before the War], *Statistical Review*, 1923, No. 1-2, pp. 44-45.

monopoly<sup>38</sup> and agreed to the two and a half-year secondment of a high commissioner on behalf of the League of Nations for monitoring the fulfilment of the agreement and the economic development of Hungary<sup>39</sup>. It was clear that this agreement was the only safeguard against the political and economic hostility of the Associated Danubian States and it was of great help to the economic recovery of the country which was able to abolish the food ration card system from the middle of 1924.

The League of Nations' loan granted in London on 30 June 1924 was floated under the most unfavourable conditions. As a result of the 80-88% delivery rate, 1/8-1/5 of the nominal value was not floated at all so from the 307 million gold crown credit granted earlier only 250 million g.c. was put at the disposal of Hungary, although the annual 7.5% interest rate had to be paid on the total. The credit was over-subscribed in a few hours; 47% of the credit was granted by Britain, the remainder by six countries headed by the USA, Italy and Switzerland<sup>40</sup>.

## 2. The Optant Suit

The agreement signed in Locarno in 1925 had eased the political atmosphere in Europe considerably. Germany acknowledged its western borders at last and joined the League of Nations. As for Hungary this could have meant the solving of the *optional issues* but despite the improving political atmosphere at the talks lasting for years no agreement could be reached.

<sup>38</sup> The Hungarian Parliament empowered the government with exceptional authority in order to set up a stabilisation plan and a programme for reorganisation (Act IV, 1924). The Hungarian National Bank was set up in 1924 (Act V) authorised with the monopoly to issue banknotes. The gold and currency reserves of the bank were guaranteed by the £ 4 m. loan of the Bank of England (82 mill g.c.) and its commitment to the exchange rate was set at 1,346,000 paper crowns, 1 g.c. = 17,000 paper crowns. Act XXXV, 1925 ordered the introduction of the new currency Pengő (P) by 1 Jan 1927.

1 P = 100 fillér (f), the gold value of 1 P was 1 kg fine gold = 3,800 P.

1 P = 1.2 g.c. and 12,500 paper crowns. Csöppös, István, "The Development of Hungarian Agriculture after the Treaty of Versailles", in *Oxford Agrarian Studies. Oxford*, Vol. XIII, pp. 20-42.

<sup>39</sup> The supervisor of the League of Nations, Jeremiah Smith, a Boston attorney, who arrived in Hungary on 1 May 1924 also offered his salary to Hungarian students studying abroad.

<sup>40</sup> The loan granted by the League of Nations was also signed by the Associated Danubian States in Geneva (14 March 1924). Here also a Roumanian-Hungarian agreement was signed: Hungary gave up its claim to get recompensation for the damages caused by the Roumanian occupation and Roumania acknowledged Hungary's integrity.

The peace treaty also settled the issue over the citizenship of the people living in the devolved territories. It was declared that the citizens of the devolved territories had lost the validity of their Hungarian nationality by becoming the citizens of the state now exercising power over them. But people living in their new country could also apply to preserve their Hungarian citizenship if they exercised the option (pre-emptive right —63.§, 64.§) within a year. In this case they were compelled to move into the country whose citizenship they obtained. They had the right to keep their property and if the property had been expropriated they could apply for compensation. In cases of relocation personal property was duty-free.

In Czechoslovakia, Yugoslavia and Roumania, the Hungarian large estates of the devolved territories were practically all expropriated under the pretext of land reform<sup>41 42</sup>.

In Czechoslovakia the nationalised estates were about 460,000 kat.hold but the authorities accepted all compensation claims even if the landowners had stuck to their Hungarian citizenship<sup>43</sup>. In Yugoslavia the confiscated estates were about 160,000 kat.hold<sup>44</sup> and in some instances compensation claims were accepted.

The situation in Roumania was an exceptional one. The Roumanian authorities were of the view that neither the landowners living in Hungary nor those who had opted for Hungary later were entitled to compensation but if the Hungarian government was so deeply concerned about their fate it should also take the responsibility for their claims.

<sup>41</sup> The political instability of the Danubian Basin became permanent. A Czechoslovak-Yugoslavian agreement was signed (14 Aug. 1920) for mutual help if Hungary provoked or attacked any of them. Similar agreements were signed by Czechoslovakia-Roumania (23 April 1921) and Yugoslavia-Roumania (27 June 1921). Hungary's army consisted of 35,000 men without aircraft and heavy arms, while the united military personnel of the Associated Danubian States consisted of 600-700,000 men.

<sup>42</sup> This paper does not aim to give a report on the land policy of the successor states. However, its nationalistic character has to be mentioned. 1 kat.hold = 0.575464 ha; 1 acre = 0.703 kat. hold; 1 acre = 0.46 ha.

<sup>43</sup> A hágai megállapodás alapján 1930. évi április hó 28-án aláírt párizsi egyezmények. (A hágai megállapodások ...) [The Agreement of Paris signed on the basis of the Hague Convention 28 April 1930]. (The Agreement of Paris ...) Ed. Sebestyén, Pál. Budapest 1930. pp. 111-113.

<sup>44</sup> Lórinicz, Péter, *harcban a földért*. [Struggle for Land], Budapest, 1977, p. 36. The land reform concerned 1,962,382 kat. hold in the annexed Hungarian territories. Most of the owners were optants in Hungary expelled from Yugoslavia (395 large estates). Berkes, József, Jugoszláv földreform, [The Yugoslav Land reform], Szemle, [Review]. May 1928. Because of the grave economic situation and also the lack of accommodation the deadline for the resettlement (26 July 1923) had to be extended twice. Activity ... 1923-1925, and 1932. Budapest 1928 and 1933, And SA. Prorocols. K-27, 10 May 1929.

In Transylvania the optants' claims were 674,159 kat.hold at first; the patterns of the size of the farms were as follows: <sup>45</sup>

0—	5 kat.hold	4.91%
5—	100 kat.hold	20.81%
100—	1000 kat.hold	48.85%
over	1000 kat.hold	25.43%

The compensation claims fell back in number later because 50,259 kat.hold were given back to the landowners though the Hungarian government was not informed about this. Strangely enough, 62,000 kat.hold were also registered as optants' claims and it turned out later than 95% of the optants declared themselves Roumanian. <sup>46</sup> In fact the extent of optant claims was between 562,000 and 578,000 kat.hold. <sup>47</sup>

Patterns of land cultivation: <sup>48</sup>

wood	53.68%
plough land	26.42%
pasture	12.87%
meadow	3.54%
garden	0.38%
vineyard	0.14%
untilled land	2.90%
reeds	0.07%

In the hope of finding a remedy for these claims the adversely-affected Hungarian citizens brought their civil law suits before the Mixed Arbitration Court of the League of Nations on the basis of paragraph 191 and 250 also backed by the Hungarian government. <sup>49</sup>

<sup>45</sup> *Móricz, Miklós, Az erdélyi föld sorsa.* [The fate of the Land in Transylvania] Budapest 1932, p. 102. 371,613 kat.hold belonging to the Roman Catholic and 314,153 kat.hold belonging to the Protestant Church were confiscated (84.5%). The revenue was mostly spent on schools and cultural institutions. Venczel, József, *Az erdélyi földbirtokreform.* [The Land Reform in Transylvania], Kolozsavár 1942, pp. 122, 133. At the time of WW I the government had raised a loan of 15, 207,901 crowns to support the building of Protestant schools in Transylvania. On the basis of clause 191. Hungary asked for the bonus of this amount but the claim was withdrawn by Hungary because the loan was considered as credit which did not have to be paid back and the government never claimed ownership of the buildings. SA.FA.ED. K-69, 1928, 1-291. Letter of the Hungarian Finance Minister to the Headmaster of the Grammar School of the Reformed Church in ZILAH (21 April 1927).

<sup>46</sup> According to our sources the number of Transylvanian optants was 352 or 348.

<sup>47</sup> SA. FM. Res. Pol. K-64, 1929, 27/a-36, Report to the Ministry of Foreign Affairs. 22 Feb 1929.

<sup>48</sup> *Móricz, Miklós, op. cit.*, p. 103.

<sup>49</sup> The capital from the suits based on 250. \$ was worth 2.2 bn. pengő. The agrarian suits were worth 1.1 bn., confiscated Church properties worth 174 m., industrial, trade

For example a suit against Czechoslovakia was brought on behalf of orders to compensate them for their estates in former Upper Hungary. As a matter of fact these estates had never been expropriated but — as a result of the talks with the Vatican — given to their local episcopacy and parishes. There was but one exception and this concerned the estates donated in the seventeenth and eighteenth century by three dignitaries of the Hungarian Church for subsidizing the university in Upper Hungary and later its successor the university of Budapest.<sup>50</sup> The Court decided in favour of the Hungarian Church in 1933 and Czechoslovakia accepted the judgement.

Roumania denied the competency of the Court saying that paragraph 250 only prohibited single confiscations while the Hungarian estates had been expropriated on the basis of a general land reform. To justify such it was emphatically expressed that they had to be taken to overcome the Bolshevik threat.<sup>51</sup> It was also pointed out that none of the international authorities would ever have the right to condemn them for any of their steps and, as for protestation, the Roumanian delegation was ordered home in 1926. After this the Hungarian government appealed to the League of Nations in order to settle the optant question (March 1927) and the League of Nations decided on bringing the optant suits and all unsolved problems before a subcommittee.

At the Geneva meeting of the League of Nations in 1927 the Hungarian prime minister Count István Bethlen had talks with the French and British prime ministers in order to settle the optant problem.<sup>52</sup> Bethlen asked his

and transport company suits worth 336 m., and the suit of the royal princes 315 pengős. The total sum corresponded to 1/9 of Hungarian government property. István Bethlen in Speech in Parliament 16 May 1930. *Parliamentary Journal*, No. 393. The members of the Mixed Court of the League of Nations were: one Hungarian judge, one judge of the country concerned and a neutral president. The legal process was regulated by more than 50 paragraphs. Nemes, Dezsó: *A Bethlen-kormány, külpolitikány külpolitikája 1927-1931-ben*. [The Foreign Policy of the Bethlen Government, 1927-1931], Budapest, 1964, pp. 248-249.

<sup>50</sup> From the 1,775 kat.hold 1,133 kat.hold was wood, and 233 kat. hold out of use. *Hungarian Farmers' Directory*. Ed. Rubinek, Gyula, Budapest, 1911.

<sup>51</sup> SA.FM. Res. Pol. K-64, 1927, 23-180. Notes on the talks of the Hungarian Prime Minister and Grandi, Italian Secretary of State, 6 April 1927. Later the Hungarian government ordered its envoy to Rome to inform his Italian counterpart that the «so-called optant suits already lasting for five years» were basic problems and the Hungarian government did not believe that Mussolini «would give up any of his foreign political views considered to be one of the basic principles of Fascism by Italian public opinion», SA.FM. Cabinet Res. k-64, 1929, file (f) 205.

<sup>52</sup> SA.FM. Res. Pol. K-64, 1927, pp. 23-180. Talks between the Hungarian Prime Minister and Grandi, Italian Secretary of State, 6 April 1927. The Hungarian Prime Minister made clear that he was not willing to accept any mediatory proposition because the suits «concern only the civil law suits of Hungarian citizens». The Italian counterpart accepted the view but advised solving the problem in a friendly way.

French colleague to exercise pressure on the Roumanian government because only "fictitious talks could be continued". Briand promised to do his best saying "it is also the interest of Roumania to strike off the question from the agenda".<sup>53</sup> The British government represented another view proposing that Hungary's compensation amount fixed in 1924 should be raised and that after having paid all compensation duties Hungary should pay compensation for the optants from 1944 onwards.<sup>54</sup> The Hungarian Prime Minister refused the proposal finding it unacceptable because, if Hungary paid for the confiscation, Hungary not Roumania would be the expropriator.<sup>55</sup> Hungary would have been satisfied if Roumania paid the interest and later on when "becoming economically strong enough to raise foreign loans it could also pay its debts".<sup>56</sup> On this point the negotiations broke off.

Direct Hungarian-Roumanian talks started in Opatia in Yugoslavia in 1928. First the size of the estates had to be made clear but the Hungarian delegation did not possess the exact data "on the territories concerned"<sup>57</sup> while the Roumanian counterpart possessed a special file "on each optant estate and of the circumstances of the expropriation".<sup>58</sup>

The compensation claims of the optants amounted to 350 m. g.c.<sup>59</sup> According to Hungarian experts, this amount was 100% more than the real value. Estimating the net income of 1 cadastral multiplied by 145, 578,000 they were worth 300 m. g.c.<sup>60</sup>

The talks<sup>61</sup> continued in San Remo in February 1929 but both standpoints were as far from each other as before. The Hungarian government stuck to the compensation amount of 130 m. g.c. while Roumanian refused to pay more

<sup>53</sup> SA.FM. Res. Pol. K-64, 1927, pp. 41-655: Talks between the Hungarian and French Prime Ministers, 6 Dec. 1927. Briand had also mentioned that Masaryk "would be ready to take any opportunity to make approaches to Hungary. But this would need time..."

<sup>54</sup> SA.FM. Res. Pol. K-64, 1927, pp. 41-654. Talks between István Berhlen and August Chamberlain in Geneva, 6 Dec 1927.

<sup>55</sup> "I would never charge Hungary with such an amount, a part of which would roll into my pocket" said the Hungarian Prime Minister. (His farm of 10,000 kat.hold was confiscated in Transylvania by the Roumanians).

<sup>56</sup> *Idem.*

<sup>57</sup> SA. Protocols. K-27, 15 Oct 1928. Francesco Deák: *The Hungarian-Roumanian Land Dispute*. New York, Columbia University Press. 1928.

<sup>58</sup> SA.FM. Res. Pol. 1928, pp. 27-729.

<sup>59</sup> It was worth 406 m. pengós. The amount demanded by the claimants was fixed at 150-200 m. gold francs at the talks of István Berhlen with Grandi. 165-200 m. pengós "was the maximum the claimants demanded". SA.FM. Res. Pol. K-64, 1927, pp. 23-180. Notes on the talks between the Hungarian Prime Minister and Grandi, Italian Secretary of State, 6 April 1927.

<sup>60</sup> SA.FM. Res. Pol. K-64, 1928, pp. 27-773. Report of József Szerényi head of the Hungarian delegation, 21 Dec. 1928.

<sup>61</sup> *Idem.*

than 100 m. g.c. <sup>62</sup> Failing agreement Roumania proposed to postpone the talks and continue later in Vienna mainly to gain time. <sup>63</sup> At the next meeting, a month later, no agreement was reached although there were some talks on the Hungarian compensation to be paid to Roumania up to 1943. The question also arose that Roumania might pay back its debts by delivering oil and timber to Hungary. <sup>64</sup>

These Vienna talks also broke off but continued again from 30 May to 22 June. The head of the Hungarian delegation wanted a declaration of the statement confirmed in an agreement of 15 June that "Roumanian debts cannot be replaced by the compensation of Hungarian liabilities in any shape or form". <sup>65</sup> This demand was refused at once because Roumania was unwilling to concede that "the present Hungarian debts and future liabilities might be used for compensation". <sup>66</sup> In addition, the Roumanian government wished to reserve the right to take steps in case the "Compensation Committee imposed further duties on Hungary in favour of Roumania after 1944". <sup>67</sup> This view was totally refused by the Hungarian delegation. <sup>68</sup>

As the fruitless talks of 22 June 1929 ended, the head of the Hungarian delegation suggested that Roumania appeal to the League of Nations for help, <sup>69</sup> but the Roumanian counterpart, side-stepping the question, proposed another meeting to be held at a later time.

In the meantime, from 6-13 August 1921 the Hague talks on German compensation issues <sup>70</sup> were already at an advanced stage on the basis of the Young Plan and the representatives of the Great Powers started talks on the final settlement of the so-called Eastern compensation issue. This was the very opportunity for Roumania to emphasise its original view, which argued that compensation issues should be linked up with optant matters. After these antecedents a conference was convened by the Great Powers in Paris, in September 1929 to settle the compensation issues of Austria, Hungary and Bulgaria for good. As for Hungary the wish was expressed that the *special claims*

<sup>62</sup> SA.FM. Res. Pol. k-64, 1929, p. 27/a-36. Report of the Hungarian envoy to Roumania 14 Feb. 1929. "The Roumanians having introduced Byzantine tactics into the San Remo talks now made their last proposal ... there is no doubt that it was a hard decision to undertake the payment of such a big amount for compensation" in the light of their grave economic situation.

<sup>63</sup> SA.FM. Res. Pol. K-64, 1920, p. 27/a-36. Telegram code No 49, 16 Febr 1929, SA.FM. Res. Pol. K-64 pp. 27-181.

<sup>64</sup> SA.FM. Res. Pol. K-64, 1929, p. 27/a-36. Pro domo 18 March 1929.

<sup>65</sup> SA.FM. Res. Pol. K-64, 1929, pp. 27-181.

<sup>66</sup> *Idem.*

<sup>67</sup> SA.FM. Res. Pol. K-64, 1929, pp. 27-484.

<sup>68</sup> *Idem.*

<sup>69</sup> *Idem.*

<sup>70</sup> The German compensation duties to be paid off in 36 years were 38 billion gold marks.

deriving from the peace treaty (optant suits etc.) should be solved by further compensation payments after 1944 but that this amount should be bigger than the overall annuities, fixed in 1924. The annuity of the compensation was 7 m. g.c. in 1930 but from 1931 onwards it was raised by 1 m. g.c. yearly and by 1942 and 1943 it was already 14 m. g.c.<sup>71</sup>

However, the sum total of the compensation was fixed, although the Allies insisted on Hungary's payment of compensation for the expropriated property of Hungarians and other citizens after 1944. And, to top it all, they also demanded that Hungarian citizens whose property had been confiscated in the territories of the Associated Danubian States should give up their right, declared in 250§, to bring their suits before the Court. It became very clear at the conference that the settlement of the optant issues was developing according to British plans.

At the conference the Hungarian delegation stuck to the following issues: 1) the optant question should be separated from the other compensation issues; 2) the Hungarian government refused to pay any further compensation duties because pursuant to 191§ Hungary had already paid its debts by handing over its state property in the devolved territories as well as by suffering all the damage caused by the occupation of foreign troops and, last but not least, by the fines already paid and those to be paid in the future for compensation; 3) Hungary would not relinquish paragraph 250 and the principles of the Arbitration Court; 4) Hungary insisted on the payment of pensions to the Hungarian civil servants taking refuge in Hungary; 5) in addition, Hungary was willing to pay for the assets and liabilities concerning issues other than compensation and it would pay Hungarian deficits if there were any.

Hungary had informed the Italian government about its standpoint, hoping to receive some support, but the result of the talks was depressing. The Secretary of State, Grandi, called the attention of the Hungarian Ambassador to the advantage of "submissiveness that might give hope for getting rid of reparation duties after 1944 and paying a minimum only ... Hungary should not risk these advantages for the sake of a small group of people while the burden of the reparation problems would concern the whole nation".<sup>72</sup> The Hungarian envoy informed his government about the talks in his report saying «even if optants won their suits after so many years of trouble» the countries of the Associated Danubian States would still not be willing to pay.<sup>73</sup>

The unsuccessful Paris talks in the Autumn of 1929 were continued in the Hague in January 1930 but the failure to find common ground led to the setting

<sup>71</sup> The Agreement of Paris ... p. 14.

<sup>72</sup> SA.FM. Cabinet Res. K-64, 1929, pp. 27-202, Report of the Hungarian envoy to Italy. 17 Oct. 1929. At a cabinet meeting regarding the Paris talks the Prime Minister made clear that he was urged to accept a friendly agreement and 1966 because "we should compensate the demands of our countrymen". SA. Protocols. K-27, 25 Oct., 1929.

<sup>73</sup> SA.FM. Cabinet Res. K-64, 1929, f. 302.

up of a Subcommittee in order to come to an agreement with the parties concerned. The meeting of the Subcommittee was held at the same time as the conference in Paris (10-19 Jan. 1930). Its main task was to bring not only the Roumanian but also the optant and other suits before the Court. As for the optants, Hungary demanded 130 m. g.c. from Roumania, 100 m. from Czechoslovakia and 80 m. from Yugoslavia.<sup>74</sup> The Subcommittee aimed to raise funds for compensating the optants and recommended that Hungary transfer the bigger half of the amount to be paid for compensation after 1944 to the funds. On this account the amount to be paid to the optants by the Associated Danubian States would have been included, as well as a certain amount paid for the compensation claims of the Great Powers in case they agreed to the proposal.

At the meeting of the Subcommittee on 10 January the High Commissioner Brocchi asked the Hungarian delegation if it was willing to accept the decisions of the Arbitration Court on the condition that it would not touch the legal ground of the suits nor condemn the successor states but would only make decisions regarding the debit of the funds. According to this proposal the funds were to be raised by the Associated Danubian States and not by Hungary. The Hungarian Minister for Finance accepted the proposal thinking the greater the funds the smaller the increase in reparation duties would be.

As for Hungarian views, only the optant issues were to be settled from the funds; all other controversial questions — the ownership of local trains, commercial suits as well as the suits of the Royal Habsburg princes — should be settled according to clauses 250 and 191 of the peace treaty i.e. in accordance with the decision of the court meeting on 12 January. But with regard to the suits of the local trains and other industrial companies Hungary stuck to clause 250. These issues could be settled easily because in most cases the counterparts had come to agreement, and the shares — especially in case of the local trains — were mostly in foreign hands.

The raising of funds and the question of Hungarian compensation after 1944 was discussed again at the meeting of 16 January. The debate concerned the floating of funds on the basis that future funds should be administered by the International Payment Bank. The optants would receive bonds for their acknowledged claims, also receiving interest charged by the fund. The bonds would be drawn and redeemed in the period 1944-1966.

The Associated Danubian States suggested the raising of funds to the total of 150 m. g.c. but Loucheur the French Chairman hoped to rise 200 m. g.c. or even more. The Hungarian Prime Minister leading the Hungarian delegation was ready to reduce the amount of compensation if the bonds floated were of full value, because if the interest rate was less than 5% the market value of the bonds would be below par. Delegate Loucheur made clear that the interest rate of bonds would be less than 5% in the first few years.

The French delegate was also interested in what other financial

<sup>74</sup> *Nemes, Dezsó, op. cit.*, p. 270.

contributions the Hungarian government could offer besides the compensation amount. István Bethlen, the Prime Minister, was ready to accept an 8 m. g.c. contribution yearly for the period 1944-1966 i.e. 184 m. g.c. additional duties. The French delegate considered the amount rather modest and insisted on 14 m. g.c. per year that might become less if Hungary agreed to raise the annuity of the years 1930-1943 to above 10 m. g.c. a year. The Prime Minister stood by his suggestion for a contribution of 8 m. g.c. but was willing to reduce Hungary's compensation claims from 310 to 260 m. g.c.

Next day the French delegate made the following suggestion: 1) the funds to be raised were to total 240 m. g.c.; 2) Hungary would pay 12 m. g.c. a year (1944-1966) and the sum total would be 276 m. g.c.; 3) the bonds were to be floated at 3% until 1943 and 5% in the period 1944-1966. (The bonds would be drawn and redeemed annually).

With regard to new payments after 1944 the Hungarian Prime Minister made clear that "he is not in a position to exceed the amount of 10 m. which is the average of the annuities, but he is ready to accept a 9-9.5 m. g.c. annuity"<sup>75</sup>.

In actual fact, underlying the debates about funds was the desire to eliminate the court proceedings and to settle the suit problems.

The French delegate Loucheur later told the Hungarian Premier that he would raise two funds, one for the optant suits and another one for other problems including the compensation claims of the royal princes, for which Hungary would not have to make any contribution. Later the Allies urged that no more suits should be brought before the Court on the basis of 191.§ and 250.§ and that any remaining controversial issues should be brought before the Court in the Hague. But following these talks the English delegate Leith-Ross declared that the raising of two funds could only be managed if 1) the Hungarian government reduced the amount of the funds from 240 m. g.c. to 200 m., 2) or, instead of paying 12 m. g.c. a year, to grant 14 m. after 1944.

The sum total of fund B was to be of 100 m. g.c. and was to be collected from the 40 m. deducted from fund A and, from the yearly 12 m. plus 2 m. paid throughout the period 1944-1966 amounting to 46 m. g.c. The 14 m. still needed would be collected from other sources. These were the main points of fund B which, according to Loucheur, would not place any great burden on Hungary!

At the talks the Hungarian Premier was on the defensive all the time. The economic crisis loomed in Hungary and to receive further loans he had to agree to paying 13.5 m. yearly after 1944 and to the transfer of 40 m. from fund A to fund B at the expense of the optants.

The issue of interest rates was also discussed by the Subcommittee. As a matter of fact the 3% interest rate required to start floating the bonds was very low because in Hungary a 3% interest rate did not even cover 40-50% of the nominal value. Nonetheless, the interest rate was pledged so that Hungary would obtain further loans having signed the agreement.

<sup>75</sup> SA.FM. Cabinet Res. K-64, 1930, f. 193.

After a series of talks an agreement was first reached in The Hague on 20 January 1930 and signed in Paris later on 28 April settling once and for all the optant issues and raising Hungarian compensation duties. Thus the compensation committee had also finished its work.<sup>76</sup>

The agreement, "Preamble" as it was officially named, also contained the chapter "Introductory Agreement" relating to the commitments of the peace treaty and the complementary duties of Hungary as well as to the settlement of the outstanding issues existing between the citizens of Hungary and the neighbouring states.

Agreement I I. § declared that no compensation duties over 200 m. g.c. fixed earlier could be demanded from Hungary. Hungary on the other hand undertook to pay 13.5 m. g.c. yearly from 1 Jan 1944 to 31 Dec. 1966 for *special claims* deriving from peace treaty obligations e.g. for debts other than compensation.<sup>77</sup>

	Pengòs	Gold Crowns M.
1/ Costs of the occupation troops authorised by the peace treaty 181.\$	200,807	173,375
2/ Transport home of the prisoners of war and the internees	1,582	1,402
3/ The value of the coal not yet delivered to Yugoslavia and ordered by the peace treaty	1,901	1,677
4/ Claims of the Greek government by right of river navigation	944	815
5/ Debts in default of handing over the waggons belonging to the railway lines of the devolved territories	2,922	2,584
6/ Damage caused by troop manoeuvres in the Hungarian Soviet Republic in Czechoslovakia	252,080	217,622
7/ Roumanian demands based on the repeal of the Bucharest peace treaty, 193.\$	84,419	75,493
8/ Administrative debts of the Hungarian government before the collapse of the Monarchy	167,432	144,557
Sum total	715,087	617,534

<sup>76</sup> There were also views that if the Hungarian government had not stuck to the compensation of the optants and the royal princes the increase in the compensation duties could have been avoided as the case of Austria had shown. The setting up of funds A and B was the precondition for the raising of Hungarian compensation duties. Nemes, Dezsó, *op. cit.*, p. 275.

<sup>77</sup> Száblender, É., *A magyar jóvátétel*. [Hungarian Compensation Duties], Budapest, 1931, pp. 26-30.

Details of the allowances by value were not included but the amount of each item was made public in the speech of the Hungarian Premier delivered in Parliament.<sup>78</sup>

The liabilities of Hungary amounted to 617,534 m. g.c. (715,087 m. Pengòs) against its 357,300 m. g.c. (413,944 m. Pengòs) assets so the passive balance of the special claims was 260 m. g.c. (301 m. Pengòs). For the acquittance of its debts 13.5 m. g.c. annuity was paid and the capital value discharged at 4% was about 130 m. g.c.<sup>79</sup>

This agreement did not affect the fulfilment of the prewar debts nor the commitments under the agreements signed in the cease-fire contract and did not include the peace treaty debts paid to the Associated Danubian States either.<sup>80</sup> After 1944 the amount was to be transferred to the account of the International Payment Bank instead of the Committee. The instalments were to be paid in equal terms each half year. Clause 6.§ declared that for the sake of fulfilment of the special claims Hungary was free of further obligations.

Clause 9.§ made clear that the properties of the Hungarian citizens in the disannexed territories and in the allied countries could not be expropriated as from the date on which the agreement was introduced. Hungary on the other hand approved the decision by which all its assets and liabilities with regard to Germany, Austria and Bulgaria were forfeited (10.§).

According to 1.§ Agreement II all Hungarian landed property suits brought to Court by reason of 250.§ on the basis of the land reform before 20 Jan. 1930 against Czechoslovakia, Yugoslavia and Roumania would concern Fund A laid down in Agreement III, assuming responsibility for the defendants. However, non more suits were to be accepted after 20 Jan 1930 (13.§).

<sup>78</sup> The Agreement of Paris ... p. 15., and the speech of the Prime Minister István Bethlen in Parliament 16 May 1930. *Parliamentary Journal*. Exchange rate P = 0.86316 g.c. 1 g.c. = 1. 1585365 P. Sources: *Hungarian Statistical Yearbook* 1938.

<sup>79</sup> *The Agreement of Paris* ... p. 16. Prewar debts did not concern compensation issues. The Innsbruck, Prague, Rome and Vienna agreements were valid in this field.

<sup>80</sup> SA.FM. Cabinet Res. K-64, 1930, f. 101. and *The Agreements of Paris* ... p. 29.

Agreement III. 1.§ fixed the amount of fund A at 219,500,000 g.c. on the basis of the Hungarian compensation claims advanced at the Hague conference and thus the pattern of the compensation by territory and value became:<sup>81</sup>

Country	1,000 kat. hold	1 kat. hold by value g.c.	Amount
Czechoslovakia	251	226	56,726,000
Yugoslavia	160	387	61,920,000
Roumania	578	174	100,854,000
Sum total			219,500,000

But it has to be mentioned that in Czechoslovakia the land reform was carried out rather slowly and the Hungarian estates were only expropriated after the agreement was signed. A large part of these properties was woodland and they mostly remained in the possession of the owners. After long bargaining only 80,000 kat. hold were subject to legal action though 460,000 kat. hold were impounded first and the compensation took care of only 251,000 kat. hold brought before the court.

The fund was free to dispose of the following allowances: 1/ 1.§ the shares concerning Belgium, Britain, France, Italy, Japan and Portugal in accordance with the agreement of the creditor states (20 Jan. 1930) with regard to the annuity of the compensation amount paid in the period 1 July 1930 - 31 Dec. 1943.

2/ the Hungarian annuity of 13.5 m. g.c. to be paid for special debts in the period 1944-1966 (sum total 6.1 m. g.c.).

3/ the yearly allowance to be transferred each half-year by Britain, France, Italy and Belgium on the basis of the agreement of 20 Jan. 1930 being of the same value as the amount paid by Bulgaria for compensation (9,482,562 g.c.).

4/ the allowances of Britain, France and Italy.<sup>82</sup>  
a/ 1931-1932 800,000 g.c. to be transferred by France and Italy in equal portions.

b/ 1933-1944 827,528 g.c. to be transferred by Britain 1,600,000 g.c. by France and 1,630,112 g.c. by Italy (sum total 4,137,640 g.c.).

c/ 1944-1966 579,269 g.c. to be transferred by Britain, 1,340,000 g.c. by France and 1,260,027 g.c. by Italy (sum total 3,179,296 g.c.). The fund was to pay the allowances in bonds (Table 1 and 2).

The fund also fixed the amount of the compensation Roumania and

<sup>81</sup> The Agreements of Paris ... p. 81. From fund A owners of the big estates were compensated in gold crowns. *Nemes, Dezsó: op. cit.*, p. 279.

<sup>82</sup> *Száblender, Éva, op. cit.*, p. 27.

Yugoslavia had to pay. (Czechoslovakia settled the issue by paying all compensations according to its own law).<sup>83</sup>

Roumania and Yugoslavia promised to compensate Hungarian citizens for their confiscated landed property in the same way as had been done for their own citizens. These two countries were to pay the amounts in g.c. in two equal instalments yearly.

3.§ of the Agreement III was about the interest rates. In 1933-1966 the bonds were to be floated at 4% and the instalments of the denomination of the bonds were to start in 1944 lasting to 1966 in equal terms. The instalments would consist of interest and capital fixed at the same amount each year throughout 1944-1966. The interest rate fixed at 4% also meant that if the bonds were to be floated on 1 Jan 1933 the value of the calculated capital would amount to 224,239,849 g.c. so the capital of the fund could be insured and the remaining 4,739,849 g.c. could cover the administrative expenses of the fund.

7.§ also made it possible for all compensation duties to be paid in cash if cover could be presented and if the International Payment Bank was asked by the Executive Committee of the fund to act as a Trust.<sup>84</sup>

Agreement III also set up reserves to carry out the reconciliation, being the unanimous wish of all nations (20.§). For this reason France and Italy undertook to pay yearly allowances (sum total 326,000 g.c. 1933-1943 and 541,291 g.c. 1944-1966) to raise reserves for fund A in order to compensate for the properties expropriated by Czechoslovakia.

Agreement IV concerned the recompensation of all law suits except for the agrarian ones and also set up the Safety Fund (Fund B). Hungary was not interested in Fund B because it was not obliged to make any contribution to it.<sup>85</sup> Fund B was free to dispose of 100 m. g.c. transferred yearly; i.e. the creditor states paid a certain sum from the amount paid them by Hungary for its so-called special debts. This fund was mainly raised to help the Associated Danubian States in cases in which law suits had been lost.

Owing to Fund B, Hungarian citizens could file a series of suits had their property either been sequestered, liquidated or their life interest cancelled. These suits concerned church and foundation of funds, ownership of the local railway, salary and pensions of the former civil clerks serving in the devolved territories amounting to about 3,000 suits. In addition there were also bank suits for compensation arising from the loss of bank branches and commercial

<sup>83</sup> If the Czechoslovak government had compensated the farms of 251,000 kat. hold nationalized earlier, 56,726,000 g.c. could have been put at its disposal. The owners would have received 36.7 million g.c. and the rest would have been paid by fund A. *The Agreement of Paris ...* p. 121.

<sup>84</sup> Száblender, Éva, *op. cit.*, pp. 27-28.

<sup>85</sup> Parliamentary Legislative Records 1930, Act XI. and Government Report 1930. Budapest 1932, pp. 35-36. With regard to the issues concerning the funds an agreement was signed by the claimants and the defendants mostly to avoid law suits.

suits taken out by mines, industrial plants and companies. By way of illustration, for the sequestration of bank branches and industrial plants the account receivable was 215,998,000 g.c., 115,722,000 g.c. in the case of Roumania and Yugoslavia.

The confiscated property of Hungarian citizens totalled 24,455,000 g.c. and members of the royal family claimed 300 m. g.c. on the basis of clause 191.§.<sup>86</sup>

At the time of the economic crisis in 1930 Hungarian compensation debts amounted to 470 m. g.c. made up of two items. On the one hand instead of the 10 m. g.c. instalments per year fixed for the period 1924-1930 only 40.5 m. had been paid and as a result the compensation commitment rose to 159.5 m. g.c. estimated on the basis of the agreement of 1924. On the other hand 310.5 m. g.c. were to be paid in 1944-1966, according to the agreement of 1930 (13.5 m. g.c. per year).

Hungarian public opinion was deeply concerned about the increases in compensation obligations. One opposition member said "it was promised that no more compensation commitment would be accepted nor a farthing paid to the optants and that 250.§ would be spared for the future..."<sup>87</sup> Moreover, it was proposed at the ratification debate in the House of Commons that 25% of the capital levy should be imposed on optant landowners and that this amount should be paid to war-bond holders.<sup>88</sup> On behalf of the Social Democratic Party a proposal was made to use one third of the amount destined to the optants to set up a "C Fund" to raise the rather small allowances for invalids, war-widows and orphans.<sup>89</sup>

But once again events surpassed and outdid all expectations. The economic world crisis starting in 1929 forced the Allies to change their compensation plan and put the so-called "Hoover moratorium" of 20 June 1931 in force. As a consequence of the Lausanne agreement, Hungarian compensation commitments had to be suspended as well.<sup>90</sup>

<sup>86</sup> *Rutkay, László, Az optáns ügy mai képe. [The Optant Issues Today], Szemle, [Review], July 1930.*

<sup>87</sup> *Pesti Napló* [a Hungarian daily newspaper], 9 May 1930.

<sup>88</sup> *Parliamentary Journal*, 13 May 1930. The speech of Károly Rassay MP

<sup>89</sup> *Parliamentary Journal*, 14, 21 May 1930.

<sup>90</sup> *Incze, Miklós, Gazdasági problémák és a jóvátétel. [Economic Problems and the Compensation], Historia, 1988, nos. 2-3.*

