

THE UNITED STATES, HUNGARY, AND THE ORIGINS OF THE COLD WAR

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According to the historian Arthur M. Schlesinger, Jr. the Cold War "in its original form was a presumably mortal antagonism arising in the wake of the Second World War between two rigidly hostile blocs, one led by the Soviet Union, the other by the United States".¹ This interpretation is too narrow. It goes further than George Keenan's definition of the Cold War as a Soviet-American conflict by widening its scope to "two rigid blocs". This enables us to approach a fuller interpretation, which should include a synchronic approach, while retaining the historic-diachronic one. The Cold War was more than a quasi military conflict between two blocs. As a unique historical phenomenon two groups of countries were cut off from one another politically, economically and culturally. The loss of economic cooperation and the limited flow of technological and scientific information left a marked scar on Eastern Europe and has grave consequences for regional development. From the diachronic perspective the Cold War has ended; from the synchronic aspect it is still with us, as demonstrated by Eastern Europe's economic, scientific, technical, cultural backwardness resulting from Cold War measures. American economic politics after the end of 1947 partly caused Eastern Europe economic retardation. Economic isolation was more a product of the Soviet inspired policy of economic autarchy adopted by the Eastern bloc: "at the second, Sofia meeting of Comecon, the member countries were called upon to further limit their economic ties towards the Western countries, and this was the point where autarchy became a central issue".² Easier said than done: the Hungarian economy was largely dependent on Western trade and technology which could not be changed rapidly. This attempt at isolation from the West was strengthened by an American policy of embargo ostensibly implemented to curb the growth of Eastern military power and to hasten the collapse of Soviet domination in the region by fomenting economic difficulties. Economic policy was raised to the level of national security policy, resulting in an embargo on exporting commodities and technology considered to be of strategic value. The United States wanted Western Europe to adhere to this policy also.

This paper will show how this system came about through a case study of Hungary, in the hope of clarifying what we call the Cold War. A discussion of economic policy will confront the origins of the Cold War.

Revisionist historians argued that the Cold War was the product of American economic imperialism, contrary to the 'orthodox' assertion that it was a response to Soviet

expansionism. A group of these historians attempted to fit American post war policies into their general theory of economic determinism and the thesis that American foreign policy was involved in creating a so called 'informal empire' from the end of the 19th century. William Appelman Williams found that the U. S. sought to employ the "Open Door Policy", implemented first in late 19th century China, in post-1945 Eastern Europe. Others find U. S. policies were the logical extension of American drive for what Walter Le Feber called the informal empire. Some historians, like Lynn Ethridge Davies, asserted that all the Soviet Union wanted was a ring of friendly countries. They did not pay sufficient attention to the actual policies of the Soviet Union implemented in the region, which were those of Bolshevisation, cloning the Stalinist system in the 'friendly' ring of countries. Not even a country openly friendly and loyal to the Soviets like Czechoslovakia escaped this fate. Robert Maddox devoted a whole book to show how revisionist writers like Kolko and Williams distorted documents to prove that American leaders motivated by business interest were harboring imperialist economic ambitions. They were guilty of quoting sentences out of context, deleting parts to change the original meaning, and constructing nonexistent dialogues by putting together real ones. Williams quoted a dialogue between Molotov and Byrnes to "support" his argument. Maddox proves that "by culling out phrases and isolated sentences from the sources Williams badly garbled what Byrnes' proposal was all about and how the Russians reacted to it".³ Maddox failed to show that policy documents on Eastern Europe, and policy actually implemented there, does not support the revisionist thesis even if the 'evidence' they compiled are genuine. The revisionist argument lingers on: John Lewis Gaddis in his "postrevisionist synthesis" asserts that the U. S. "was determined to make thorough use of this unique (economic) strength to promote specific political ends". He continues: "the aspect of New Left historiography that post-revisionists are most likely to find useful and point upon which their work will depart most noticeably from orthodox accounts is the argument that there was in fact an 'American Empire'".⁴

Even if the American Empire did exist, the U. S. gave no sign of establishing one in Eastern Europe. The argument that America used economic coercion to promote economic or political ends does not stand up to criticism. At most, the U. S. attempted to adhere to the principle of free trade with East Europe, and wished to protect legitimate on-site American business interests. This hardly suffices to comply with the theory that the U. S. was searching for new markets to solve its domestic economic problems. If American economic policy ever served political ends it was after Cold War conflict had taken shape, and then it was one of restriction rather than expansion. The Cold War "requires an awareness not only of power but of the limitations of national power... the U. S. like all great powers before it can act effectively only as it follows its own national interest and has the power to support the actions it chooses. Orthodox and revisionist historians alike are misled by either exaggerated estimate of national power" warns Kenneth W. Thompson.⁵ The United States had no primary ties with Eastern Europe, and public opinion would not have accepted open intervention in that region. Yet, Soviet policies there were incompatible with post-war American political

objectives — self-determination, free trade, European integration — and complete acceptance of Soviet activities would have alienated public opinion and fostered the idea that the Soviets had a free hand in that region.

America's foreign policy had to solve the contradiction between the lack of interest in Central Europe and the publicly announced idealist principles in dealing with the Soviets. This meant that while the U. S. was publicly talking about implementing the Yalta principles in the whole of Europe, in practice it was letting the Soviets get away with policies contrary to these principles.

I will illustrate American policies in Eastern Europe by following the instance of Hungary using information available to policy makers at the time. The paper is centered around foreign economic issues so as to give insight into how the monolithic Cold War system evolved and to see how economic politics influenced the evolution of conflict.

The share of Eastern Europe in exports of nineteen European countries was 7% in 1937; 3.7% in 1948 and 3.2% in 1954. The figures for imports in the same year were 8.5%, 4%, and 2.9%, respectively. The total turnover within the Soviet bloc was \$ 108 billion in 1948, out of which Western Europe and the U. S. A. accounted for 2.7%, while in 1952 this figure was \$ 148.2 billion out of which the "free world" represented 1.6%. Their total trade with the West was \$ 1.8 billion in 1953 while the same figure for the East Bloc countries was \$ 2 billion in 1937, while trade among Western countries had risen from \$ 23 billion to \$ 68.4 billion during the same period.⁸ Thus the relative, commercial importance of Eastern Europe fell even compared to the low pre-war period. For Hungary the U. S. was the 12th most important partner in 1946-47 and the 21st in 1949 in export, while the Soviet Union was first. For the U. S. these figures correspond to the traditional ranking while the Soviet Union achieved such a prominent and previously unprecedented place because of reparation shipments and the 1945 Soviet-Hungarian economic treaty. Hungary's most important pre-1945 partner, Germany, lost its prominence. The United States, however, was Hungary's primary partner in imports in 1946/47 as a result of aid sent to Hungary. Apart from UNRRA aid, JOINT donated 657 wagons of foodstuffs. By 1949 America dropped to 19th place with the termination of aid shipments, demonstrating that the earlier figure was not a result of inorganic development. The Soviets advanced from third to first place in terms of Hungarian imports. While in 1938 Hungary's exports to the Soviet Union amounted to a mere 0.11% with 86.27% being conducted with the Western world, a drastic change altered these figures to 24% of the export to the Soviet Union with the Western share shrinking to 51% by 1949.⁹ A similar trend occurred in imports.

Hungary was never an important target for American investors. The largest single company was Standard Oil with a value of \$ 58 million, while U. S. total investment was \$ 100 million. "Apart from Czechoslovakia, Poland and to some extent Hungary (Eastern Europe) had not received significant opportunities of American investment before the war and American cultural and political relations with those countries had been loose... American public opinion showed little interest in the fate of those people."¹⁰ An American legation policy paper of July 1945 claimed Russian material

aid to the minority Communist party, presence of Soviet troops and political police pressuring anti-Marxist parties could lead to the establishment of a Communist regime and the subordination of Hungary to Soviet political and economic dictation.¹¹ Still, the U. S. was unwilling to give financial aid to the Smallholders Party, the strongest opposition party in Hungary.¹²

In summer 1945 the conditions for reorienting the Hungarian economy were created by a Soviet–Hungarian economic agreement signed on August 27. This envisioned a turnover of \$ 30 million in commodities for the next 15 months, with Hungary shipping foodstuffs and manufactured goods in return for raw materials. The agreement began the process of basing Hungarian industry on Soviet raw material in return for goods that were impossible to sell on other markets. This set to a market of extremely low standard goods. Another part of the August 27 agreement gave the Soviet Union a leading role in aluminium and oil production and research, shipping and air transport by setting up Soviet–Hungarian “50–50” joint venture companies which enjoyed privileges not granted to purely Hungarian companies.¹³ The country was already allocating the bulk of its industrial production to reparations. \$ 5.5 million of industrial equipment was dismantled and carried to the Soviet Union, along with \$ 6.5 million of products shipped there. International obligations arising from the Armistice agreement were more than 30% of national expenditure until 1948. The bulk of it went to Russia.¹⁴ Half of Hungarian industry and virtually all of its heavy industry was preoccupied with reparations, supervised by Soviet overseers. “One time economically independent Hungary, has in the space of little more than a year gone far towards becoming a Soviet economic colony... In one year the USSR has acquired more far reaching control over Hungarian commerce and industry than the Germans...”¹⁵ The state renewed wartime control of the economy. Industrial commissioners monitored production; the Minister of Industry was empowered to dispose of raw materials, full, and semi-finished goods held by companies or private persons in Hungary to maintain industrial production. An organization was set up to distribute raw materials and goods and was enabled to regulate the use of 550 materials and semi-finished goods. Paper, metals and coal distribution was centralized. This provided the possibility of nationalizing the Hungarian economy.¹⁶ At the end of 1945 a body of economic coordination called the Economic High Council was set up. The Communist Zoltan Vas headed it, thereby giving the Communist party a decisive role in directing the economy. It became an executor of Communist economic policies, allocating raw materials, fixing prices and wages. Parliament lost its prerogative of drafting the budget. Administration gained power over legislation. By raising social expenditures and taxes, private enterprises lost profit when investments were most needed.¹⁷ Resources were further depleted by having to cater to the half million Soviet occupation soldiers and by the Russian demand to relinquish German assets, which gave them important industrial and financial properties though some were clearly not German owned. In their interpretation of the Potsdam Declaration the Russians demanded all wartime German claims against Hungary, while the considerably higher Hungarian claims against Germany were waived. While Hungary was becoming a Russian economic satellite, the State

Department decided America should not enter into a bilateral trade agreement proposed by the Hungarian government. Byrnes wanted it made clear that, aside from considerations of international trade policy, it would be impossible for the U. S. to make any formal trade agreements with Hungary until it was no longer subject to the armistice agreements. "The American policy to be applied after such conditions are realized, is the principle of 'non-discrimination' in international trade."¹⁸ Harriman, the American ambassador in Moscow, protested against the Soviet-Hungarian trade agreement violating the principle of non-discrimination, as he had for Romania and Bulgaria. On the other hand, Byrnes advised the American legation in Hungary not to indicate any support for refusal to ratify the economic agreement with the Soviet Union,¹⁹ which was seriously being considered by the Hungarian government. After the parliamentary elections (where the Communists suffered a humiliating defeat, polling 17% against the Smallholders' 59%) Schonefeld, the American minister in Hungary, recommended a policy of economic assistance, since he believed the country was heading towards "economic chaos which development may liquidate the present government and recent progress to democracy in Hungary".²⁰ The State Department then assured Hungary of its willingness to aid in resuming Hungarian trade with private U. S. companies, and warned against denying access to states other than the USSR to the Hungarian market and against the denial of investment opportunities.²¹

Harriman told the Soviet government that the United States considered long-term bilateral agreements like the Hungarian and Romanian ones unjustified, while assuring the Soviets that the U. S. "fully understands mutual economic interests between the USSR and its neighbors... and desires to see those interests develop". Harriman recommended the U. S., France and Britain jointly solve East Europe's economic problems in the framework of the Council of Foreign Ministers.²² No sanctions were held out against Soviet non-compliance with the American proposal. No support was given to Hungary to renounce the economic treaty, so it alone was held responsible for not complying with the principle of non-discrimination. Hungarian-American relations were strained by the maltreatment of MAORT (the Hungarian subsidiary of Standard Oil New Jersey) and the Russian direct control of its management. It was forced to overproduce, to the detriment of future production. Also, Vacuum Oil Company, one of the leading oil refining companies in prewar Hungary, was reinstated into the rights it enjoyed before 1942, when it was sequestered by the Hungarian government, even though all its stocks were owned by American citizens.²³

Its oil allocation was decreased to the detriment of the newly set up Soviet-Hungarian refinery, which was allowed to operate at 80% while Standard Oil operated at 60%. The Soviets were engaged in carrying off MAORT equipment as war booty. The State Department authorized MAORT to ask General Key, the American representative of the ACC, to ask the Soviet ACC Chairman Marshall Voroshilov stop the removals. The company's property was operated contrary to sound oil field practice and superintended by Soviet commanders. Company administrative and supervisory staff had no freedom of movement.²⁴ Since the company feared nationalization, the Hungarian foreign ministry sent assurances that Hungary would not take over oil fields or

coal mines belonging to people from United Nations countries, while admitting that "state supervision" would be introduced in order to "improve productivity, and secure production".²⁵ The nonsensical argument proves that arrangements for nationalizing foreign property were made as early as 1945. Only a few months later the foreign ministry turned to the council ministers to declare those mines be nationalized with full restitution to the owners. A favorable decision would serve as a precedent for the nationalization of oil fields.²⁶ The elimination of American economic interest started in 1945 by the dismantling of "Tungsram" despite protests, and lasted until 1949.

The Potsdam Declaration gave the Soviet Union the right to dismantle and import all German assets in Hungary, Bulgaria, Romania and the Eastern (Soviet) zone of Austria. This provision was often abused, with non-German factories being carried off, too. This was the fate of Ford Ltd. of Budapest, 98% owned by the Ford company of Cologne, which in turn was owned 52% by Ford Motor Co. of Dearborn, Michigan.²⁷ Jóvátételi Hivatal (Board of Indemnities) wished to give all the company's capital to the Soviets under a decision brought by a Hungarian-Soviet committee set up for the implementation of the Potsdam Declaration. The United States intervened to annul the decision at the Economic High Council, thereby limiting damage to American interests.²⁸ The economic department of the ACC then modified the original decision which reduced the capital loss to 43%. A parcel of shares representing 57% of the Ford Motor Co. was returned.²⁹ Soviet-Hungarian joint stock companies and manipulating the Potsdam Declaration were not the only methods of centralizing industry. The American Legation requested the Hungarian Foreign Ministry to authorize Standard Electric Co. to use a portion of its output for export purposes, since its reparation orders exceeded capacity while it received payment in Hungarian money and had no access to foreign currency. The American note stated that raw materials and plant equipment was not available, nor was the company able to pay dividends. It was recommended that a percentage of the plant's production be set aside for free export to get hard currency for buying new equipment.

The importation of industrial material and equipment to Hungary would thus be possible.³⁰ Prime Minister Ferenc Nagy thought the Hungarian government should, as always, consider American financial interests in the case of Standard Electric.³¹ Although Foreign Minister János Gyöngyösi received Nagy's response the day after the U. S. note was sent, the official answer was given seven weeks later. The views of the Hungarian National Bank, the Office of Reparations and the Ministry of Industry were sought, none of which was quick to respond. The National Bank offered that foreign currency could be allocated to the company "in case this is justified" and that the figure should be 30% of the exports, for the purpose of replacing machinery but not to pay dividends. A similar view was expressed by the Ministry of Industry; the Hungarian government could not guarantee the profit for foreign capital, but it was willing to negotiate with the Soviets for decreasing the company's reparation burdens.³² This view contradicted that of the Premier. Eventually, the view expressed by the Reparations Committee was forwarded to the American Legation. Contrary to the recommendation of the Ministry of Industry, this claimed that Hungary was not competent

to negotiate the decrease reparation payments, but the American legation should intervene directly with the states where reparation was being shipped. Money received from exported products could be used to finance imports but not for paying dividends.³³ The 'liberation' of exports was carried out later that year in order to produce foreign currency. The policy objective was obvious: it fitted into a general pattern of keeping foreign owned companies functioning, but holding back dividends to prevent further investment and thus preparing for eventual nationalization. This policy was countered by the need to sustain economic ties with the U. S. to keep companies fulfilling reparation shipments running and which also represented high standards of production thus contributing to Hungarian economic stability. This is best summed up by a memorandum prepared by the Reparation Committee: American companies operating on Hungarian soil cannot enjoy extra-territoriality, since article 13 of the Armistice Agreement did not oblige the government to restore prewar rights of American citizens without changes. Foreign and Hungarian capital would be treated on the same terms, since the restoration of Hungarian economy and the payment of reparations could only be assured if exports were increased. Export projects initiated by American companies would be handled by the Foreign Trade Directorate.³⁴

In compliance with the American request of April 3, 1940 the state commissioners were withdrawn from two American owned companies, Edélényi Kőszénbánya Rt. (Edelény Coal Mine Ltd.) and Borsodvidéki Kőszénbánya Rt. (Borsod Coal Mine Ltd.). In the autumn of 1946 the so-called Treasury Utilization against MAORT was terminated. In line with the temporary improvement of the situation, Gordon, the minister of finance assured the U. S. that "in order to improve U. S.-Hungarian economic and financial relations... the government will examine the export conditions of firms with an American interest and will, if possible, ease burdens on those companies, while negotiating with the USSR to decrease shipments of reparations by Standard Electric".³⁵ Another note pointed out that credit would be unfrozen as soon as the balance of payment was reestablished. However, the issue of dividends was premature.³⁶ Later in the year government payments to companies were blocked altogether as part of a by then institutionalized policy, which prevented the accumulation of private capital.³⁷

The recovery of the Hungarian economy was in part dependent on trade with the U. S. Prewar American imports were raw materials like copper, iron, timber, oil and industrial products, machinery (textile, agricultural, household appliances) and motorcars. Exports were mostly agricultural products. According to a policy paper prepared by the foreign ministry Hungary was in desperate need of cars, trucks, agricultural equipment, machines for building roads and railroads and for food processing, all finer industrial goods than Russia was offering.³⁸ The second part of the paper stated that reconstruction would be feasible with the help of a foreign loan to restore production and stabilize currency. Normal trade relations were barred by Communist and U. S. policy. All export items exceeding the value of \$ 25 had to be licensed. Imports to America were restricted also, mainly in agricultural products which were an important component of Hungarian exports. The United States government policy dictated that trade with foreign countries should proceed through private companies, while com-

merce conducted between governments and government agencies should be eliminated. Placing foreign trade on an entirely economic basis was disastrous to Hungary, whose prices were not competitive on the international market.³⁹ Although the U. S. signed a commercial treaty with Czechoslovakia, granting unconditional most favored nation treatment, no such agreement was signed with Hungary on the grounds that it was formerly an enemy country.

Stabilization loans were not forthcoming either. Although in late 1946 the American minister in Hungary predicted economic chaos and runaway inflation, he suggested no American countermeasures. "I attach little significance to Financial Minister Gordon's opinion that granting Ex-Im loan to Hungary would have important political effect." He claimed the situation had altered since February when assistance could have helped Hungary's ability to remain economically independent of the USSR. Unilateral American assistance now would make little contribution to Hungary's recovery because the Soviets would neutralize its beneficial effects. Key Hungarian officials would divert American aid to the USSR. Gordon counseled any American loans should be predicated on Soviet-American understanding.⁴⁰ Although the Secretary of State recommended a \$ 10 million loan for Hungary, the acting secretary Acheson replied that the chairman and chief economist of the Bank declined to consider this possibility based on Schonefeld's above quoted telegram. Thus when Gordon raised the question of an Eximbank loan during the Hungarian government delegation's official visit to Washington in June 1946, his request was denied. State Department experts pointed out that the Bank did not want to make loans which the State Department desired made for broad political reasons but were contrary to good banking standards. The bank stated the possibility of Hungary getting a loan was almost nil, and told the state department to stop pressuring them. The conclusion was "given the present state of the Hungarian economy, the credit policy of Eximbank and other Federal agencies, the Department has no available means of extending economic assistance to Hungary and thereby implementing its political objectives" there.⁴¹ Thus even when the State Department considered limited economic measures to keep Hungary out of the Bolshevization zone it had no available means to do so since there was no financial interest involved in such a plan. By the end of 1946 the idea was given up of combating Soviet expansion in Hungary by economic counter moves. A similar policy was adopted towards Czechoslovakia and Romania. Steinhardt, the American minister in Czechoslovakia, advised against a large loan for reconstruction purposes until the Czechoslovakian people "rid themselves of the very real threat of Communist domination or until... American properties which have been nationalized will be paid for", recommending a loan of \$ 30 million only. In September it was decided that no new credit would be given to Czechoslovakia since the Czechoslovakian delegation in Paris supported Vyshinsky's view that the U. S. was trying to enslave Europe by a policy of handouts and improvement in Czechoslovakia's economic conditions.⁴² In spite of this Eximbank approved a \$ 50 million loan to that country. However, Byrnes instructed Acheson to determine if the unused portion of this credit (\$ 41 million) could be prevented from being used up. He wanted to see that no new contracts were made to subsidize

the Communists in Czechoslovakia. "I am convinced that the time has come... to assist our friends in Western Europe... rather than continue to extend material aid to those countries in East Europe at present engaged in the campaign of vilification of the U. S. and distortion of our motives and policies."⁴³ This time it was the other way round; in Czechoslovakia politics did not follow business. In Romania's case a general understanding was reached that Romania would not receive loans from the United States.⁴⁴

Simultaneously the U. S. attempted to influence Hungarian economic revival through diplomatic channels with the Soviet Union. George Kennan demanded that in view of the disintegration of Hungarian economy due to reparations, requisitions, occupation and Soviet interference in Hungary's economy. Soviet representatives should join Britain and America in working out a program to stop disintegration and provide for the framework of rehabilitation and reintegration of Hungary with the general economy of Europe. At Byrnes' instruction, Kennan addressed a note to the Soviet government, expressing American "concern" over joint Soviet-Hungarian companies being guaranteed monopolistic rights and privileges not extended to other companies.⁴⁵ After the Soviets refuted charges brought by Kennan, Bedell-Smith, the American ambassador in Moscow, supported his position with economic data, again requesting the Soviet Union to take part in tripartite negotiations to devise a plan for Hungarian economic revival. This time the note was made public.⁴⁶ Dekanozov replied that only the Hungarian government could draft such a plan.⁴⁷ Accepting defeat, the charge in Moscow, Durbrow, stated that the American ACC representative was ready to consult with his Soviet and British colleagues to implement Yalta obligations by "assisting Hungary to stabilize its economy and reintegrate with the general economy of Europe".⁴⁸ Byrnes instructed the American legation in Budapest to inform Hungarians that the U. S. was assuming a 'helpful' attitude towards Hungary's domestic problems, but those were to be solved by the Hungarian government. In a note attached to the telegram Freeman Matthews recommended that a mild support given to the Hungarian government to combat minority pressure might be helpful.⁴⁹ A specific proposal for such an action was suggested earlier by Schonefeld for supporting a territorial modification of Transylvania in favor of Hungary to strengthen the Nagy government and to increase U. S. popularity in the country.⁵⁰ By 1946, Romania was in a far more hopeless situation regarding independence than Hungary.⁵¹ In his visit to Washington Nagy found that State Department attitude towards this issue was not unhelpful.⁵² In the course of the year, however, it seemed to Americans that Hungary was beyond help. The New York Times reported that the Russians, by gaining control of 50% of Hungary's largest mineral resource, bauxite, an agreement in oil, Danube river shipping, civil aircraft, banking, ports and telegraph meant that the entire Hungarian economic and communication system was under Soviet or pro-Soviet control. A similar fate befell the National Bank which issued currency, the National Credit Bank which held 33% of all Hungarian industry, oil resources not owned by Americans, postal and telegraph systems, the Budapest radio and Hungarian information service.⁵³

A source of tension in Hungarian-U. S. relations was the issue of aviation rights,

because the Hungarian government refused to grant landing rights requested by the U. S. The Americans wished to use Hungarian airfields on the same terms as the Soviets but the Nagy government refused to comply. As a retaliatory measure Schonefeld suggested that Hungary be made ineligible for purchasing aviation equipment against surplus commodity credits. Relations improved somewhat after the government delegation's visit to Washington, where the return of Hungarian gold reserves from the U. S. occupation zone was promised. American attitude on the border question was encouraging. The Hungarian premier told Acheson that he expected a favorable decision on aviation rights from his cabinet, and promised to furnish the U. S. with information on Hungary's economic situation. Nagy undertook to compensate damages to American nationals in return for the restitution of gold reserves.⁵⁴ The matter of reducing Hungary's reparations burden was brought up at the Paris Peace Conference by the American assistant secretary of state for economic affairs, who thought that the country could not meet its obligation of \$ 300 million without endangering political stability. Arguing that in signing the Armistice Agreement the United States reserved the right to reopen the question of reparation obligations, he sought their modification.⁵⁵ This was a minor diplomatic success for Hungarians who were pressing the U. S. to bring up the problem at the Conference. It could not bring any result against Soviet wishes; neither could such a gesture counterbalance U. S. inaction in connection with the territorial dispute over Transylvania, which was settled in Romania's favor without the slightest concession to Hungary.

In view of the arrest of opposition politicians falsely charged with "conspiracy to overthrow the republic" in early 1947, Szegedy-Maszák, the pro-western ambassador in Washington approached Barbour, the head of the Southeast Division of the State Department, to elicit an expression of American interest in maintaining democratic elements in Hungary. To strengthen Nagy in the crisis Barbour replied that his government was seeking ways to give economic assistance to Hungary.⁵⁶ Freeman Matthews arrived at the conclusion that the political struggle in Hungary was probably entering its most crucial stage and was considering "what steps, if any should be taken to assist the democratic elements".⁵⁷

Secretary of State Marshall wished to forestall Communist efforts to weaken democratic elements in Hungary, but did not specify what exactly should be done. He stated the American position that no further concessions should be given to the Communists. He added that economic aid and means to make it available were being considered, but admitted that "difficulties have arisen as to possible sources of financing such assistance".⁵⁸

Schonefeld modified his earlier view and suggested economic aid aimed at supporting a general rehabilitation plan to increase its political effectiveness.⁵⁹ However, Barbour informed Freeman Matthews that Eximbank would not approve of a general rehabilitation loan and the U. S. was not in the position to hold out hope for economic help as suggested by Schonefeld. As a stopgap measure it was decided that: (1) a \$ 15 million increase in surplus property could be granted immediately; (2) previously denied cotton credit of \$ 10 million could be arranged; (3) post UNRRA relief to Hun-

gary to be considered by congress as a matter of urgency.⁶⁰ These measures would be announced slowly so as to demonstrate continuous American interest in Hungary. "According to diplomatic circles," said The New York Times, the extension of the surplus credit was "calculated to strengthen the hands of the government in Budapest and the Smallholders Party which are under increasing pressure of the Communists".⁶¹ Senator Ball of Minnesota asked the Secretary of State to "publicly protest most strongly the Communist purge now going on, stating that this is laying the ground for a Communist putsch".⁶² Following the arrest of Béla Kovács, the general secretary of the Smallholders Party, by Soviet authorities, Undersecretary of State Hickerson urged energetic action, including the submission of the matter to the U. N.⁶³ U. S. policy attempted to salvage Hungary from Soviet domination. The State Department's quest for economic assistance to halt the political trend in Hungary met with refusal. The traditional pattern prevailed, namely that American business did not necessarily follow politics. Eximbank again refused to float a loan for political purposes. The State Department thought that no economic assistance other than humanitarian aid should be given to Romania so as not to strengthen the totalitarian regime there. Proving that the above statement on politics and business works both ways, the memorandum states that the U. S. government will not interfere with the \$ 7.5 million loan the Romanians managed to get from Chase Manhattan Bank nor with the further \$ 50 million under negotiation.⁶⁴ Economic relations between the United States and Hungary worsened again. The Hungarian Reparation Committee refused to redress Standard Oil's complaint against using the company for reparation purposes.⁶⁵ The government refused to pay for shipments made by American-owned companies on the pretext of protecting the balance of budget while the claim for payment was recognized to be valid. Trade relations were not satisfactory either. Szegedy-Maszák complained that there was not enough embassy staff to pursue wide range commercial activity, but because of the "rudimentary state of commercial relations and to save money" he did not recommend setting up a permanent commercial representation, but proposed to subscribe to the Journal of Commerce.⁶⁶ Until February 1947 Hungary, along with Romania, Bulgaria and Germany, was an "E" category country meaning that all exports over \$ 25 to these countries needed a license. The ministry of commerce justified lifting the measure by citing the general U. S. policy of treating Hungary as a democratic state, a bit belatedly considering that the country had its internationally recognized democratic elections in 1945. This may be explained by the prospect of Hungarian compensation for American exports. Paprika, wine, feathers and meat were the traditional goods exported to the U. S., among which the export of meat products was expected to bring the best results. In 1947 the New York Hamex Trading Company imported Hungarian goose liver pate, for which the American meat inspectors refused an import permit, ostensibly because it could not accept certificates issued by Hungarian animal health authorities. The Secretary of State informed the Hungarian legation that the Department of Agriculture needed more information on the efficiency of that system.⁶⁷ Although earlier the U. S. recognized Hungarian and American meat inspection regulations to be comparable, the American Legation asked for the Hungarian text and an English transla-

tion for the Department of Agriculture.⁶⁸ The Secretary of Agriculture reversed an earlier position by refusing to accept meat inspection regulations. The Hungarian side was also to blame. The text they sent to the U. S. did not contain full information.⁶⁹ At this point the Hungarian Department of Agriculture sent an oral message through the foreign ministry, stating the American secretary of agriculture earlier had recognized Hungarian meat inspection regulations and their implementation to be equivalent to the American standards. It was requested that Hungary be removed from the list of countries under prohibition drawn up in 1938 because of foot and mouth disease since this "does not exist at this juncture on the whole territory of Hungary but in two communities".⁷⁰

The affair dragged on into 1949, when the minister of commerce reported that U. S. authorities were obstructing the importation of Hungarian meat and meat products on the pretext that there was no animal health treaty in effect between the two countries. Since the minister saw a possibility to raise exports to the U. S. from an annual \$ 1.5 million to \$ 2.3 million by exporting meat products, he suggested the conclusion of such a treaty, but was turned down by the Foreign Ministry.⁷¹ Hungary then decided to send samples of veterinarians' signatures. This was not a simple commercial decision: it was made by the political department of the Central Committee of the Hungarian Workers' Party. This was true for the Americans, too, who kept finding something wrong with the documents submitted to them. The whole business bears resemblance to the American-German "pork" or "trichinae" dispute of the 1870's or the similar one between Hungary and Germany in 1932.⁷³ A shipment of paprika was refused by the FSA with the explanation that it did not meet U. S. health regulations, although the quality of this shipment was the same as those going to America for decades. The decision was "obviously due to the cavil of American authorities".⁷⁴ Obstructing the sale of paprika was a hard blow since this was Hungary's fifth largest export item to the U. S. in the period between 1934-1937.

American reluctance to trade with Hungary was countered by further Soviet economic penetration. Szegedy-Maszák summed up the objectives of the Soviet offensive: to extend Russian grip on Hungarian capital assets; to integrate Hungary into the Russian economic system; to achieve an exclusive Communist control of the economy through nationalization.⁷⁵ The Soviet Union did not support the idea of tripartite action for Hungary's rehabilitation and refused to release information on its economic and financial state to foreign missions except through the chairman of the ACC. Beside gaining control of heavy industry, they had the power to dismantle and remove factories considered to be German assets under the Potsdam Declaration. It was up to Hungarians to prove non-German ownership in a short period of time. The Hungarian government was made liable for creditors' claims on properties handed over to the USSR. Austrian owned assets were taken as German regardless of the circumstances of their acquisition. For example, the Hungarian interests of the Austrian Creditanstalt Bankverein were transferred to the USSR despite the ACC decision in Vienna that it was Austrian. Prior to the war the French Schneider Creusot group held 16% of Hungarian General Credit Bank stock, which in turn controlled almost 40% of Hungarian

industry. This 16% was transferred to Dresdnerbank after the German occupation of Paris. Another 2% was held by the Rothschild group in Austria. The Soviets seized both blocks of stock in spite of Hungarian, French and Austrian protests. However, at American representations they failed to acquire IT&T on the basis of a 14% holding of a German company; a 55% U. S. interest in Ford Motor Company was effectively protected.⁷⁶

The Soviet Union claimed payments on a valorized basis of German claims against Hungarian industry. Hungary had a clearing agreement with Germany the balance of which had been overwhelmingly in Hungary's favor. Hungarian claims against Germany were waived by Article 30 paragraph 4 of the Paris Peace Treaty except those before September 1, 1939. The terminology of the Potsdam Declaration opened the way for Russia to claim all amounts due to Germany. Contemporary estimates placed the Soviet demand on these grounds at \$ 158 million. In addition, inflation destroyed the working capital of the national economy, so that few companies could settle their debt to Soviet companies in cash, forcing them to turn over shares to the Soviets.

Soon after the arrest of Béla Kovács on anti-republic conspiracy charges, the prime minister Ferenc Nagy failed to return from his trip to Switzerland for fear of having to go through the same ordeal. In a memorandum to Molotov, the U. S. called the arrest of Kovács an unjustified interference in Hungary's affairs and demanded that the ACC and the Hungarian government examine and solve the issue, and that the Soviets take no further action without British and American approval.⁷⁷ But the proposal for tripartite action was rejected. It was decided that a new policy should be worked out. On March 8, 1947 Acheson allegedly mentioned to the British ambassador that Hungary was a country where independence and territorial integrity was closely related with the maintenance of Turkish and Greek independence.⁷⁸ In a telegram dated the same day, Schonefeld suggested that further action be considered by the administration.⁷⁹ However, on March 24 the British Ambassador was informed that the U. S. was considering economic aid rather than further political action. Acheson, stating that American protests had accomplished their task by emphasizing continued interest, reiterated to Schonefeld that no further political action would be taken, but economic assistance was being contemplated. Joint British American action was allegedly precluded by the fact that the Foreign Office did not fully agree with the March 8 and 17 American memoranda to the Soviet government.⁸⁰

The resignation of Nagy created a new situation. The possibility appeared that the issue may be taken to the Security Council. Stronger action was never considered. Senator Vandenberg, qualifying the events as a Communist coup d'état rejected Senator Fulbright's motion to postpone the ratification of the peace treaty. Calling events in Hungary an ugly travesty on the word democracy, he declared that the U. S. "cannot deal with Hungary, a former enemy as it deals with Greece (a reference to Truman's containment speech). Hungary is under armed occupation by Soviet troops... Greece is an independent state. Hungary cannot, therefore ask or receive our aid in the Greek manner. They are parallel tragedies but cannot have parallel treatment".⁸¹ Senator Eastland, concurring with Vandenberg demanded that the "Hungarian coup by Rus-

sia should be referred to the U. N. organization". He emphasized that the policy of appeasement as followed before World War II would again not work. Russia, he said violated the U. N. charter and the Yalta agreement. He proposed that the ratification of the Italian peace treaty be held in abeyance until the Hungarian issue was discussed in the U. N.⁸² McClintock of the Office of Special Political Affairs of the State Department was of the opinion that "further invocation of the armistice agreements serves only to illustrate the futility of those agreements" but putting those events in spotlight might compel Russia to mitigate its politics in Hungary even if the Security Council could bring no specific decision because of Soviet veto.⁸³ Marshall told the British Foreign Office that unless a fact finding mission could operate in Hungary the U. S. government might refer the matter to an appropriate body of the U. N.⁸⁴ McKisson, a senior official of the State Department, concurred with the influential Vandenburg, recommending that U. S. action be carried through with the "utmost persistence... notwithstanding Soviet vetoes, until it may be possible to raise the matter in the general Assembly and press for action possibly on the basis of a general indictment of Soviet political actions in an entire East European area".⁸⁵ Even so, the American note handed over to Molotov made no reference to the Security Council. It again demanded the setting up of a three power commission to examine the situation, warning that the United States "will consider such further action as may be appropriate in the circumstances".⁸⁶ Why did the note not make a reference to the U. N.? This had to do with new developments on the international scene. Freeman Matthews, Director of the Office of European Affairs expressed in his memorandum to Marshall that: (1) the Hungarian issue should be placed in a European context; (2) the support the U. S. would get from other countries in the U. N. was questionable. The British were unenthusiastic at first and did not join U. S. formal representations in the ACC; (3) "The Security Council is now considering the Greek case and the introduction of the Hungarian case into that body might well-deflect attention from that important matter." Thus, he proposed that submitting the case to the Security Council "should be postponed for the time being". Undersecretary of State Lovett and Marshall himself signalled their approval by writing their comment on the memorandum. Marshall then instructed the U. S. Embassy in London to inform the Foreign Office to this effect.⁸⁸

The United States was eventually unwilling to push the Soviets on what was a relatively minor issue. Although further consideration was not ruled out, the fact that Hungary would have been discussed in the general East European context meant that the teeth of the action would have taken out anyway, not to mention the time factor, the fact that the Soviets were becoming more entrenched by the week. Beside the Greek issue, the lack of a common American-British resolution caused the issue to be dropped. Joint U. S.-British action might have influenced Stalin, who dreaded such an alliance against the Soviet Union. Hence his vehement reaction to Churchill's Fulton speech which he interpreted as a sign that such an alliance was in the making, and subsequently did his best to signal that he wished to "detach" the United States from Great Britain.⁸⁹

The U. S. did not wish to alienate the Soviets over Hungary any further and as for

a possible Hungarian government in exile he declared that it would "serve no useful purpose".⁹⁰ Following Nagy's resignation Szegedy-Maszák announced that he would not execute the orders of the new government which he refused to regard as a free agent. However, he stated that this should not be interpreted as his resignation and he hoped to continue maintaining relations with the U. S. administration. Yet he was informed by Matthews that his mission was considered terminated and the new minister designate to Budapest, Chapin, would proceed to his new post.⁹¹ Had the U. S. seriously considered diplomatic action, Chapin's deployment would have been stopped, at least until a final decision of action was made. The fact that the new minister was sent so hastily clearly demonstrated to the Soviets that the United States did not really mean business. Chapin criticized earlier American policy on Hungary, claiming that more support should have been given to Hungarian political claims, generous economic aid earlier would have been effective whereas now it might prove counter-productive. He thought that the Hungarian question should be taken to the Security Council before the new elections. He deemed the quick ratification of the Paris Treaty useful in order to remove legal unilateral power of the Soviet Union to intervene through the ACC.⁹² In line with the American policy of non-involvement in domestic affairs, he did not think it useful to assist opposition parties financially. As a sign of the slight importance attached to Hungary no response was sent to Chapin's July 22 policy paper until the 6th of October. At that time Chapin thought many Hungarians felt abandoned by the U. S. and were emotionally unable to stand up against the challenge facing them. The Social Democratic Party called for strengthening and enforcing Hungary's "sincere, friendly relations with every progressive nation in the world, primarily with the Soviet Union, the neighboring countries, the democratic countries of the world and with the Social Democrats". According to the National Peasant Party — which was described as a communist fellow traveller, although with exceptions like Imre Kovács — "the United States, aware of its military and economic might is beginning to pursue an imperialist policy. President Truman's (March) speech is a veritable threat to the world... and (is) trying to gain a foothold in Hungary, and their two (March) memoranda mean that they are supporting the conspirators."⁹⁴ The Communists called for "closer contacts with the powers of peace and democracy (meaning the Soviet Union) and our neighbors".⁹⁵ In the coalition only the Smallholder Party pursued any pro-western policy, but even this party witnessed a change after Nagy's resignation. Dinnyés, the new pro-communist prime minister underlined the need for a rapprochement with the Soviet Union "while maintaining good relations with the United States and the British Empire".⁹⁶ One of the most influential opposition politicians, Dezső Sulyok, was for a policy of strict neutrality. His views were not altogether alien to the Smallholder foreign minister, Gyöngyösi, either.

The August parliamentary elections were burdened with fraud. The Communists cast many thousand fraudulent votes; hundreds of thousands were disenfranchised on false grounds; in November Zoltán Pfeiffer's Magyar Függetlenségi Párt — the strongest non-coalition party which received 13.4% of the votes in the August election — was deprived of its mandates on the pretext of cheating at the elections. The State De-

partment initiated a joint U. S.–British protest and instructed Chapin to seek an interview with the Prime Minister to urge him to take steps for the correction of abuses.⁹⁷ Chapin thought that “Soviet expansionism should be opposed by all legitimate means at our command short of actual collision”, rather than retreat westward, yet he deemed U. N. action untimely, and admitted that it would take a miracle to halt Hungary’s incorporation into the Soviet system.⁹⁸ An official answer finally arrived to Chapin’s policy paper in October, outlining the essence of American policy. It noted that further U. S. action would depend on broader European development. “It must be recognized that Hungary itself is unlikely to become focal point of U. S. policy... issues which are taking shape in U. S.–Soviet relations are unlikely (to) assume most acute form in connection with Hungarian development.” The State Department saw no possibility to provide funds and facilities to aid escaping Hungarians.⁹⁹

Following the nonacceptance of the Marshall plan by Eastern Europe and the political developments there, the United States entered a new phase of economic and foreign policy towards that region, treating it for the first time as a homogeneous bloc of hostile countries. Economic and trade relations with these nations were raised to the level of national security policy.

In a paper submitted to the newly created National Security Council, Secretary of Commerce Harriman stated that by refusing to cooperate in the European Recovery Program, the USSR and its East European Satellites constituted a threat to world peace and U. S. security. In response, American national security required that shipping be stopped of all commodities that were needed in the U. S. or would help Soviet military potential. Europe and the USSR should be an area with controlled exports to avoid “overt acts of arbitrary discrimination against the USSR and its satellites”.¹⁰⁰ This paper was America’s first, symbolic move towards the creation of the Cold War system in Europe and set the pattern for American policy toward the “East Bloc” for the decades to come. Since this violated the avowed policy of free trade, Marshall wished to have it declared that the policy of normal trade would be readopted after the recovery program, and that goods in short supply should not be used for a detrimental purpose. The State Department thought it unnecessary for the U. S. to reverse its general trade policy reflected in the IMF or the World Bank, or to revert to economic warfare. National security justified exceptions to normal economic relations with the Soviet sphere, like acts increasing Soviet military potential, acts diminishing American economic welfare without contributing to recovery, the extension of credits except those expressly beneficial for America or in recovery programs it was involved in. Countries included in this policy were put into three groups. Group 1: USSR, Yugoslavia, Albania, Bulgaria, Romania; Group 2: Poland, Hungary, Czechoslovakia, the Soviet zone of Germany; Group 3: Finland and Austria; the first group receiving the most rigorous, the last the most liberal treatment. The policy was not to be publicized in any way. The specific provisions of the policy were to be: (1) No military goods should be shipped to the Soviet zone. (2) Semi-military goods could be made permissible for groups II and III for civilian use, to be controlled by the proposed Munitions Control Act. (3) Capital equipment which permanently add to the capacity of industries close-

ly associated with production of war materials may be made available to Group III only. Curtailment of exports in this category could be undertaken cautiously to permit evaluation of Soviet reaction and its significance mainly in terms of availability of food, timber products and coal to Western Europe. (4) Other capital equipment and consumer goods could flow freely except for those in short supply. (5) Goods used in production of atomic energy should not be shipped to the Soviet sphere. (6) The flow of the most valuable and unique types of information should be stopped. (7) Credits should be controlled both in the government and in the private sphere. International Bank loans could be granted to Czechoslovakia, Poland and Yugoslavia only in the Soviet sphere since these are member countries. This policy should be in line with the Bretton Woods agreements, that is credit policies are to be governed by economic considerations.¹⁰¹ The policy of restriction was supported by the argument that the Soviet sphere held no vital U. S. economic interest, the only important import items being manganese, iridium and chrome. According to the Advisor of the Division of Commercial Policy 31% of manganese, 47% of chrome and 57% of imported platinum came from the USSR.¹⁰² Later it was a recurrent theme that the U. S. was heavily dependent on the import of these items from the USSR and losing these supplies could lead to crisis.

Article 94 of the ITO draft saying that action may be taken to protect national security interest in emergency situations was quoted to counter the argument that the U. S. had most favored nation treaties with most of these countries. The State Department envisioned no special controls for European shipments and no control at all for goods not in short supply. The Department of Commerce and the National Security Council wanted a more rigid policy: the screening of all shipments to Europe, providing no loophole for exports of non eligible goods for the Soviet area. The question was if the U. S. should uphold the principle of free trade or submit to the political necessity of national security and the containment of the Soviet Union. The policy planning staff believed this trade was insignificant enough to support the views held by the Department of Commerce, while the paper submitted by the Division of Commercial Policy thought it was significant enough to support the less rigid State Department view. The effective control of shipments posed serious technical problems, which served as a counter argument for the Commercial Department. Overall, the Policy Planning staff believed the loophole provided by ineffective screening inherent in the State's proposal "does not warrant extreme corrective measures which might embarrass our policy [of free trade] in other fields" because U. S.-Eastern bloc trade was insignificant.¹⁰³ The significant difference between the State and the Commerce Departments' views were not in goals but means. The Commerce Department wanted no embargoed products to reach the Soviet sphere by screening all European exports to avoid overt discrimination. The State Department, wanting to conclude the ITO agreement, wished to avoid violating the principle of free trade openly, and thus recommended open embargo on some goods but free flow of others even if the allowed loopholes endangered the policy objective itself.

A solution would have been to add more commodities to the world-wide restriction

list, but this would have placed a larger burden on the Department of Commerce. Eventually the National Security Council¹⁰⁴ adopted the proposal drafted by Commerce, with stricter control for perceived national security interests prevailing over the lofty principle of free trade so often declared by American leaders from Wilson to F. D. Roosevelt. "This procedure achieves total control of shipments to Eastern Europe without apparent discrimination which might lead to retaliation but in such a way that a *quid pro quo* be established for imports from that area."¹⁰⁵ From March 1, 1948, all commodities to Eastern Europe were subject to individual licensing. Later that month senior State Department economic policy makers discussed the possibility of economic warfare. The objective would be to inflict the greatest economic injury to the USSR and its satellites, while minimizing damage from Soviet retaliation and the inability of the East to continue export to the West.¹⁰⁶ Since East-West trade was seen as an important factor in Western European recovery, with grain, timber and coal obtained from Eastern Europe, "Soviet bloc" trade with ERP countries amounted to \$ 1.5 billion in 1947, Marshall recommended that "key commodities" should be denied, while trade in other commodities be put on a *quid pro quo* basis to secure the flow of certain strategic materials from Eastern Europe.

As a departure from earlier policies, he recommended that Western Europe and Canada be persuaded not to provide alternative sources in commodities the U. S. was denying Eastern Europe.¹⁰⁷ The contradictory objectives of preventing the increase of Eastern European military potential through export controls and the maintenance of "necessary" Eastern exports to Western Europe like the "adequate flow" of manganese, chrome, platinum to the U. S. had to be balanced. The ad hoc subcommittee of the Secretary of Commerce reported that would reduce steel output "to a seriously low level within one year. Strenuous and unpopular conservation measures may be required". The paper advised the export of plentiful, non-strategic items in return for manganese and chrome. For this purpose items were to be grouped according to strategic importance. Group I would contain articles of direct military or strategic importance which forbidden to the Eastern Bloc export, while license items in less restricted groups would be allowed on the basis of economic or political concessions. It was imperative that Western Europe be persuaded through diplomatic channels to follow economic policies consistent with those of the U. S.¹⁰⁸ The U. S. was by now following a policy of economic coercion to the detriment of its economic interests. Coercion was to be applied through export controls to get results which hitherto escaped diplomatic efforts. Western Europe was to be persuaded to do the same, but without foiling their recovery.

The American ambassador in London was instructed to seek British cooperation in withholding rubber purchased by the Soviet Union from Singapore.¹⁰⁹ The Secretary of State instructed the embassy in Paris to initiate negotiations with ERP countries for their agreement in an export control program based on the recognition of common purpose while assuring East bloc imports essential for Western recovery. The list of prohibited items should be the same for ERP countries as for the U. S. though the latter might pursue a more restrictive policy, since its trade with the East was less signifi-

cant.¹¹⁰ The effect of licensing was felt immediately. The requests for export licenses went unanswered for months, even for commodities that were not prohibited. In one instance Hungary ordered fire fighting equipment but the license did not appear. The Hungarian ministry was then informed that the Office of International Trade was slow at responding, not because of principle but for technical reasons. 15 000 export license requests were said to arrive weekly and more than 37 000 were unanswered at the time.¹¹¹ Difficulties came in ordering a transformer part since "because of special restrictions all shipments to Hungary face severe obstacles". Secretary of Commerce Sawyer promised to hasten the licensing procedure, but refused to order the Office of International Trade to license the fire equipment, which reportedly was recently introduced in Hungary against severe British competition.¹¹² Machines ordered by the Hungarian government awaiting the license included generators and lathes, some 42 types of industrial necessities.¹¹³

On the other hand, Americans complained that their firms in Hungary had no control over employees, production or products' disposition. Profits could not be transferred to the U. S. or used on normal expenditure. MAORT had to produce at prices which did not cover production costs, Vacuum Oil had not been paid for a large proportion of deliveries even at the low price set by the government, though it was required to restore damaged plant equipment. Its oil allocation was decreased. For these reasons a joint protest was made with the British legation on behalf of Vacuum Oil and Shell Oil. Ford was facing liquidation because of the loss and damage of its plant equipment for which no compensation was paid and because it failed to obtain import permits and the dollar exchange necessary for importing cars.¹¹⁴ In retaliation, restitution to Hungary from the American zone was suspended until settlement of indemnities for American property seized by the Soviet Union. The problem of American companies was discussed by American and Soviet officials in a series of talks. The Americans complained about the damaging overproduction of MAORT ordered by the Hungarians, which would reduce their own investment return, and might later be charged against them as sabotage.¹¹⁵ Vas, chief of the Economic High Council, replied that this economic question would be discussed with MAORT. He also promised to withdraw state managers sent to American owned companies. American attitude to nationalization was a conciliatory one. Secretary of State Marshall stated that nationalization programs in foreign countries fall within the jurisdiction of each country concerned, but the U. S. would insist on prompt, adequate and effective compensation for American owners involved. The United States would not take retaliatory action for the nationalization of its banking interest, American general attitude held that nationalization should take place "without discrimination".¹¹⁶ However the Ajka power plant belonging to American-owned Tungsum was nationalized without indemnification. Chapin protested to the communist foreign minister Erik Molnár about the 1948 Nationalization Decree, which did not recognize the American citizenship of Hungarians nationalized after 1931 and consequently U. S. ownership of companies held by such persons. He expressed his wish that the Decree would be non applicable to American interest as far as discrimination was concerned.¹¹⁷ Molnár replied that the criticized pro-

visions of the law were to forestall abuse of foreign citizenship. Hungary held that it was not the nationality of the stockholder, but the country in which it was incorporated which determined the nationality of the company. Companies with foreign ownership would receive compensation if they were nationalized. The American ownership of Standard Electric was recognized with a statement that it would not be nationalized. By August, discussions on implementing Articles 26 and 30 of the peace treaty reached an impasse, since neither side was willing for a compromise.¹¹⁸ Also, the officials of the Hungarian Foreign Ministry were not competent to discuss key issues. An American participant thought that if the present trend continued "the Hungarian government would get everything they asked for without giving anything".¹¹⁹ After twelve meetings practically the problems of war damages claims and nationalization were not solved.

Hungarians were unwilling give up their position on subsidiaries being regarded as Hungarian. MAORT did not get an increase in prices, nor was the state controller removed. There was no progress in Vacuum's oil allocation or tax exemption. No time limit was set for compensations. The Americans felt that even with minor concessions, not enough progress was made to discuss the restitution of remaining Hungarian property.¹²⁰ The Hungarians felt the nationalization decree was not discriminatory for American citizens and emphasized that Hungary had the right to set the conditions as a sovereign state. In turn, the U. S. legation protested again against putting U. S. citizens into arbitrary categories and nationalizing companies owned by American but controlled by Hungarian corporations. They demanded that compensation procedures for American citizens whose properties were nationalized be set up immediately, reiterating that according to the 1925 treaty of friendship the property of American nationals shall not be taken without due process of law and without the payment of just compensation. No positive answer came with the reply, reiterating the previous Hungarian position.¹²¹ In retaliation for the suspension of Article 26 the Hungarian government did the same for Article 30. The Foreign Ministry refused to reply to any U. S. inquiry about war damages for a number of American companies in a note dated October 20, even though damage claims for these companies had been submitted much earlier.¹²²

In the meantime, the American president and technical advisor of MAORT were taken into custody on charges of sabotage. Remember, earlier that year an American note demanded the halting of overproduction to preclude possible charges of sabotage. Acting Secretary of State Lovett wanted to secure the release of the two Americans even to the detriment of MAORT, and was considering countermeasures like denying visas and closing the New York and Cleveland consulates.¹²³ The Americans were released after lengthy diplomatic efforts, but the Hungarian government took control of the management of MAORT, including that of all assets and rights, on the pretext of wanting to "prevent willful sabotage of the production of crude oil". All charges brought against Hungarian and American MAORT leadership were entirely false, and their trial was one of many Soviet-type procedures where the verdict was brought beforehand to eliminate potential opponents of the new regime.

In 1950 the State Department worked out a long range policy paper for Hungary. General objectives like the revival of independent Hungary, securing for the Hungarian people to choose their own government, free trade, were deemed unattainable "until a major shift in international relations were brought about"; the Truman doctrine was held inapplicable for Hungary. A set of immediate goals were worked out, which aimed at the withdrawal of Soviet troops in the framework of an Austrian treaty, maintenance of U. S. prestige, protection of American rights where possible, implementation of human rights provisions in the peace treaty, stimulation of resistance against totalitarian rule, development of trade relations between Hungary and Western Europe, preservation of Hungarian economic ties to the West without aiding its war potential. A policy paper for Romania contained essentially the same recommendations. This contradicted the policy adopted by the Department of Commerce and the National Security Council to bring Western Europe in line with the American policy of embargo. Negotiations were under way to secure the agreement of OEEC countries to withhold certain specified strategic goods from export to Hungary. The Foreign Assistance Co-relation Committee thought that considerable success had already been achieved in this but warned that the negotiations of restrictions extending beyond items of clearly military nature was extremely delicate because of the great importance of East-West trade to many of the ERP countries. The Trizone of Germany was embargoing the full I A list, just like Austria, Italy and Norway; Denmark was controlling nearly the full list. Great Britain put controls over 128 items out of the 163 on the U. S. list, while France, the Netherlands, Belgium and Luxembourg had initiated concurrence with the British list. Portugal, Iceland, Ireland, Greece and Turkey had no trade with Eastern Europe in I A items and prevented their shipment through their countries.¹²⁴

Assuming that Soviet policy's objective remained the destruction and communization of the Western World, the American ambassador in Moscow believed that since the East was economically dependent on the West "Western trade policies towards the countries under Bolshevik leadership" were an effective alternative to the "disastrous consequences of Soviet industrial expansion".¹²⁵ At the Paris meeting of U. S. ambassadors it was agreed that U. S. Eastern trade policy be reviewed to determine if it was feasible to achieve greater effectiveness with multilateral action, and also if restrictions on East-West trade contributed to reducing industrial output or preventing expansion of industrial production in the Soviet orbit and caused economic strain between the Soviet Union and its satellites.¹²⁶

With the Prague coup in February 1948, and the merger of the Social Democrats with the Communists in Hungary in the summer of the same year, the long descent of the iron curtain from Stettin to Trieste had finally ended. In 1949 the Cominform ranked Hungary among the People's Democracies, rather among those 'bourgeois' countries which 'contained elements of people's democracy'. This prompted Communist leaders to speed up the elimination of private enterprise and the collectivization of agriculture, and to introduce a centrally planned economy. By then, owners had no working capital because they could not resist nationalization which was part of the institutional system's transformation.¹²⁷ Vacuum Oil was brought to a state of virtual

economic collapse by failure to pay for the delivery of petroleum products, arbitrary price reductions, tax discrimination, reduction of crude oil allocations, and complete control of the company's operations.¹²⁸ By the autumn of 1949 the moveables of Ford were seized by the State owned company, MOGÜRT. UNIO Textilművek (Textile-works) was ordered to liquidate in September. The decree was not delivered to the firm or shareholders while its machinery and equipment were illegally moved to other firms.¹²⁹ In October the 90% American owned Royal Ipari és Kereskedelmi Rt. (Industrial and Commercial Ltd.) was placed under "national control". Borsodvidéki Bányai Rt. (Mining Ltd.), which had been exempted from the nationalization provisions of Act XIII of the Decree of 1946, was nationalized at the order of the Ministry of Industry. Small companies were not spared either. One example is the nationalization of Autóipari Kft. (Autoindustry Ltd.) owned by Szunyog, an American citizen who left Hungary in 1938. After protest by the U. S. legation, the Foreign Ministry found that the Ministry of Domestic Trade was "careless" in its action. The article on the basis of which the company's nationalization was ordered was inapplicable in this case and thus the action was "illegal". The Ministry of Domestic Trade then quoted another, equally incorrect, paragraph. At this point the Foreign Ministry demanded that they nullify the decision or find a proper reason that could be defended in face of the U. S. legation. The answer was that on legal reason could be provided: "it is hard to understand why the Foreign Ministry is so arrogant, they too are aware of what economic policy interests motivate nationalization". The Foreign Ministry remarked that this was not the first such instance.¹³⁰ Eventually the decision was not reversed. Nationalization was carried out overzealously by officials obviously eager to please their superiors, and the pattern of inter-departmental rivalry was not absent either. Foreign business was entirely driven out, which may not have been the original objective.

The aim of Hungarian trade policy with the West was twofold — to obtain strategic goods for non-strategic ones and at the same time to sever these relations as much as possible. However, the program of industrialization could not proceed without machinery and equipment from outside the Eastern bloc. Hungarian exports were unable to compensate imports, since Hungarian industry lacked modern exportable commodities. Exports were inhibited by political motives as well. American British Technology, Inc. wished to order 60 000 feet of seamless casing from Ganz Company, Budapest. The Minister of Foreign Trade, however, doubted whether "it would be all right in principle to accept such an order".¹³¹ In 1947, Hungarian exports to the U. S. amounted to 140 million forints, with imports of 280 million forints.¹³² In February 1949 Hungary claimed import came to 3.6 million forints, out of which 1.4 million were accounted for by chemical products (roughly 30%), 0.5 million by the machine and 150 000 by the electronic industry. Exports were 3.7 million forints, out of which 60% was from bed feathers. Second in importance was medicine (786 000 forints) and third glassware (196 000 forints). The figures for May were 10.4 million forints in imports, which agricultural products accounting for approximately 60%, followed by chemical, textile and electronic goods. Exports dropped to 2.6 million forints out of

which bed feathers were over 70%. In February of 1950 imports from the U. S. equalled 34 million forints, while exports were a mere 2 million.

In 1949 the total value of American–Hungarian turnover was less than \$ 8 million compared to over \$ 38 million in 1947.¹³³ Conspicuously absent from the list of exports are meat and meat products which were the main export items to the United States before the war, until exclusion from the American market by the animal health dispute. Although Hungary was unable fully to realize its project of reducing the value of Western trade in the realization of national income, the percentage in Hungarian exports dropped from 34% in 1950 to 17.5% in 1953. The figures for imports were 43% in 1950 and 27.3% in 1953.¹³⁴ Still, Hungary had a relatively high share of “capitalist” trade in Comecon. For example, in 1949 Hungary was the best market in the Soviet sphere for American motor vehicles.¹³⁵

1949 saw a further deterioration of American–Hungarian relations. A State Department press release following the arrest of Cardinal Mindszenty stated that “the people of the United States are sickened and horrified by these developments and fully comprehend the threat they constitute to free institutions everywhere”. Yet the State Department advised the President not to support Mindszenty in fear of an adverse result.¹³⁶ A concurrent resolution in the Senate recommended that the Mindszenty and Stepinac (Yugoslavia) cases be submitted to the General Assembly of the U. N. as violations of the U. N. charter.

The National Security Council, following a policy paper prepared by the policy planning staff, recommended endorsement of a new policy more in line with the doctrine of containment than the previous one had been. It emphasized offensive measures as opposed to the defensive ones thus far pursued, to halt “the west-ward advance of Communism... in the current two-world struggle (the Eastern European satellite states) have meaning primarily because they are in varying degree politico-military adjuncts of Soviet power and extend that power to the heart of Europe. They are part of the Soviet monolith”.¹³⁷ The recognition of sovereignty for the minor ‘allies’ of the Soviet Union was now being questioned. They became primary targets of “negative” American policy adopted from late 1947 on, as opposed to their secondary importance in the earlier period, when U. S. policy towards the Soviet Union was a “positive” one. “Positive” policy means one of cooperation where the support of the national interest of the small East European states and U. S. interest in those countries were subordinated to the primary objective of seeking a *modus vivendi* with the Soviet Union. In the new “negative”, confrontationist policy these small nations gained a primary role by being looked upon as potential instruments of reducing the Soviet Union’s influence in Europe. It is worth giving thought to a scenario where in the period of “cooperation” these countries might have been given the same role as in that of confrontation. Although the conclusions of NSC 58 are not available, based on what we have plus the preparatory documents, the policy objective set by the paper was the uncoupling of the satellite states by economic pressure and other means short of war.

By 1950 the Cold War system had been established. Our case history followed this process in Hungary. We have shown that Soviet influence in the country was more

profound than a legitimate need of a friendly government would justify. The pattern of the Sovietization of Hungary followed a different course from that of Romania, Bulgaria or Poland, where the Gleisaltung of the economic and social systems were preceded by that of political leadership. In Hungary the instalment of a Soviet puppet regime was preceded by the elimination of the traditional economic structure. This manifested itself in the Soviet domination of heavy industry, mining and transport, and the reorientation of Hungarian foreign trade towards the Soviet Union. This was prepared by the exhaustion of Hungary's resources through various forms of reparations, the domination of key economic positions by pro-Soviet political elements, the signing of an exclusive economic agreement.

The United States never directly supported Hungarian resistance to economic or political penetration. The use of financial assistance to strengthen anti-Soviet political forces or resistance was continuously refused. No support was given to the effort of refusing the ratification of the 1945 economic treaty with the Soviet Union. The legitimacy of the Dinnyés government after Nagy's forced resignation was accepted. Imports from Hungary were kept at a minimum, and no attempt was made to promote new investments there. Even the principle of a trade agreement with the country was refused until the Peace Treaty was signed. There were attempts to protect the minimal existing business interests like Ford Co. or MAORT, but only as far as it was justified by their legitimate interests, that is remaining in business. No attempt was made to promote expansion or to violate Soviet or Hungarian business enterprises. Political action was taken with the Soviet Union directly in order to preserve Hungary's economic independence, but intervention for this end always kept the wider objective of *modus vivendi* with that power in sight, which was not to be prejudiced by positive action on behalf of such an unimportant country to the United States. Indeed, not only Hungary but the whole region was of such secondary importance in terms of economy, that it was not difficult to implement economic sanctions against Eastern Europe without endangering vital interests. When this was done, embargo threatened the interests of American steel industry, and the recovery of Western Europe which was to some extent dependent on East-West trade. This in turn might have had an adverse effect on American economy as a whole, even if indirectly.

Rather than American economic imperialism there was a pattern of Soviet economic penetration which prepared the ground for the full Sovietization of the country.

Notes

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- Policy 1943–1945* (New York, 1965). Also a revisionist, although not New Left account Lynn Etheridge Davis, *The Cold War Begins: Soviet American Conflict over Eastern Europe* (Princeton, 1974).
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 5. Kenneth W. Thompson, *Cold War Theories* (Baton Rouge, London 1981).
 6. Gottfried Haberler, *The Economic Consequences of a Divided World*. In: Stephen D. Kertész, *The Fate of East Central Europe*. (Notre Dame, Indiana, 1956) p. 381.
 7. Nicolas Spulber, *Problems of East West Trade and Economic Trends in the European Satellites of Soviet Russia*. In: Stephen D. Kertész, *op. cit.* pp. 399–401.
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 9. Pető and Szakács, *op. cit.* pp. 93–94.
 10. Sipos, Péter and Vida, István, *The Policy of the United States towards Hungary during the Second World War. Acta Scientiarum Hungariae* 29 (1983) pp. 79–110.
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 30. ÚMKL XIXJ 1 Box 51 23/c 40.579/1946.
 31. ÚMKL XIXJ 1 Box 55 3955 407.394/1946. Ferenc Nagy to János Gyöngyösi April 1946.
 32. ÚMKL XIXJ 1 Box 55 40.751/1946.
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 42. The Acting Secretary of State to Steinhardt September 28, 1946. FRUS Vol. VI. 1946. pp. 228–229.

43. The Secretary of State to the Acting Secretary August 30, 1946. FRUS Vol. VI. 1946. pp. 216–217.
44. Memorandum of Conversation by Howard J. Hilton Jr. of the Division of Commercial Policy October 25, 1946. FRUS Vol. VI. 1946. pp. 641–642.
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48. *Op. cit.* pp. 638–639. Also in *The New York Times*, September 25, 1946.
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