

The Fight for a Yankee over Here: Attempts to Secure an American for an Official League of Nations Post in the Post-War Central European Financial Reconstruction Era of the 1920s¹

Zoltán Peterecz

Introduction: The European Scene after the First World War

After the devastation of World War I, most of Europe lay in ruin. The map of Europe had been redrawn—new states were born, old empires were gone, and some losing countries survived but at the great cost of territories detached. As the months passed, it was clear that some rehabilitation would be needed. Mainly with Great Britain in the lead, Europe tried to put its house in order. The banks and financial houses of London were the only financial institutions in Europe with the organization, power and resources to finance the bulk of the European reconstruction, and so with Great Britain in the lead, Europe tried to put its house in order.

There was another reason, however, as to why Great Britain had to take on the leading role in European reconstruction. America, after somewhat reluctantly joining the war in 1917, was on the verge of becoming a major force on the European Continent. However, Woodrow Wilson's dream of a postwar international organization to guard over the peace came into being without the United States. The US Senate voted against such an international commitment both as a political revenge for

¹ This is a much-revised and largely expanded version of a presentation that took place in "New Concepts and Approaches in English and American Studies" PhD Conference, Eötvös Loránd University, November 13, 2008.

Wilson's not including any prominent Republican at the Peace Conference, and reflecting the general sentiment of isolationism in the country. Thus the League of Nations, formally established on January 10, 1920, was starting from a disadvantageous position in terms of world wide influence, power, credibility, and sufficiency. Moreover, Germany and the Soviet Union, two countries that would have somewhat countered the fallout from the United States lack of involvement and lent credibility to the organization were also absent from the League of Nations formation, with Germany not becoming a member in 1926 and the Soviet Union not until 1934.

The lack of American participation did not exclude the possibility of US contribution to financial affairs in Post-War Europe. The subsequent American Republican governments, however, made such a course much more difficult. When European reconstruction became an issue in which American participation was sought, the main difficulty lay in the fact that such initiatives emanated from the League of Nations. Since the United States was not a member, the large American financial firms, the most prominent being J. P. Morgan & Co., were extremely careful in joining deals, even if profits were luring. In addition to political differences, the relations between the Allied Powers and the United States were heavily burdened with debt questions and issues of reparations. The Europeans, especially the French, wanted to squeeze reparations out of the loser states, mainly from Germany, and they thought to repay the American creditors from this sum, a course the United States could not accept. It seemed that until this problem was solved, there could be no lasting cooperation between the two sides.

Since there was no hope for official support, the League had to count on private collaboration with Americans. In addition to bankers, American private citizens were working with the League of Nations, in various capacities, but always in an unofficial capacity, since the United States government tried to avoid every official contact with the League. So, when the financial reconstructions of European countries came to the forefront, the League of Nations hoped to secure both American bankers for their money and American private citizens for their work in the schemes, a concept that was to strengthen both halves of such a vision. The remainder of this paper will look at two compelling examples of this concept in Austria and Hungary, and what the ramifications of reconstruction were for these countries.

Part I: Austria

Austria, the remnant of the once powerful Habsburg Empire, found itself under devastating circumstances in the wake of the First World War. The territory of the country became a fraction of what it had been and it meant the loss of agricultural products, raw materials, and finished products, since most of these had been produced in its rural areas, now new and independent states understandably on unfriendly terms with Austria. In the capital, where lack of food caused starvation, a concentrated population of about two million tried to make ends meet. With a large population but insufficient resources, the once happy capital reflected a gloomy picture. The political landscape was not promising either. On November 12, 1918, a republic was declared and Austria showed political polarization that was to be the norm for the next 15 years. In the country the Christian Democrats enjoyed a majority, whereas in Vienna, the political left ruled. The country had to accept the Treaty of Saint-Germain-en-Laye, which was signed on September 10, 1919. As in the case of Germany, the Treaty contained the Covenant of the League of Nations, of which Austria was not yet a member.² Article 88 forbade Austria from trying to join Germany, without referring to the country by name, while the economic and financial clauses were similar to the German peace treaty. As a consequence, Austria was liable to pay reparation for loss and damages done during the war. The amount of the sum to be paid was to be determined by the Reparation Commission and payments were to start after May 1, 1921, and continue for the next thirty years. Both from political and economic points of view, Austria faced an unhappy period.

Indeed, for some time Austria could not survive on its own. The first three years after the armistice was characterized by international charity in the form of food and public loans. The major powers provided about \$100 million to which the British contributed \$45 million and the Americans \$24 million.³ The United States, Great Britain, France, and

² This clause was the reason why the United States did not ratify the Treaty, just like in the case of Germany, and a separate peace treaty was signed between the two countries on August 24, 1921.

³ League of Nations, *The Financial Reconstruction of Austria. General Survey and Principal Documents* (Geneva, 1926), 11; The Austrian Chargé (Prochnik) to Hughes, February 23, 1922, FRUS, 1922, Vol. 1, 615–6.

Italy paid an American loan of \$48 million in equal parts.⁴ Besides official help, private charity also provided millions, and the United States took the lion's share in this sphere as well. These measures, however, proved inadequate to alleviate the mounting troubles. The economy came to a virtual standstill and there was rampant inflation. The League of Nations, the prominent representative of the "New Europe," could not let Austria pass into social upheaval. Economic instability, with a worthless currency,⁵ it was feared, would lead to revolution. With such apprehensions in mind, the British leadership, set into motion to solve the Austrian problem through the League.

Despite British efforts and the terrible circumstances in Vienna, it took a long time before the League turned its attention toward Austria in earnest. The Austrian government officially pleaded to the League for help on August 23, 1922.⁶ The powers showed lukewarm interest and it was only due to a British request that the Austrian question was put on the agenda at the next session of the Council.⁷ On September 6, Austrian Chancellor Ignaz Seipel appeared in front of the League Council, and officially declared that Austria would accept control in exchange for help, but at the same time he also used the ongoing political and economic situation in his country as blackmail.⁸ The Austrian situation was in fact infused with the possibility of social disturbance. As a result, the rest of the defining actors on the European landscape had no choice but to follow the British lead in order to reach a solution. Furthermore, the prestige of the League was on the line: if it failed in its very first undertaking, what would the future hold?

Upon the recommendations of the Financial Committee, on October 4, 1922, three Protocols were signed by Great Britain, France, Italy, Czechoslovakia, and Austria: in the first mutual assurance of political

⁴ Jusserand to Lansing, February 20, 1920, Papers Relating to the Foreign Relations of the United States (subsequently FRUS), 1920, Vol. 1, 260.

⁵ Clerks in Vienna tended to use the back of crown notes as scribbling paper, simply because it was the cheapest paper available. (Sir Arthur Salter, *Memoirs of a Public Servant* (London: Faber and Faber, 1961), 175).

⁶ Seipel to the League Council, August 23, 1922, C12652/74/3 FO/371/7340, The National Archives of Great Britain (subsequently TNA).

⁷ British Cabinet to the Secretary-General, August 25, 1922, *Ibid.*, C12838/74/3.

⁸ League of Nations, *The League of Nations Reconstruction Schemes in the Inter-War Period* (Geneva, 1944), 29.

independence and territorial integrity was given to and by Austria; the second stated the conditions of the guarantee of the loan not exceeding 650 million gold crowns; the third was about Austria's obligation and the functions of the Commissioner-General, a person working in Vienna as an agent of the League and controlling the loan proceeds and the reconstruction.⁹ A Bank of Issue was also to be set up that was to be independent of the government with the sole authority to issue any money. These steps were to insure the arrest of the fall of the crown and stop the inflation. With the loan of 631 million gold crowns, Austria was supposed to put its financial situation in order by the end of 1924. Right after the signing of the Protocols, the search for the would-be Commissioner-General started in earnest. Time was a crucial factor. A League delegation was to visit Vienna in the first days of November, and the League wanted by then to find a suitable person for the position. As a starting point, he was not to represent any of the guaranteeing powers. Nor was he to come from any neighboring countries. These were sound political considerations, since such a case would have compromised the possible execution of the reconstruction scheme. The post-war relations in Central Europe were bitter. Austria was especially apprehensive of neighboring Italy and Czechoslovakia, two of the guarantor countries. Seipel was afraid that unless Great Britain, France, and the United States came to the rescue, Austria would be exploited by the Italians and the Czechs.¹⁰ Therefore a person was needed with impeccable credentials who represented an as economically, historically and politically, detached country as was possible. Austrians then would not feel sheer domination; it was enough to put their country under League control.

At first a few American and Dutch names were bandied about as possible candidates for the position, but the search quickly settled on the American Roland William Boyden. He had been an unofficial delegate on the Reparation Committee since 1920, meaning that he had no right to vote, but in effect, his ideas and opinions counted as much as that of the official delegates.¹¹ He had already proved on that body that he well understood both British and French policies, and demonstrated the capacity for conciliatory persuasion, thus he seemed to hold the qualities

⁹ League of Nations, *Austria*, 137–150.

¹⁰ Akers-Douglas to Curzon, September 15, 1922, C13183/74/3, FO371/7340, TNA.

¹¹ He submitted his resignation to the State Department after Warren Harding's victory at the polls in 1920, but it was not accepted and he worked on till 1923.

needed from the political point of view. Aside from his being an American, he had “the required temperament and political aptitude for this task.”¹²

In a politically divided country, the personal qualities of the League’s Commissioner might have meant the key to allaying the intensity of political controversy. Boyden’s personality also played to his favor. While Alfred Zimmerman, the possible Dutch backup, was known to possess a “somewhat domineering character,” Norman believed that the American’s somewhat more amenable manner was the key factor in his strong appeal.¹³ When Eric Drummond, Secretary-General of the League, broached the idea of securing Boyden as Commissioner-General to Lord Arthur Balfour, “the idea of appointing an American, intimately acquainted with the problems at issue, greatly appealed” to the latter.¹⁴ It is quite clear that, due to the political underpinnings, the first option was to recruit an American.

Boyden was willing to accept the job and wrote to the State Department and asked whether they had any objection to his holding such a position. A quick and short answer came giving the State Department’s consent, but Boyden was slow in notifying the League, which caused significant problems for the organization. The time factor was important, because until a new Commissioner-General was named, the chances were weak for Austria to find provisional credits. Therefore, the whole scheme was in danger if no suitable person was found. That is why the League officials were so impatient to find out whether Boyden would accept it, and if he wouldn’t, they wanted to waste no time in securing their backup choice, Alfred Zimmerman. “If Boyden turns it down, don’t waste more time, but take Z. and be thankful,” was Blackett’s suggestion, simply for fear that they might run out of time.¹⁵ The situation in Vienna was far from reassuring and in the first days of November the situation became critical. Thus Boyden’s acceptance became urgent for the League of

¹² Sir Arthur Salter, *Personality in Politics* (London: Faber and Faber, 1947), 164; Salter, *Memoirs*, 179.

¹³ Marling to FO, February 22, 1922, C2679/74/3, FO371/7336, TNA; Norman to Strong, October 24, 1922, 2A 165/1, Bank of England Archives (subsequently BoE).

¹⁴ Monnet to Hankey, November 2, 1922, Appointment of a Commissioner General for Austria. Doc. No. 24510, R. 519, League of Nations Archives (subsequently LNA).

¹⁵ Blackett to Salter, October 23, 1922, 79/13/1, Box No. 3. Austria, S. 99. Nixon Papers, LNA.

Nations. They were already preparing to propose Zimmerman in case Boyden refused.¹⁶ The young world organization rightfully thought that its prestige was at stake. With every single day, not only the situation of Austria was deteriorating, but the international status of the League was weakening. If it was impotent to launch a reconstruction scheme in a tiny Central European state, how would it cope with much more ambitious plans on the world stage? Also, the securing of an American for the job would have meant some kind of cooperation between the League and the United States, if it was of the most informal nature.

The US State Department, however, did not come to the rescue. It seemed to have misunderstood the message of Boyden concerning the Austrian position, and in a later telegram asked him not to accept it.¹⁷ What really happened was a fatal twist of history. Someone in the State Department saw the first, consenting message and found it too curt in light of the service Boyden had given his country. So, in another telegram, they expressed their reluctance at losing Boyden to another post. It was not meant to prevent him from taking the new post, but he interpreted it that way.¹⁸ This was found out only years later, which must have been small compensation. Afterwards, League officials had no other choice but to move forward with Zimmerman.

Since there was not much time left and Zimmerman seemed to possess the technical qualities needed for the execution of the job, the League started serious negotiations with him. In Arthur Salter's words, he regarded "opposition to Socialism as a kind of crusade," and he was "unsuited for a task of political conciliation."¹⁹ But to a large degree, it was his experiences with Socialists in Rotterdam, where he had been Burgomaster, that made Zimmerman seem so likely a candidate. All in all, with Boyden out, the League was satisfied with the Dutchman. The members of the Austrian sub-committee accepted Zimmerman and an official invitation was sent out duly.²⁰

Zimmerman gave up his home position with regrets and was somewhat reluctant to fill the offered position. He was simply not

¹⁶ Monnet and Salter to Balfour, November 5, 1922, C15137/74/3, FO371/7343, TNA.

¹⁷ Boyden to Monnet and Salter, November 8, 1922, No. 3. Austria, S. 106. Salter Papers, LNA.

¹⁸ Salter, *Personality*, 167.

¹⁹ Salter, *Personality*, 166; Salter, *Memoirs*, 180.

²⁰ Drummond to Tufton, November 20, 1922, C15903/74/3, FO371/7343, TNA.

enthusiastic about the job and always came up with certain requirements to create easier circumstances for himself once in Vienna. He made a demand of six months preliminary appointment with indemnity payable if for any reason he lost the job, a situation not comforting to the League.²¹ Moreover, he was not keen to take part in a venture that might fail. He was not satisfied with £ 6,000 a month for expenses either and wanted some increase, next to the £ 1,000 indemnity in case his duties would be terminated.²² While he was granted £6,500 finally, it is interesting to note that Boyden would have been satisfied with £2,000 a month.²³ The League simply could not delay the issue for lack of time; they needed a man for the post, whatever the demands. The League accepted Zimmerman's conditions, as they ultimately caused no significant changes to the overall scheme and so on December 15, 1922, the new Commissioner-General began his post in Vienna.²⁴

Despite the fact that at last the League of Nations secured a Commissioner-General, the problems of the Austrian reconstructions were far from over. Bonds were secured on the revenues of the Customs and Tobacco Monopoly as a guarantee for the issues in the four guarantor countries each undertaking to guarantee 20%.²⁵ In November inflation was stopped. According to the League scheme, 100,000 officials were to be dismissed until July 1, 1924, in order to reduce the government's widespread bureaucracy to a more acceptable level.²⁶ In early December both the Reconstruction Law and the Geneva Protocols were ratified by a majority vote in the Austrian Parliament. During November and

²¹ Drummond to Niemeyer, November 30, 1922, and Drummond and Monnet to Salter, December 8, 1922, 2/4/1, No. 6. Austria, S. 109. Salter Papers, LNA.

²² Drummond to Tufton, November 17, 1922, F. 2073/021/3. Austrian Reconstruction, T160/584, TNA.

²³ Commissioner-General: Note as to Action. 2/4/1, No. 6. Austria, S. 109. Salter Papers. LNA.

²⁴ Drummond to Zimmerman, December 10, 1922, No. 3. Austria, S. 106. Salter Papers. LNA.

²⁵ In the summer of 1923, the long-term loan was guaranteed as follows: Great Britain, France, and Czechoslovakia 24.5% each, Italy 20.5%, Belgium and Sweden 2% each, Denmark and the Netherlands 1% each. (League of Nations, *Schemes*, 31.)

²⁶ This number was not delivered by Austria. Although between October 1922 and March 1923, the number of state officials discharged was 65,000, until June 30, 1926, altogether 96,382 officials were dismissed. (Rothschild, *Austria's Economic Development*, 50; League of Nations, *The Financial Reconstruction of Austria*, 87.)

December unemployment doubled from 58,000 to 117,000.²⁷ Although the Commissioner-General was chosen, the soon-to-open National Bank had no president. Following some debate between Austria and the guarantor states, former Minister of Finance Richard Reisch was nominated to the post with the condition that a foreign adviser would be attached with large powers.²⁸ After securing a short-term loan in the amount of £3,500,000 in February, 1923, the focus shifted to the more monumental task of securing a long-term loan.²⁹

It was important from the political point of view that private American capital be involved. Already in April, 1923, the League saw in an American participation a possible “precedent involving far-reaching consequences,” even if the money raised in the United States was a small one.³⁰ Montagu Norman was asked to try to lay the groundwork in America for the Austrian loan, but J. P. Morgan & Co. signaled that at present there was no chance of issuing an Austrian loan in the US.³¹ This was despite the fact that the Reparation Commission decision on February 20 suspended the liens for reparation charges on any revenues pledged as security on the loan for twenty years, and the US Congress in a Joint Resolution on March 16, 1922, postponed the relief credits for twenty years.³² The American government gave first priority to the British debt settlement. In April Norman got further information from a New York banker that the loan in its present form had not much chance in the United States.³³ In spite of such unfavorable news, Norman now used all his powers to ensure the success of the loan to Austria. He reassured a worrying Zimmerman that despite the great financial and political problems, he was doing everything possible.³⁴ His efforts might have been in vain but help came from J. P. Morgan in the end. Contrary to his

²⁷ League of Nations, *Austria*, 36.

²⁸ On the debate see Keeling to Curzon, December 21, 1922, C17515/74/3, FO371/7344, TNA; Foreign Office to Keeling, December 22, 1922, *Ibid.*, C17537/74/3; Keeling to Curzon, December 21, 1922, *Ibid.*, C17603/74/3.

²⁹ League of Nations, *Austria*, 38-9.

³⁰ De Bordes' memorandum, April 27, 1923, 4-8c, C. 6, LNA.

³¹ Strakosch to Norman, December 30, 1922, and J. P. Morgan to Morgan, Grenfell & Co., January 17, 1923, OV28/54, BoE.

³² Congressional Record, 67th Congress, 2nd Session, 3997, March 16, 1922.

³³ Norman to Bark, April 25, 1923, G3/179, BoE.

³⁴ Norman to Zimmerman, May 16, 1923, *Ibid.*.

earlier views, J. P. Morgan had decided to take up the Austrian case. This was despite the efforts of the banking house to secure American governmental assistance in the loan.³⁵ In May, Thomas Lamont came over to Europe to deal with a tranche to be floated later in New York. The sheer weight of his presence meant that now the scheme had a realistic chance of becoming a reality.

To help convince American bankers and to garner public support, Lamont eased the path for Zimmerman, who made a speech on June 4 in London to a group of American press people with the aim of advertising the Austrian reconstruction with the hope that the American tranche of the long-term loan would be realized. Norman did the lion's share of doing the background work. He had almost daily conversations with Lamont, and gave an interview to American reporters, despite the fact that he avoided publicity as much as he could.³⁶ The effort paid off and the London issue was made on June 11, and the American tranche was launched on the same day. By 10:15, ten minutes after opening, the American subscription totaled five times the \$25 million the banks were committed to.³⁷ Jack Morgan was surprised at the success and found the "oversubscription almost bewildering."³⁸

Now that the two heavyweights had gone along, the rest was a formality. Throughout the summer the long-term loan of a net total of 611,000,000 gold crowns was floated in several countries. Great Britain stood out with subscribing more than 300,000,000 gold crowns (£14,000,000), while the United States' share was about 123,000,000 gold crowns (\$25,000,000).³⁹ The American part was roughly equal to what had been missing in the spring. In this sense, American private capital came to the rescue. In issuing an adequate British part the main figure was clearly Norman and Zimmerman expressed his gratitude for his "brilliant leading of the action."⁴⁰ The remainder of the loan was provided by Belgium, France, the Netherlands, Italy, Sweden, Switzerland,

³⁵ Michael J. Hogan, *Informal Entente* (Chicago: Imprint Publications, 1991), 65.

³⁶ Norman's Diary Entries, May 30, June 1, June 4, and June 8, 1923, ADM 34/12, BoE.

³⁷ Michael J. Hogan, *Informal Entente. The Private Structure of Cooperation in Anglo-American Economic Diplomacy, 1918-1928* (Chicago: Imprint Publications, 1991), 66.

³⁸ J. P. Morgan to Morgan, Grenfell & Co., June 11, 1923, OV28/56, BoE.

³⁹ League of Nations, *Austria*, 41.

⁴⁰ Zimmerman to Norman, June 11, 1923, 4-8h, C. 6, LNA.

Czechoslovakia, Spain, and Austria. The price of issue was typically in the 76–8 % range, while the nominal rate of interest was 6%, in the United States it was 85.625% and 7% respectively.⁴¹ The numbers reflected well that the loan was not judged as a great investment. Still, what the League of Nations had set out to achieve was completed despite the many obstacles placed in its path. After all, the League made sure that a country in the heart of Europe would be helped collectively. Only a few years after the war, former enemy received the help it so badly needed.

Although the scheme got off to a promising start, the period of reconstruction was burdened with troubles throughout—often centering on the Commissioner. As a clear sign of overall Austrian antipathy to the system of control, Alfred Zimmerman, who was reluctant to give in on any point that showed a departure from the original scheme, was a constant target of criticism. Only a few months after Zimmerman took up the post, the Socialists drew up a resolution that wanted to prevent the League Commissioner from carrying out private negotiations and getting any information from Austrians by labeling such an act High Treason against the State.⁴² The motion died a quick death, but the anti-Zimmerman sentiment remained. The average opinion was well summed up in the saying that “even the locomotives will whistle cheerfully when they carry Zimmerman back to Holland.”⁴³ Therefore, when decontrol was within sight at last, the Austrians did not hide their joy. The sheer psychological value of regaining independence was enormous. It must be noted that the termination of Zimmerman’s office did not mean the absolute end of financial control. The Council had the right to reestablish control if the service of the loan was in danger, and the position of the bank adviser was renewed for three more years. Zimmerman left Vienna on July 5, 1926. There was a farewell luncheon before his departure given by the President of the Confederation, and he got the Grand Cordon of the Decoration of Honor of the Republic for his distinguished services to Austria. On the official level, especially at the happy conclusion of affairs, Alfred Zimmerman was a friend now. As Chancellor Ramek put it, “You came to us as a stranger, now you leave us as a friend, as one of

⁴¹ League of Nations, *Austria*, 41–2.

⁴² Keeling to Curzon, March 29, 1923, F. 2073/021/4. Austrian Reconstruction, T160/584, TNA.

⁴³ *The New York Times*, December 10, 1925.

us. Austria will never forget you, our heartiest good wishes accompany you.”⁴⁴

By any analysis, the financial reconstruction of Austria was a success. In addition to the balancing of the budget and stabilizing the currency the two most conspicuous accomplishments, the standard of living of the working class became much higher than it was only a few years earlier and public health also showed a remarkable improvement. From all angles, the reconstruction period was very advantageous for Austria. It escaped an absolute breakdown. The weak economic and financial situation would have, in all likelihood, driven the country into total social chaos, and such an event might have meant outside interference. Great Britain, relying largely on its financial background, its influence in the League of Nations, and its good relations with the United States, wanted an independent and functioning Austria in the heart of Europe, because they saw in it the possibility of achieving the grand vision of turning Central Europe into a more or less working economic block that would provide peace, stability, and an economic outlet for Great Britain and the whole of Europe. Partly to achieve such a long-term goal, Austria was only seen as an important start. Soon after that the Austrian reconstruction scheme was set into motion, the attention turned toward the next country, Austria’s eastern neighbor, Hungary.

Part II: Hungary

Hungary was, in many ways, in a similar situation to Austria. Although as an agricultural country, it was a little bit better off in terms of supplying basic sustenance for its people, but politically it was much worse off. The short-lived bolshevist coup in 1919 deteriorated the situation of the country both politically and financially. The main political drawback of the communist rule in Hungary was manifest at the peace negotiations. The Peace Treaty of Trianon, signed on June 4, 1920, was a fatal blow to Hungary and sealed its fate for along time to come. Although the country expected harsh terms and more or less accepted the new realities of Central Europe, Hungarians all the way through had hoped and believed that Wilsonian principles would prevail and territories with Hungarian majorities would not be lost. To the shock of the whole

⁴⁴ Chilston to Chamberlain, July 6, 1926, C7753/246/3, FO371/11213, TNA.

nation, the treaty detached huge Hungarian ethnic blocs, which was due to nothing else but serving the wishes of the neighboring Slavic countries. The territory of Hungary was reduced to one-third of its former territory, and the population decreased by about ten million to a little less than eight million. Parts VIII and IX of the Trianon Treaty dealt with reparation and financial matters. The text declared that Hungary would have to pay reparations for a period of thirty years starting from May 1, 1921, although the sum was not specified.

Similarly to Austria and other Central and Eastern European countries, Hungary was provided with relief. In all likelihood due to the bolshevist takeover, the country got only a fraction of what Austria or the other recipient countries were given. While the whole region received relief of almost \$500 million, the sum given to Hungary was only \$9.3 million.⁴⁵ Not surprisingly, the main share of the relief was financed by the United States, 86% of the total, while Great Britain provided 12%.⁴⁶ When the issue of repatriation came to the fore, relief was also largely needed. About 13,000 men were successfully brought back from the Soviet Union. The \$1,200,000 needed for the enterprise was also largely provided from American sources.⁴⁷ American relief was not restricted to material questions only. In 1922, when the worst was over, the United American Lines Inc. decided to give 1 million crowns to a Hungarian cultural institution.⁴⁸ The Hungarian Historical Society was chosen as the beneficiary. With these outside efforts, Hungary slowly climbed back to its pre-war status, but it was clear that without political consolidation the country would stand no chance of rehabilitation of any kind.

The real change came with the István Bethlen becoming Hungary's new Prime Minister on April 14, 1921. His political approach was very practical and realistic. As he put it, "What I am saying and doing is the outcome of domestic and foreign policy necessities. My policy is shaped

⁴⁵ M. C. Kaser and E. A. Radice, eds. *The Economic History of Eastern Europe, 1919–1975*. Vol. 1. (Oxford: Clarendon Press, 1985), 387.

⁴⁶ György Ránki, *Gazdaság és külpolitika. A nagyhatalmak harca a délkelet-európai gazdasági hegemóniáért (1919–1939)* [Economy and Foreign Policy. The Fight of the Great Powers for Economic Hegemony in South-Central Europe]. (Budapest: Magvető Kiadó, 1981), 40.

⁴⁷ Grant-Smith to Hughes, December 10, 1921, 864.00/482, Roll 6, M. 708, National Archives and Records Administration (subsequently NARA).

⁴⁸ Doroghi to Bethlen, July 11, 1922, 1136/922/37, 7. cs. 1922–1931 B/4, K 468, Hungarian National Archives (subsequently HNA).

by the circumstances.”⁴⁹ The American minister in Budapest described him as “the real political pivot and barometer of political life.”⁵⁰ After Bethlen became the prime minister of Hungary, the British minister in Budapest sent a report in which he wrote that all efforts must be made to help the consolidation of the country.⁵¹ At the end of 1922, Hungary managed to become a member of the League of Nations, a step that would serve the country well. In becoming a member of the most important political body of the day, Hungary stepped out of the political isolation it had been subjected to since the end of the war, and the doors opened for the chance at outside financial help. For such an aid, Hungary first and foremost wanted American and British help.

It was well known that within the League of Nations Great Britain and France vied for leadership. On the whole, owing to both political and financial capital, the British had the bigger influence, so it was all too understandable for Hungary to be attracted to Great Britain. In addition, Britain could not allow Hungary to “go under financially” if it wanted to achieve its Central European goal.⁵² On the other hand, France was the principal supporter of the Little Entente, the anti-Hungarian alliance of Czechoslovakia, Romania, and the Serb-Croat-Slovene Kingdom. Therefore, it was also a necessity for Hungary to find a counterbalance and it knew that if there was one country on the continent that had sway over its antagonistic neighbors even more than France it was Great Britain. Naturally, Hungary was well aware of the fact that in the changing post-war world the most influential country was outside Europe, and so it was only logical that Hungary try to develop a relationship with the United States.

Hungary, being a member of the Central Powers during World War I, was automatically considered an enemy state of the United States, although the two nations held nothing against the other. After the armistice, the two countries tried to put their relations on a normal footing in the hope of future cooperation. As was seen, charity was coming to the country from private American resources, but affairs needed to be normalized on the diplomatic level as well. As a first step, trade and

⁴⁹ Ignác Romsics, *Bethlen István* (Budapest: Osiris Kiadó, 1999), 188.

⁵⁰ Memorandum on Hungary in Brentano to Hughes, October 1, 1922, *Ibid.*, 864.00/517, Roll 6, M. 708, NARA.

⁵¹ Romsics, *Bethlen*, 185.

⁵² Lampson’s note on February 22, 1923, C3081/942/21, FO371/8861, TNA.

communication were again authorized between the United States and Hungary beginning September 2, 1919, and shortly after, Ulysses Grant-Smith was appointed to be Commissioner to Hungary on December 4, 1919.⁵³ He was not accredited as a diplomatic representative since no peace treaty had been concluded between the two countries, but his main task was not altered by this lack of formality as he was to do everything in his power to help a representative government to take root in Hungary.⁵⁴ This was important for the United States after the bolshevist rule, which was seen upon as the new threat. The next phase between the relations of the two countries was characterized by the conclusion of a separate peace treaty.

Since the United State Senate refused to ratify the Paris Peace Treaty, America neither became part of the League of Nations, nor concluded peace treaties with its ex-enemies. The clear signal that the United States treated these countries as one group was evident in the fact that it concluded separate peace treaties with these states within a few days: on August 24, 1921, with Germany, on August 25, 1921, with Austria, and on August 29, 1921, with Hungary. The United States made clear that it was willing to talk with Hungary concerning peace only if it was based on a similar peace treaty with Germany.⁵⁵ The American government basically blackmailed Hungary, coated in nice diplomatic terms, that acceptance of the terms agreed to by Germany was the condition necessary reestablishing diplomatic relations.⁵⁶ Grant-Smith pointed out to the Hungarians “the advantages which would accrue to Hungary, both of political and economic nature, by their acceptance of the stipulations of the Peace Resolution, and the subsequent negotiation of an agreement with the United States.”⁵⁷ Hungary had no real choice but to accept what was offered

In normalizing the relations with the United States, Hungary tried to play on the friendly Anglo-Saxon card. Both from political and financial perspectives, the United States and Great Britain were the two countries

⁵³ Notice Issued by the War Trade Board Section of the Department of State, September 2, 1919, FRUS, 1919, Vol. 2, 410.

⁵⁴ The Secretary of State to the Commissioner at Vienna (Grant-Smith), December 10, 1919, *Ibid.*, 410–2.

⁵⁵ Hughes to Grant-Smith, July 9, 1921, 711.64119/1, Roll 1, M. 709, NARA.

⁵⁶ Hughes to Grant-Smith, July 23, and July 28, 1921, *Ibid.*, 711.64119/1 and /2.

⁵⁷ Grant-Smith to Hughes, August 3, 1921, *Ibid.*, 711.64119/15.

that Hungary could expect the most help from. One of the various Hungarian plans after the war advised that “Hungary should offer itself to America as a base for its economic penetration into Central and Eastern Europe.”⁵⁸ This scheme, although nothing came of it, sized up well the American intentions regarding Europe after the war: the United States was to remain outside the political problems of Europe but was interested in economic expansion. Obviously, Hungary needed to find help far from its geographical position, because its neighbors were its enemies, France was their quasi-ally, Germany was burdened with its own problems, Soviet Russia was an ideological enemy, and Italy had not shown yet its interest in Central Europe. This meant that only Great Britain and the United States remained; both were far enough away to be friendly and powerful enough to help.

With British prodding and Austria as an exemplar, Hungary asked for help from the League of Nations on May 5, 1923. From this moment on a long political tug of war started between the British and the French inside the League. After many months of diplomatic negotiations a compromise was reached, and the Protocols for a Hungarian loan under the aegis of the League were signed by all involved countries on March 14, 1924. One remaining problem was that Hungary needed all the countries concerned to waive their priority of relief bonds in favor of the reconstruction. One of the most difficult partners in this question was the United States, which was willing only to do so if all the other countries concerned did the same, a line of policy mirroring the British one.⁵⁹ Finally, on April 25, 1924, the debt funding agreement was signed, and the US was willing to suspend priority charges over relief bonds for the sake of a loan for Hungary. By the end of May then, all countries had waived their priority on behalf of the reconstruction loan. Almost everything had been accomplished before the actual flotation of the loan. The remaining problem to be solved was to find the right person for the position of the Commission-General to Hungary.

As was the case with Austria, the time factor was crucial in determining a new Commission-General, and the League wanted to find a suitable candidate as quickly as possible. As was also the case with Austria, after a few European names were considered for the position, it

⁵⁸ Ránki, *Gazdaság*, 20.

⁵⁹ Niemeyer to FO, January 26, 1924, C1480/37/21, FO371/9904, TNA; Hughes to Pelényi, February 16, 1924, FRUS, 1924, Vol. 2, 325–7.

was ultimately decided by the organization and Hungary that an American would be the preferred choice for the post. It must not be forgotten that in the whole of Europe, the United States was possibly the only country that could safely count on friendly feelings and that could really boast of being a neutral, meaning it stayed away from the continental bickering. In addition to the political goodwill of an American, the Bethlen government supposedly had information that the American money market would be willing to participate only if an American were chosen for the post.⁶⁰ Also, Hungary wanted to avoid an Austria-like control, which they judged as far too restrictive and all-encompassing. For all of these reasons it was crucial that an American fill the post of Commissioner-General in Hungary.

In light of this belief, the Hungarian government had already started to make steps toward securing a prominent American citizen. The reasoning was that if they managed to convince a high-standing American to accept the post, it would automatically create the needed confidence on the money markets. The United States had taken part in the Austrian reconstruction and it was no secret that the Americans were following the British example there. Thus if an American were named Commissioner, it seemed, the doors of the private American banks would open and the United States would play a large role in securing the loan. The target person was Warren P. Gould Harding, ex-Governor of the Federal Reserve Bank of Boston. Harding was backed by other influential men. The most well known of them was Colonel House, President Wilson's one-time friend and advisor, who told Sir Eric Drummond, the General Secretary of the League, that he thought that Harding's nomination would "be [the] best possible way of insuring American cooperation financially in Central Europe. I would strongly recommend his selection."⁶¹ The Hungarian Committee of the League agreed on the choice of Harding. However, he signaled early in March that due to his state of health he would not be able to accept the post.⁶²

On the eve of the Protocols being ratified by the final signatory countries, the Hungarian reconstruction plan was in danger of

⁶⁰ Mária Ormos, *Az 1924. évi magyar államkölcsön megszerzése* [Raising the Hungarian State Loan of 1924] (Budapest: Akadémiai Kiadó, 1964), 115.

⁶¹ House to Drummond, January 15, 1924, Financial Reconstruction of Hungary, Appointment of a Commissioner General by the League. Doc. No. 33315, R. 298, LNA.

⁶² Harding to Salter, March 7, 1924, C4678/37/21, FO371/9907, TNA.

dangerously slowing down. Without a Commissioner-General there was no prospect of efficient work getting done in Hungary, and raising the long-term loan would be unimaginable. The League had to find a suitable person in the shortest time possible. Norman Davies and Owen Young recommended without hesitation Boyden as best, Jeremiah Smith, Jr. as second best for the job, and Walker Dower Hines as a third possibility.⁶³ Harding warmly recommended, if Boyden could not be secured, an old colleague of his, Frederick Adrian Delano, who was Vice-Governor of the Federal Reserve Board from 1914–1918, had worked in Europe, and spoke French.⁶⁴ The chances that Boyden would accept were not great. He had the stinging memory of what had happened a year and a half earlier, when he was virtually assured of the Austrian Commissioner-General position only to lose it at the last moment. Besides, his wife was very sick, which would have made it doubly difficult for him to accept it.⁶⁵ At the March 15 meeting of the Hungarian Committee the body decided that an official invitation would be sent to Boyden, and if he refused, the next possible candidates, Smith, Hines, and Delano would be approached.⁶⁶

As was expected, Roland Boyden did indeed refuse the position. What was important, however, was that he recommended Smith for the job.⁶⁷ Even more momentous than Boyden's recommendation was when Drummond informed the Hungarian Committee that the "highest financial circles [in] America strongly take [the] same view."⁶⁸ This was significant, because as the case of the possible loan stood, it was "clearly of greatest importance obtaining [a] person acceptable [to] financial circles best qualified."⁶⁹ Since the League expected that a third of the loan would be subscribed in the United States, they needed someone for the post that enjoyed the favor of the American financial circles. If they had to choose between two American candidates, they would definitely pick

⁶³ Salter to Niemeyer, March 11, 1924, C4124/3721, FO371/9906, TNA.

⁶⁴ Telephone message from Salter to Drummond, March 14, 1924, Doc. No. 33315, R. 298, LNA.

⁶⁵ Hevesy to Daruváry, March 15, 1924, 10-1390/1437, 209 cs. 123, K 69, HNA.

⁶⁶ Cadogan to FO, March 15, 1924, C4542/37/21, FO371/9907, TNA.

⁶⁷ Telephone message from Drummond to Walters, March 24, 1924, Doc. No. 33315, R. 298, LNA.

⁶⁸ Drummond to Members, March 24, 1924, C5039/37/21, FO371/9907, TNA.

⁶⁹ *Ibid.*

the one that promised an easier and more bountiful American participation. Both the British Foreign Office and the Treasury were of the opinion that the main point was that the person should be an American citizen.⁷⁰ By April it was clear that Smith's backing had grown irresistible. In addition to Boyden and Davis, both Pierre Jay of the Federal Reserve Bank of New York and Thomas Lamont of J. P. Morgan & Co. had stood behind him, with the latter three "definitely adverse to Delano."⁷¹ In all probability, it was Lamont's opinion that made all the difference. As he wrote to Salter confidentially, "quite aside from personal liking for the two men last mentioned (Mr. Hines and Mr. Delano) [I] would regard neither one as fully equipped for the job; Smith would be better than either."⁷² Lamont was the person that arranged the American part of the Austrian loan, so it was understandable that the League had a sensitive ear to his recommendation. Suddenly, an upstart Yankee was shoved into the limelight with a mountainous task awaiting him.

Jeremiah Smith, Jr., after being educated at Exeter and Harvard, together with Thomas Lamont, served as secretary to Justice Gray of the United States Supreme Court in 1895–96, and thereafter he practiced law in Boston. He often dealt with local bankruptcies and was known as a person who "has held important receiverships and is prominently identified with large corporate interests."⁷³ He was appointed as member of the War Relief Commission of the Rockefeller Foundation in June 1915 and visited a few European countries in this capacity. During the First World War, when he served with the American Expeditionary Forces, thanks to Lamont, Smith was awarded a captain's commission as captain in the Quartermaster's Corps.⁷⁴ From this point on, Jeremiah Smith's international career began. Upon the Morgan heavyweight's request, Smith took part at the Paris Peace Conference as a counselor to the Treasury Department representatives and financial advisers to the American Commission. He was largely disappointed with the final treaty and thought it a mistake to sign it.⁷⁵ After the Paris Peace Conference, Smith accompanied Lamont to Japan and China as an aide of his, and

⁷⁰ Lampson's notes, March 24, 1924, C5039/37/21, FO371/9907, TNA.

⁷¹ Memorandum, April 2, 1924, Doc. No. 33315, R. 298, LNA.

⁷² Lamont to Salter, March 22, 1924, quoted in Salter to Bethlen, April 11, 1924, *Ibid.*

⁷³ *Boston Daily Globe*, June 23, 1907.

⁷⁴ Thomas W. Lamont, *Across World Frontiers* (New York: 1951), 82.

⁷⁵ *Ibid.*, 83.

later to Mexico in the capacity of counselor again in the Mexican debt settlement.⁷⁶ Thanks to Lamont's unwavering help, Smith had gained immense experience in international negotiations pertaining to financial questions and problems. The international expertise Smith could boast of was a key aspect in accepting him, but naturally Lamont's recommendation was the decisive factor.

The League officially invited Jeremiah Smith, Jr. to become Commissioner-General to Hungary until June 1926 with an \$18,000 a year salary.⁷⁷ In light of the dragged out process in securing a Commissioner-General, they asked him to give an answer as soon as possible. In what Montagu Norman, who during these weeks looked at the success of the Hungarian loan with doubt, described as "a moment of enthusiasm," Smith, with the consent of the State Department, accepted the offer.⁷⁸ As a Democrat, he supported President's Wilson's dream, and all through his life he was an advocate of the League of Nations. In all likelihood, the job in Hungary offered Smith the chance to become an earnest participant in that organization. His affirmative answer also lifted another burden off the League officials' shoulders and they were more than happy to announce the official appointment.⁷⁹

Smith as Commissioner-General to Hungary for the League of Nations was provided with frequent powers. These were spelled out in detail in Article VI. of Protocol No. II. It is indicative of the importance of the post that this article was the longest in the two Protocols. The main points were as follows: supervising the reconstruction program; all information requested by him to be provided by the Hungarian government; he could in case of the program being in danger, "require the Hungarian Government to increase the yield of existing taxation or to impose new taxes;" only with his consent was the government allowed to take up new loans; he would reside in Budapest and would provide the Council with monthly reports on the reconstruction program; and, most

⁷⁶ The work in Japan and China, and the negotiations for the organization of a new financial Consortium for China, see FRUS, 1920, Vol. 1, 497, 575-89. In connection with his work in the Mexican debt settlement in 1922, see E. Lamont, *The Ambassador from Wall Street*, 175-86, and *The New York Times*, January 2, 1924.

⁷⁷ Salter to Smith, April 5, 1924, Doc. No. 33315, R. 298, LNA.

⁷⁸ Norman to Blakett, May 21, 1924, G3/180, BoE.

⁷⁹ Official League communiqué, April 8, 1924, 1924-1929, P.III. Press communiqués, C. 117, LNA.

importantly from the government's point of view, "the functions of the Commissioner-General shall be brought to an end by a decision of the Council of the League of Nations when the Council shall have ascertained that the financial stability of Hungary is assured."⁸⁰ In addition, he was to have a total authority over the special account into which the yield of the securities was paid, and over any amount payable on annuity of the loan.⁸¹ In light of the tight supervision that Smith would be entitled to in Hungary, it was evident that Hungarians were somewhat afraid lest they should get a dictator similar to what the Viennese people got in the person of Zimmerman. On the other hand, Smith's nationality provided the basis for hope as well.

Smith arrived in Hungary on May 1, 1924. His deputy was another American, Royall Tyler, who was desired to be on the staff from early on because he "would be invaluable."⁸² Aside from his financial qualifications and being an American, Tyler spoke five languages and could translate for Smith in daily conferences. Smith was also assisted by Harry Siepman from Great Britain, René Charron from France, and by Licen from Belgium.

The mood in Hungary had become calmer with Smith's arrival. Brentano reported that Smith had seemingly won "the general admiration of the Hungarian Government and people, due especially to his assiduity, modesty and courtesy."⁸³ With the Commissioner-General nominated and staying in the country, the most arduous phase of the scheme had begun: the 250-million-loan for the Hungarian reconstruction scheme to begin.

In raising the loan, London was to be the main actor, but the active participation of the United States was expected as well. Naturally, it was a big disappointment when in mid-May J. P. Morgan & Co. withdrew.⁸⁴ Lamont informed Smith that the Dutch and Czechoslovak issues had been poor and the American public was not ready for a new bond issue.⁸⁵ To be sure, J. P. Morgan & Co. was already busy laying the groundwork for the

⁸⁰ League of Nations. *The Financial Reconstruction of Hungary. General Survey and Principal Documents*. (Geneva, 1926), 84-6.

⁸¹ *Ibid.*, 84, 89-90.

⁸² Lord Cecil to House, February 11, 1924, C2521/37/21, FO371/9905, TNA.

⁸³ Brentano to Hughes, June 11, 1924, 864.00/583, Roll 6, M. 708, NARA.

⁸⁴ Strakosch to Smith, May 23, 1924, OV9/434, BoE.

⁸⁵ Lamont to Smith, May 22, 1924, C9203/37/21, FO371/9908, TNA.

big prize, the German loan in the upcoming fall.⁸⁶ The Commissioner-General was understandably disappointed. He knew that the public in Hungary looked at him as somewhat of a Messiah, who would bring the Promised Land—in the form of American money. Despite this fiasco to the contrary, he faced the future with optimism and had “no regrets at having undertaken this work.”⁸⁷

With J.P. Morgan out, Norman took over and made an exceptional agreement with the new Hungarian National Bank, and provided most of the missing money. Finally, another American house, Speyer & Co. undertook to float \$7,500,000 of the loan, so at least some American participation was realized. The subscription started in London by Baring Brothers & Co., Rothschild and Son, and J. Henry Schroder & Co. on July 2, 1924, and the very next day in New York by the consortium led by Speyer & Co. After so much worry, the news was more than welcome that in the two most important places the loan was a huge success. In London, where more than half of the total amount was floated, lists had to be closed before noon, and the sum offered was over-subscribed many times over.⁸⁸ In New York, the subscription was a similar success. Brentano, the American Minister in Hungary, attributed the oversubscription to American sympathy to and belief in Hungary.⁸⁹ Speyer sent the reassuring cable that the whole block was subscribed and the lists were closed.⁹⁰ Naturally, Smith was “very much pleased that there was an American participation.”⁹¹ So was Bethlen, who confidently stated: “Now the American bankers have also decided that Hungary is a good, safe investment.”⁹² In the course of the next week, the Dutch, the Swedish, and the Italian tranches scored great successes as well. With the issue of the Czech tranche in August, the whole loan issue was done. Speyer personally came to Budapest in mid-August and negotiated to take over

⁸⁶ Frank Costigliola, “The United State and the Reconstruction of Germany in the 1920s,” *The Business History Review* 50, no. 4 (Winter 1976): 490–2.

⁸⁷ Smith to Salter, May 24, 1924, OV9/434, BoE.

⁸⁸ Strakosch to Smith, July 2, 1924, C.III (4) Correspondence—Sir Henry Strakosch, C. 111, LNA.

⁸⁹ *Az Est*, July 25, 1924, XV/150.

⁹⁰ Felkin to Salter, July 4, 1924, 1924, Dossier concerning the American tranche. Doc. No. 37289, R. 413, LNA.

⁹¹ *The New York Times*, July 6, 1924.

⁹² *Time*, July 7, 1924.

\$1.5 million from the Hungarian tranche, 80% of the total domestically raised amount, making the American part now \$9 million in total.⁹³ Now the money had been raised and Hungary started down the road of a hopeful financial reconstruction.

The Hungarian reconstruction was an even bigger success than the Austrian one. Only about one fourth of the loan had to be used for deficits. Inflation was halted in July, the budget deficit disappeared within a few months and remained stable, and the same was true for the Hungarian crown. Since revenues comfortably covered expenditures, in 1925 the League authorized \$50 million to be used from the loan for productive investments. At the termination of the Commissioner-General on June 30, 1926, all of Hungary celebrated Smith. When the Hungarian Prime Minister wanted to give a high decoration in honor of Smith, the American was appalled and replied: "If you do, then I shall never forgive you. Your friendship and gratitude are more precious to me than any decoration."⁹⁴ The fact that he refused to accept his salary for the past two years made him a hero both in Hungary and the United States. The Hungarian government decided to set up a Jeremiah Smith Scholarship Fund, which was to send two Hungarian students for an academic year to the United States every year. With the departure of Smith, the successful financial reconstruction of Hungary came to a close.

Afterword

It must be said that the American role in European reconstruction was both negligible and crucially important. On the political level, the US government did not want to commit itself to the Central European reconstruction, or any other reconstruction, for that matter, save the German one. The United States wanted to avoid any step that might have born on the question of reparations and inter-allied debts connected to it. On the financial front, the United States provided a small portion of the Austrian and the Hungarian reconstructions, less than one fifth of the total in both. Still, the psychological effect of the participation of American private capital was invaluable for both programs. It showed that there was confidence for this region overseas and it was worth investing money in

⁹³ Barclay to MacDonald, August 15, 1924, C13283/37/21, FO371/9909, TNA.

⁹⁴ *The New York Times*, June 30, 1926.

these countries. The floodgates were open and huge amounts of American capital started to come.

On another level, although it failed in the case of Austria, the League of Nations managed to secure an American for the post of Commissioner-General in Hungary. Their choice of Jeremiah Smith, Jr. proved to be a winning one. Even if as a League official, Smith inevitably represented the United States in Central Europe. Aside from professional qualifications, the human dimension that Smith brought with him was invaluable. Hungarians, politicians, and everyday people all loved him and held him as a savior of Hungary. His popularity stood in sharp contrast with that of Alfred Zimmerman in Austria.