

Hungarian-American Relations after 1956 and the Claims Settlement of 1973 between Hungary and the United States of America

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Abstract

The topic of this thesis is the Hungarian-American Claims Settlement of 1973 and the negotiations that led to its conclusion. It starts out with a survey of the main phases in Hungarian foreign policy in the twentieth century and the five most important problems in Hungarian-American relations after the Revolution of 1956. The thesis examines the process of the improvement of the relations of the two countries focusing mainly on primary sources.

Table of Contents

Introduction.....	1
Literature Review and Sources	3
Theoretical Issues	5
1. Major Shifts in Hungarian Foreign and Economic Policy in the Twentieth Century	8
1.1. The Foreign and Economic Policy of the Horthy Regime	8
1.2. The Emergence of the Stalinist System	11
1.3. The Kádár Regime	14
2. The First Steps.....	18
2.1. The Most Important Issues of Hungarian-American relations after 1956	18
2.2. The First Hungarian Estimates on the Value of the Claims	21
2.3. The Resolution of the United Nations Question.....	26
3. The Negotiations in the Mid-1960s	35
3.1. Preparations for the First Meeting	35
3.2. The First Rounds.....	41
3.3. The Vietnam War.....	45
3.4. The Defection of Radványi and the Arrival of the first Ambassador	52
4. The Completion of the Claims Settlement.....	56
4.1. Improving Prospects	56
4.2. The Visit by Secretary of State Rogers.....	61
4.3. The Conclusion of the Agreement	64
4.4. The Evaluation of the Claims Settlement.....	66
Conclusion	68
Bibliography.....	70

Introduction

Until the end of the 1970s the United States had worse relationship with the People's Republic of Hungary than with almost any the other Eastern European socialist country. On this the leadership of both the U.S. and Hungary agreed.¹ Hungary was among the three countries whose relationship with the United States was still only on the ministerial level, but even this position was not filled after 1956. The other two countries that had the same level of ministerial representation were Yemen and Bulgaria.² Most people know that Hungary was a member of the socialist bloc, but why was the relationship of Hungary with America worse than that of the other socialist countries?

The explanation is related to the Hungarian Revolution and War of Independence of 1956. Hungary was among the countries that had the lowest priority in the region for the United States.³ The CIA did not have any serious involvement in Hungary before the events in 1956. They were clearly not participating in the processes leading to the revolution, what is more when it broke out caught the CIA by surprise⁴. Still the communist leadership claimed that the "counter-revolution" broke out due to the manipulations of the United States: "Today we can affirm with full certainty that American organizations played a leading role in preparing and initiating the events of the counter-revolution."⁵ Some of the revolutionaries

¹ László Borhi, "A magyar-amerikai viszony változásai," [Changes in the Hungarian-American Relationship], in *História*, 4/2004.

² "Házi Vencel külügyminisztériumi főosztályvezető emlékeztetője a magyar-amerikai tárgyalások során felmerült kérdésekről, Budapest, 1964. december 11." [Memorandum by Vencel Házi Head of Department at the Foreign Ministry on the Issues Discussed during the Hungarian-American negotiations, Budapest, December 11, 1964] MOL XIX-J-1-j USA 4/b KüM 001951/2 (box Nr. 6) in Borhi: *Iratok*, pp. 417

³ Charles Gati, *Failed Illusions – Moscow, Washington, Budapest and the Hungarian Revolt*

⁴ *Ibid.* pp. 95.

⁵ "A Külügyminisztérium III. osztályának feljegyzése a magyar-amerikai viszony alakulásáról, Budapest, 1959. július 24. [Memorandum of Department III of the Foreign Ministry on the State of Hungarian-American Relations, Budapest, June 24, 1959] in László Borhi: *Iratok a magyar-amerikai kapcsolatok történetéhez 1957-*

felt that they had been betrayed by the Americans and the West – although the situation was much more complicated. Washington and the American public opinion were sympathetic to the revolution – and had a negative attitude towards the “new-old” leadership that came into power after it was crushed. Initially the Americans considered the Kádár government to be “a puppet-government supported by Moscow.”⁶ There was mutual distrust between the two parties. Hungarian-American relations were on a very low point after the revolution, but by the 1980s most of the bilateral problems were resolved.

In the 1960s and 1970s there were five main issues that burdened Hungarian-American relations. The first one was that of the sanctions that were in effect against Hungary as a consequence of the suppression of the Revolution of 1956, primarily in the United Nations. Closely connected to the revolution was the status of Cardinal Mindszenty, who had been living at the American embassy in Budapest since 1956. The next issue was the actual topic of this thesis, the various financial claims that the two countries had towards each other. Another important burden of the Hungarian-American relationship was the Holy Crown of Saint Stephen, which was captured by American troops in the Second World War. Although the Hungarians suspected that the Crown was hidden somewhere in the United States the Americans did not admit this until the 1970s. Finally Hungary wanted to reduce the various tariffs on Hungarian goods and gain the most favored nation status.⁷

While the United States had concluded the lump sum agreements with Romania and Bulgaria already in the early 1960s in the case of Hungary this happened only ten years later.

1967 – *Dokumentumgyűjtemény*, [Files to the History of Hungarian-American Relations, 1957-1967 – A Collection of Documents.] (Budapest, Ister, 2002), pp. 203.

⁶ “A Külügyminisztérium feljegyzése a budapesti amerikai nagykövetség létszámcsökkentéséről, Budapest, 1957. június 11.” [Memorandum of the Foreign Ministry on the Layoff of the Personell of the American Legation in Budapest] MOL [Magyar Országos Levéltár, Hungarian National Archives] XIX-J-1-j USA/kbd KüM i. k. n./1957 (box Nr. 6), in Borhi, *Iratok*. pp. 72.

⁷ Borhi, *A magyar-amerikai viszony változásai*.

This is especially interesting if we consider the fact that there had been talks about signing this agreement since 1964. What made the American and Hungarian leaders suddenly change their minds about this agreement? Was the *volte face* due to a change in the political situation, or did it have economic reasons? To what an extent was this settlement a concession on the part of the Americans or was it the Hungarian partner who finally gave in to American demands?

After enumerating the sources and discussing the theoretical framework I will give a short summary of the changes in Hungarian foreign policy in the 20th century. Then I will elaborate on the most important problems of the Hungarian-American relationship. Afterwards I will continue with the Hungarian standpoint on the issue of the claims, and I will follow how it changed during the course of the years. Then I will turn to the Hungarian-American negotiations, to how the two parties have finally come to an agreement.

Literature Review and Sources

Unfortunately the subject of Hungaro-American relations, especially during the period after 1945, is only discussed in very few analytical works. In Hungary during the era of Communism the field was neglected for political reasons. The scarcity of American secondary sources is also evident. The relationship between the United States of America and Hungary has always been an asymmetrical one: from the very beginning the U.S. has been more important for the Hungarians than the other way round.

For the few authors who did write on the subject, the most popular topic proved to be the Hungarian revolution of 1956 and its aftermath. The Hungarian-American Charles Gati⁸, Janos Radvanyi⁹ and Bela Kiraly were themselves important participants of the events. One prominent Hungarian scholar who addressed the subject of 1956 and its aftermath is László Borhi. Borhi also published works on the period between 1945 and 1956¹⁰ which are of less interest from the point of view of my present project.¹¹ An other Hungarian scholar who wrote about Hungarian-American relations also in the period after 1956 is Tibor Glant, whose book on the history of the Holy Crown of Saint Stephen in the United States and its eventual return to Hungary in 1978 has become part of the standard literature.¹² Although the issue of the claims settlement has been mentioned or discussed briefly in several books and articles as far as I am aware only one article has been dedicated exclusively to this topic, the work of an international lawyer, Richard B. Lilich. The study, published in 1975, examines the claims settlement from a legal perspective.¹³

In my work I will mostly rely on primary sources. These include first of all documents that are available in the Hungarian National Archives (Magyar Országos Levéltár, MOL). The most important sources from my perspective are the documents of the Foreign Ministry and the records of the sessions of the Politburo and the Central Committee. Fortunately László Borhi has collected and published the realted documents for the period between 1957 and 1967. As far as the American party is concerned in the current situation I unfortunately have

⁸ Charles Gati, *Failed Illusions: Moscow, Washington, Budapest, and the 1956 Hungarian Revol.* (Stanford University Press, Stanford, 2006)

⁹ Janos Radvanyi, *Hungary and the Superpowers. The 1956 Revolution and Realpolitik.* (Stanford University, Hoover Unstitution Press, Stanford, 1972)

¹⁰ László Borhi, *Hungary in the Cold War – Between the Soviet Union and the United States, 1945–1956* Budapest, (CEU Press, New York, 2004)

¹¹ László Borhi, *A Vasfüggöny mögött – Magyarország nagyhatalmi erőterében 1945–1968.* (Ister, Budapest, 2000)

¹² Tibor Glant, *A Szent Korona amerikai kalandja, 1945-1978.* (Kossuth University Press, Debrecen, 1997)

¹³ Richard B. Lilich “The United States – Hungarian Claims Agreement of 1973.” in *The American Journal of International Law*, Vol. 69, No. 3. (Jul., 1975), pp. 558.

no access to the archives in the United States. But the documents published in the *Foreign Relations of the United States* can also contribute to my research.

Theoretical Issues

Kenneth Waltz is one of the founders and most influential theoreticians of neo-realism or structural realism in international relations theory. Waltz argues that the structure influences the behavior of the states and the states also affect the international structure.¹⁴ A unit of the system has many opportunities, can basically do as it pleases. But if a certain state is less skillful it must pay the price. He also makes a distinction between weak and strong states, and claims that stronger states have more capabilities.¹⁵ Waltz also talks about the difference between bandwagoning and balancing in relation to the small states.

Bandwagoning means that the state chooses to side with the stronger party on the international field, while balancing means the opposite. Originally these terms were applied to questions of security. But as far as our current topic is concerned it would be valuable to examine the extent to which Hungary sided with the Soviet Union in the period, and whether this had changed during the course of events.

The theory of International Relations is mainly concerned with the behavior of large and powerful states. Miriam Elman debates whether the assumptions of neo-realism on the behavior of small states are valid. She claims that the study of small states has been neglected,

¹⁴ Kenneth N. Waltz, "Evaluating Theory," *The American Political Science Review*, Vol. 91, No. 4, (Dec., 1997), pp. 913-917

¹⁵ Kenneth N. Waltz, "Reflections on *Theory of International Politics*: A Response to my Critics" in *Neorealism and its Critics*, ed. Robert O. Keohane (New York: Columbia University, 1986.)

and contests the notions commonly held as far as the smaller or weaker states are concerned.¹⁶ She cites several scholars who claim that the behavior of small states is largely determined by the international situation. Elman sets out to prove that neorealism is wrong, that the behavior of small states can and is often indeed determined by internal factors. Michael Handel,¹⁷ one of the scholars opposed by Elman, argues that the domestic determinants are weaker in small states, because the international system allows them less choice in decision-making. As they have less options to choose from their national interests are clearer. Thus even if they are following their national interests the decision-making of the small states is to a large extent determined by the choices offered by the international system.

Another interesting aspect of the topic can be to compare the foreign policy that Hungary pursued in the 1960s-early 1970s to the general trend of Hungarian foreign policy. In his essay “How Persistent Are Persistent Factors?” Alfred J. Rieber examined the persistent features of Russian foreign policy.¹⁸ In my thesis I will also survey some persistent features of Hungarian foreign policy that are related to the topic. In the following pages I will provide a brief overview of the Hungarian foreign policy of the 20th century, and at the end of the thesis I will compare the post-1956 period, the period of the discussions on the claims settlement to the preceding periods.

A third theoretical aspect of the issue that I would like to explore is the inner debates of the Hungarian leadership. This conflict resembles that of the realists and the idealists in the United States. Martin Griffiths writes about the two dimensions of international theory,

¹⁶ Miriam Fendius Elman, “The Foreign Policies of Small States: Challenging Neorealism in Its Own Backyard,” *British Journal of Political Science*, Vol. 25, No. 2, (Apr., 1995), pp. 171-217

¹⁷ Michael Handel, *Weak States in the International System* (London: Frank Cass, 1981) pp. 3 361-2.

¹⁸ Alfred J. Rieber, “How Persistent Are Persistent Factors?” *Russian Foreign Policy in the Twenty-First Century and the Shadow of the Past*, ed. Robert Legwold (New York: Columbia University Press, 2007) pp.205.

ontology or deep description and evaluation or prescription.¹⁹ While Griffiths applied these terms to theorists I think that they can also be used to describe the attitudes of the Hungarian decision-makers. In this context those who were open for discussions and the improvement of relations may be considered realists, while those who were more concerned about the ideological issues idealists. There are many who resent the use of these terms, one such scholar is John H. Herz.²⁰ But probably he is not the only one would object to this kind of use of the terms and even more to their application to members of the Politburo.

¹⁹ Martin Griffiths, *Realism, Idealism and International Politics – A Reinterpretation*. (London: Routledge, 1995) pp. 11.

²⁰ John H. Herz, "Political Realism Revisited," *International Studies Quarterly*, Vol. 25, No. 2, *Symposium in Honor of Hans J. Morgenthau* (Jun., 1981), pp. 182-197

1. Major Shifts in Hungarian Foreign and Economic Policy in the Twentieth Century

1.1. *The Foreign and Economic Policy of the Horthy Regime*

In the 20th century Hungary had various regimes the ideological stance of which ranged from one end of the political spectrum to the other, from the extreme left to the extreme right. The foreign policy of these political systems was also very diverse. Hungary entered the 20th century as being part of the Austro-Hungarian Monarchy. Then after the Monarchy fell apart at the end of the First World War there followed a short more or less democratic period, after that the Soviet Republic, and then the Kingdom of Hungary was reinstated in 1920. After the Second World War there followed a short period of more or less genuine democracy, which was ended by the communist regime in the late 1940s. In 1989 communism collapsed in most of the countries of Central Europe, including Hungary, and finally gave way to democracy.

The Horthy regime and Communism should not be treated as an undifferentiated and unified whole either. As far as the interwar period is concerned the twenties were quite different from the thirties. But a consistent feature of the period was that the Treaty of Trianon cast shadow on all aspects of the political sphere, including foreign and economic policy. Trianon was a true national disaster for the Hungarians.²¹ The most important aim of Hungarian foreign policy between the two world wars was the revision of the Treaty of Trianon. This revisionism and the fact that Hungary was among those countries which were

²¹ Ignác Romsics, *Magyarország története a huszadik században*, [The History of Hungary in the Twentieth Century] (Budapest, Osiris, 2001) pp. 147.

held accountable for the war meant that in the first half of the period the country became isolated. The Hungarian leadership made several attempts to break out of this isolation, they tried to approach France, Romania, Czechoslovakia, the United Kingdom, the Soviet Union and Yugoslavia.²² This list shows how desperate the Hungarian leaders were: in order to put an end to the situation of the country they were ready to make concessions towards their potential enemies. Czechoslovakia, Romania and Yugoslavia were targets of the revisionist policy, and with regards to the Soviets the Horthy regime was vehemently anti-communist.

The economic policy of the Horthy regime and the contemporary international situation closely influenced each other. The Treaty of Trianon had disastrous consequences for the Hungarian economy as well. The most important natural resources, some industrial areas, much of the railway network and other infrastructure of Hungary was on territories that came to be parts of different countries. Whereas before the war the market for the majority of Hungarian goods had been inside the Austro-Hungarian Monarchy after the Peace Treaty Hungary became a country highly dependent on foreign trade.²³ The country also needed a lot of capital and took foreign loans – by the Great Depression Hungary became the most indebted country in Central Europe.²⁴ This money did not come from the traditional investors, France, Austria or Germany. Investors from new countries became interested in Hungary, among them many Americans. By 1929 56.2% of the foreign loans in the Hungarian economy was provided by United States nationals.²⁵ Hungary did not repay many of these loans, and eventually a remaining portion of them was covered by the claims settlement in 1973, almost

²² Ibid. pp. 236-237.

²³ János Honvári ed. *Magyarország gazdaságtörténete a honfoglalástól a huszadik század közepéig* [The Economic History of Hungary from the Settlement of the Magyars to the Middle of the 20th century] (Budapest, Aula, 1996) pp. 341.

²⁴ Ibid. pp. 272.

²⁵ Ibid. pp. 273.

fifty years later. As far as foreign trade was concerned the most important partners were the same as before the Monarchy collapsed: Austria and Czechoslovakia.²⁶

The international status of Hungary underwent significant changes in the end of the 1920s. Eventually the country managed to break out of isolation – by forging an alliance with Mussolini's Italy in 1927.²⁷ Italy remained the most important foreign partner of Hungary until the last third of the 1930s, when National Socialist Germany took over. With the help of the Germans Hungary has managed to get back parts of the territories lost after the First World War. But there was a price to pay: the German influence on the foreign policy of Hungary was rising.²⁸ Four months after signing the Treaty of Hungarian-Yugoslav Eternal Friendship Hungary attacked Yugoslavia in April 1941. Two months after the attack against Yugoslavia Hungary declared war on the Soviet Union and entered the war on the Axis side. In December 1941 the United Kingdom declared war on Hungary and Hungary declared war on the United States.

The economic state of the country also underwent changes in this period. The Great Depression had its influence on Hungary that was already starting to cope with the post-Trianon situation. It became increasingly difficult to find markets for the Hungarian goods. In the 1930s parallel to the political developments the role of Germany and to a lesser extent Italy became more and more important in the economy. By 1941 79% of all Hungarian imports and 74% of all exports were from these two countries. This meant that the Hungarian economy became very vulnerable and dependent on Italy and the German Empire.²⁹ Of course

²⁶ Ibid. pp. 385.

²⁷ Ibid. pp. 237.

²⁸ Ibid. 249.

²⁹ Honvári, *Magyarország Gazdaságtörténete.* pp. 412.

this was also due to the fact that by this time the German Empire had already included Austria and the Czech lands, which were the most important partners in the previous decades.

1.2. The Emergence of the Stalinist System

The communist regime that incorporated most of the second half of the century can also be divided into several periods. The basis of distinction between Rákosi era and the Kádár era is obvious. But the Kádár era can also be divided into two parts, the first one from 1956 to 1968 and the second one from 1968 to the end of the regime. It was especially the second half of the Kádár regime that was characterized by moderate reforms in economy, foreign policy, culture and various other fields of life. Tomas Nikalsson argues that the aim of these reforms was to gain the acceptance of the people.³⁰ This is how by the 1970s Hungary became the “happiest barrack” of the Eastern Bloc, the consequences of which still influence politics, economy and everyday life in Hungary today.

After the war Soviet influence was steadily increasing in the economic as well as in the political sphere. The year that is usually considered to be the dividing line, the beginning of the Stalinist dictatorship, is 1948, but many of the important processes, such as nationalizations, were started earlier.³¹ The American diplomats who were serving in Hungary witnessed the events, and regularly informed Washington on what was going on in Hungary. Selden Chapin, who was the Minister of the United States in Hungary from 1947 to 1949, warned the United States several times of the processes in Hungary. By 1948 he realized that there was not much America could do, still he felt sorry for the Hungarians: “it is difficult

³⁰ Tomas Nikalsson, *Regime Stability and Foreign Policy Change – Interaction between Domestic and Foreign Policy in Hungary 1956-1994*, (Lund: Lund University Studentlitteratur, 2006), pp. 66.

³¹ Romsics, *Magyarország a huszadik században*, pp. 295.

[...] to sit by and see this complete collapse of a nation who [...] have not deserved this cup of bitterness.”³²

The Soviets started to exert influence on the Hungarian economy already during the war on the newly liberated/occupied territories. They disassembled factories and took them to the Soviet Union as war booty. They continued this practice even after the new Hungarian government protested that they were also taking goods that they were not entitled to.³³ A good example to illustrate the extent of the destruction can be the case of the Tungsram factory. This company had produced light bulbs, and although it was partially owned by Americans the Soviets started to disassemble it in March 1945. In two months they had managed to take away 96% of the production capacity. The protests of the American government were futile.³⁴

As the political power of the communists was growing they exerted an ever growing influence on the economy, which they set out to transform according to their own ideas. This of course meant centralization, nationalization, land reform and other similar measures. These changes directly harmed American interests. The process started with the first moment of Soviet occupation, and was steadily continued. Minister H.F. Arthur Schoenfeld saw already in 1946 that the continuation of Soviet influence “will almost certainly destroy remaining American interests.”³⁵ All the American diplomats could do was to keep track of the American losses in case they would be reclaimed some time later.

³² “The Minister in Hungary (Chapin) to the Secretary of State, Budapest, March 12, 1948,” *Foreign Relations of the United States, 1948, Volume I – Eastern Europe, the Soviet Union* (Washington: United States Government Printing Office, 1974) pp. 308.

³³ Borhi, *A Vasfűgöny mögött*, pp. 18.

³⁴ Ibid.

³⁵ “The Minister in Hungary (Schoenfeld) to the Council of Foreign Ministers in Paris, Budapest, May 22, 1946,” *Foreign Relations of the United States, 1946, Volume VI – Eastern Europe, the Soviet Union* (Washington: United States Government Printing Office, 1969) pp. 285.

Borhi argues that the Soviets expanded their influence on the economy for two reasons. The first one was that they wanted to use their economic power to advance political goals, to undermine the foundations of the Hungarian economy. Thus Hungary would become more dependent on the Soviet Union, and the economic power could easily be transformed into political. To achieve more and more influence the Soviets established Soviet and Soviet-Hungarian companies and changed the orientation of Hungarian foreign trade towards themselves. Finally they managed to establish the foundations of a Soviet-type economy by creating the Economic High Council (Gazdasági Főtanács). This became the most important organization which was of course controlled by the Hungarian communists, and acted as if it was a state inside the state. The second reason was that the Soviet economy could also benefit from this process.³⁶

Hungarian-American relations have deteriorated rapidly once the communists gained power. The gradual nationalization of foreign companies harmed American interests. The question of American-owned companies such as the MAORT [Magyar-Amerikai Olaj Rt., Hungarian-American Oil Ltd.] became one of the main sources of conflict between the Americans and the Hungarians and Soviets.³⁷ In the so-called Vogeler affair Robert Vogeler, the assistant associate director of IT&T and Standard Electric was imprisoned, and Imre Geiger, the chief executive of Standard Electric was sentenced to death.³⁸ Hungary was not unique in this respect: similar events took place in the other countries of the region. The

³⁶ Borhi, *A Vasfűgöny mögött*, 8.

³⁷ Ibid. 50.

³⁸ István Rév, "In Mendacio Veritas (In Lies there Lies the Truth)", *Representations*, No. 35, Special Issue: Monumental Histories (Summer, 1991), pp. 1-20

Soviets were practically colonizing these countries, some were afraid that they would actually incorporate them into the Soviet Union.³⁹

Even before they gained power the foreign policy of the Rákosi regime was very simple – they were strictly following the Soviet line.⁴⁰ The Soviets did not want any open conflicts inside the bloc, it was not only revisionism that disappeared, but the issue of Hungarians in the neighboring countries became a taboo. Practically there was no independent Hungarian foreign policy. The economy worked on a similar basis: the most important goals were to serve Soviet needs, prepare for the Third World War and to transform Hungarian society. In the words of Ernő Gerő, one of the most influential Stalinists under Rákosi, the regime set out to transform Hungary into the country of “iron and steel”.⁴¹ This was necessary to cover the needs of the military. This policy had disastrous consequences for the Hungarian economy and the society. The country did not have the necessary natural resources needed to realize this plan, and as the regime was cutting down on income spent on consumption the majority of the population was living in poverty. Although there were attempts to introduce reform the system after the death of Stalin when Imre Nagy was Prime Minister, but this came to an end in early 1955. This was when Nagy lost the support of Moscow and Rákosi regained power.

1.3. The Kádár Regime

After the Revolution and War of Independence of 1956 it was obvious that turning back to the economic practices employed by the Rákosi regime was out of the question. Kádár set out to earn the trust of the population. His communication towards the people was that he did not

³⁹ “The Minister in Hungary (Chapin) to the Secretary of State, Budapest, February 11, 1948, in *Foreign Relations of the United States, 1946*, pp. 296.

⁴⁰ Romsics, *Magyarország a huszadik században*, pp. 337.

⁴¹ *Ibid.* pp.347.

want any more sacrifices, more emphasis was put on consumption and the actual needs of the population. A committee of economists was set up to develop plans for economic reforms.⁴² From the mid-1960s to the rest of the period the leadership of the country was experimenting with reforms. The most important of these reforms was the New Economic Mechanism [Új Gazdasági Mechanizmus), which was introduced by Finance Minister Rezső Nyers in 1968.

The reform represented a shift from heavy industry to light industry. It reduced the scope of central planning, thus made it possible for enterprises to behave in a market-oriented way.⁴³ This meant an increase in foreign trade, the standard of Hungarian goods and eventually the standard of living. Compared to the other countries in the bloc, Hungary managed to develop a good commercial relationship with the countries from the other camp. The first stage of the New Economic Mechanism was ended at the turn of 1972-73, when the anti-reform branch of the Party became more powerful. This was due to certain developments in Hungarian-Soviet relations. In early 1972 the economic policy Kádár was criticized by Moscow, and this meant that it had to be revised.

The negotiations that eventually led to the claims settlement took place during the period of the New Economic Mechanism. This had its influence on the course of the negotiations. On the one hand the Hungarians were interested in the increase of trade: when we examine the course of the negotiations we will see that the Hungarians always wanted concessions on the trade restrictions. On the other hand, the Americans saw the developments in Hungary, and approved of them. While there were only minor amendments to the trade policy of the United States towards Hungary the extent of trade between the two countries was increasing steadily. While in 1965 the value of American exports to Hungary was 9 million dollars and that of the

⁴² Ibid. pp.434.

⁴³ Nikalsson, *Regime Stability and Foreign Policy*, pp. 76.

imports only \$2 million in 1975 the corresponding numbers were \$76 million for exports and 38 million for imports.⁴⁴ By the end of the period American businesspeople became more and more interested in possibilities to invest in the country.

In the first half of the period the foreign policy of the Kádár regime had almost no independence.⁴⁵ After 1956 the Soviets strengthened their hold over Hungarian foreign policy, and did not allow for deviation. Consequently in spite of the fact that Kádár did not return to the economic practices of the Rákosi era still about two thirds of Hungarian foreign trade was directed towards other CMEA countries. Hungary continued to follow the Soviet line in the majority of cases, especially those which were issues of greater importance on the international scene. But on the smaller scale, in the bilateral relations with the Western European countries there were improvements, primarily concerning trade. Extensive trade relations were developed with Austria and West Germany. The debates that went on in the Party at the time can be explained by the split between those who supported the reforms, thus the opening to the West, and those who were hard-liners and were against this kind of experimentation.

A session of the Politburo can be used to present the two opinions that were dominant in the Party with regards to the improvement of Hungarian-American relations.⁴⁶ The proposal of the Foreign Ministry was prepared by János Péter Foreign Minister and Frigyes Puja Assistant Foreign Minister. In this particular situation the clash occurred between the representatives of the Foreign Ministry and those belonging to the ministries concerned with

⁴⁴ Lincoln Gordon and others, *Eroding Empire – Western Relations With Eastern Europe* (Washington: The Brookings Institution, 1987) pp.335.

⁴⁵ Nikalsson, *Regime Stability and Foreign Policy*, 109.

⁴⁶ "Részlet az MSZMP KB Politikai Bizottsága Jegyzőkönyvéből: A Külügyminisztérium előterjesztése a magyar-amerikai viszony napirenden levő kérdéseiről, Budapest, 1965. május 11. [Excrepts from the the Records of the Politburo of the MSZMP KB: Resolution of the Foreign Ministry on the Current Issues in Hungarian-American relations] MOL M-KS 288. f.5.cs. 365. ő.e. in Borhi, *Iratok*, pp.461.

economics, the Ministry of Finance and the Ministry of Foreign Trade. The issue discussed was that the United States participated in the Budapest International Fair in 1965, while at the same time the situation was escalating in Vietnam. The Foreign Ministry suggested that the Hungarians should remain as reserved as possible, stop the negotiations, and use every opportunity to express their contempt of the American policy. The more realist party members, namely Minister of Finance Rezső Nyers and Prime Minister Jenő Fock, were opposed to this standpoint. Both of them were prominent supporters of the economic reforms. They said that the United States can be condemned in the media, but those who come to present in the fair “should be welcomed happily.”⁴⁷ The negotiations were also to be continued, the Hungarian position should be represented more firmly instead of stopping the discussions

It was of course János Kádár who had the final word. In this particular situation he supported the position of Nyers and Fock, and he also explained why he thought so⁴⁸. Kádár said that “peaceful coexistence” and the “struggle against imperialism” were present in the world simultaneously. The United States should be condemned politically, but the negotiations should be continued. He even argued that if the original position is right and is in accordance with the interests of The People’s Republic of Hungary then there is no need to change it either. In this observation in the aforementioned session of the Politburo Kádár argued for the separation of the political and the economic sphere. But this could not always be attained. As we will see very often during the course of Hungarian-American negotiations reacting to the current developments in the international situation became more important than the economic interests of the country.

⁴⁷ Ibid. pp. 462.

⁴⁸ Ibid. pp. 464.

2. The First Steps

2.1. *The Most Important Issues of Hungarian-American relations after 1956*

Although the main topic of my thesis is the claims agreement these other issues will also have to be presented shortly. While at first sight there seems to be no connection between these problems – for example the most favored nation status and the return of the Holy Crown – they almost always occur in the various documents together. Just as it happened in the case of Soviet-American discussions linkage of different issues was a constant feature of the process of normalization of the relations of the United States and Hungary. These five issues will come up from time to time when we will be dealing with the negotiations that eventually led to the claims settlement.

The suppression of the 1956 Revolution and War of Independence had various consequences in relation to the international status of the Hungarian People's Republic. First of all, the United Nations membership of the country was suspended. In January 1957 a committee was set up in the United Nations to examine the "Hungarian question".⁴⁹ This issue was put on the agenda of the General Assembly of the United Nations each year from 1956 to 1962.⁵⁰ Year by year it reminded the public opinion of the world of the circumstances among which the government of Kádár came into power. This clearly showed that Washington did not accept Kádár and his government as the legitimate leaders of Hungary. Quite understandably this issue was the most pressing for the Kádár government. In exchange for the solution of this problem the Americans wanted a change in the internal political situation

⁴⁹ "A Külügyminisztérium feljegyzése a budapesti amerikai nagykövetség létszámcsökkentéséről, Budapest, 1957. június 11." pp. 61.

⁵⁰ "A Külügyminisztérium feljegyzése a magyar-amerikai kapcsolatokat javítását célzó erőfeszítésekről, Budapest, 1964. május," [Memo of the Foreign Ministry on the Efforts to Amend Hungarian-American Relations] MOL XIX-J-1-j USA/kbd KüM i. k. n., in Borhi: *Iratok*, pp. 417.

in Hungary,⁵¹ which they finally achieved in 1962. Without this issue having been resolved there could be no substantial negotiations between the two countries.

The issue of Cardinal Mindszenty is also connected to 1956. József Mindszenty was Prime Prelate of Hungary and Archbishop of Esztergom, thus the head of the Hungarian Roman Catholic Church. He steadfastly opposed both the Nazi and the Communist rule, and was consequently imprisoned both by the national socialist Arrow Cross and by the communist Rákosi regimes. He was released in October 1956 by the revolutionaries. Not only was he someone who had escaped from the prison, but in the short time period when he was free he praised the insurgents. Thus in the eyes of the regime not only was he an escaped felon convicted for life, but he had also committed other crimes against the state. As Soviet troops invaded Hungary on the 4th of November, 1956, he sought refuge in the American embassy in Budapest, which he was granted. This was a rather unusual practice. It was not customary for the Americans to provide asylum in their diplomatic missions.⁵² The Hungarian government claimed that it ran contrary to the principles of international law.⁵³

What nobody suspected at the time was that the embassy would become his place of residence for 15 years. It is quite understandable that the presence of Mindszenty in the American embassy in the center of Budapest was a nuisance for the Hungarian government, especially as formally he still was the head of the Hungarian Roman Catholic Church. It was also a difficult affair for the Americans, and became even more so as time passed and the Cardinal grew older. The situation was quite understandably very delicate. The Americans wanted to avoid the political implications of Mindszenty affair as much as possible. The

⁵¹ Borhi, *A vasfüggöny mögött*, pp. 200.

⁵² "Memorandum From Secretary of State Rusk to President Kennedy, Washington, February 3, 1961." Kennedy Library, National Security Files, Country Series, Hungary, in *Foreign Relations, 1961-1963, Volume XVI, Eastern Europe; Cyprus; Greece; Turkey* (Washington, United States Government Printing Office, 1994)

⁵³ Borhi, *A vasfüggöny mögött*, 205.

Cardinal could not use the Legation for any ecclesiastical or political activities, and the Americans continuously treated Mindszenty as a humanitarian rather than a political refugee.⁵⁴ The status of Mindszenty is an issue that often came up during the course of Hungarian-American discussions.

Just like the status of Cardinal Mindszenty the question of the Holy Crown of Saint Steven also was a symbolical issue. The Crown of Saint Stephen played a very important role in Hungarian history, it is one of the symbols of Hungarian statehood. This was especially taken seriously in the period between the two world wars, when a whole legal tradition was constructed around this artifact.⁵⁵ The crown was carried out of the country at the end of the Second World War by the retreating Germans and their Hungarian allies, and it was captured by American troops in Austria after the capitulation. The Crown was kept in Fort Knox, and the Americans were unwilling to give it back to Hungary. They suspected that this would have contributed to the legitimization of the regime.⁵⁶ Besides, the Hungarian-American community was also very much opposed to the idea of giving the Crown to Kádár. Although the Hungarians suspected that it lay hidden somewhere in the United States the American government had not said anything about the whereabouts of the Crown for a relatively long time.

The People's Republic of Hungary did not have the most favored nation status, and this meant that the tariffs on Hungarian goods were rather high. Most favored nation treatment means a trading opportunity equal to that of the other most favored nations. There can be no discrimination among the countries that have this status: any favor granted to one

⁵⁴“Memorandum from Rusk to Kennedy, February 4, 1961.” In *Foreign Relations 1961-1963*.

⁵⁵ Laszlo Peter, “The Holy Crown of Hungary, Visible and Invisible”, *The Slavonic and East European Review*, vol. 81, July 2003, p.421-510.

⁵⁶Borhi László, “Változások a magyar-amerikai kapcsolatokban,”[Changes in the Hungarian-American Relationship] *História*, 2004/08

automatically has to be applied to all the others.⁵⁷ Between the two World Wars American-Hungarian trade was considerable, but this was not the case after the communist takeover. While this development was mainly due to political reasons to a certain extent it was also related to the question of tariffs.⁵⁸ The United States signed a trade agreement with the Hungarian Kingdom back in 1925, but it was repelled in 1951.⁵⁹ The system that was applied to Hungarian goods after this date was the “General Tariff,” which in some cases could even reach 40-50%⁶⁰. Thus Hungarian prices were higher than those of the competitors, and this of course was a serious market disadvantage. Among the issues that have been mentioned here it is the question of the most favored nation status that most frequently came up during the attempts to deal with the financial claims of the two countries.

2.2. The First Hungarian Estimates on the Value of the Claims

According to Article 26 of the Peace Treaty Hungary was obliged to return the property of U.S. nationals as it existed before the war or pay compensation⁶¹ – neither of which happened. Instead, as it has already been mentioned above, even more American property was nationalized in the end of the 1940s. The settlement of these and other financial claims was necessary for the normalization of relations between the two countries. In this respect Hungary was not alone in the socialist bloc. The United States had similar problems

⁵⁷ http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm - 5/20/2008

⁵⁸ “Zádor Tibor ideiglenes ügyvivő jelentése Horváth Imre külügyminiszternek a Karl Malone szenátornál tett látogatásról, Washington, 1957. május 11.” [Tibor Zádor’s to Imre Horváth Foreign Minister on the meeting with senator Karl Malone] MOL XIX-J-1-j USA 5/e KüM 002800/1958 (box Nr. 12), in Borhi: *Iratok*, pp. 64.

⁵⁹ “A Külügyminisztérium tiltakozó jegyzéke a budapesti amerikai követséghez, Budapest, 1958. szeptember 20. [Note of Protest of the Hungarian Foreign Ministry to the American Legacy in Budapest]

⁶⁰ “A Külkereskedelmi Minisztérium feljegyzése a Külügyminisztériumhoz a magyar-amerikai kereskedelemről, Budapest, 1957. szeptember 16. [Memo of the Ministry of External Trade to the Foreign Ministry on Hungarian-American trade] MOL XIX-J-1-j USA 5/c KüM 002800/1958 (box Nr. 12), in Borhi: *Iratok*, pp. 78.

⁶¹ Richard B. Lillich, “The United States--Hungarian Claims Agreement of 1973,” *The American Journal of International Law*, Vol. 69, No. 3. (Jul., 1975), pp. 536.

with other countries, and agreements were signed with Romania in 1960 and Bulgaria in 1963.⁶²

The Hungarian government was puzzled the fact that the United States had not brought up the topic so far. In 1962 they knew that by that time all socialist countries that had diplomatic relations with the United States had had negotiations on the topic. Most of the socialist countries had already come to an agreement with the Americans, while some others were about to in the near future. To the surprise of the Hungarians, the question was not even mentioned when Hungarian and American diplomats met. This issue was classified as one that was likely come up in the relationship of the two countries sooner or later.⁶³ Actually the Hungarians had been preparing for these negotiations from earlier on. In 1958 the Foreign Ministry prepared a memo on the problems of Hungarian-American relations, where among the economic issues several of the claims were also listed.⁶⁴ The Hungarian government was conscious of the problem of the financial claims.

The Hungarian claims towards the United States that were listed in this document could be divided into two main groups. The first one was that of the restitution demands. This included valuables that were dragged away by the retreating German and Hungarian armies to the territory Austria and West Germany. According to Paragraph 30 of the Peace Treaty goods that were taken out of Hungary by force by the Germans were eligible for restitution.⁶⁵

⁶² Lillich, "U.S.-Hungarian Claims Agreement," pp. 534.

⁶³ "A Külügyminisztérium IV. főosztályának feljegyzése Szőke György tanácsosnak a magyar-amerikai kapcsolatok alakulásáról, és az 1962-ben várható fejleményekről." [Memo of the 4th Department of the Foreign Ministry to Counsellor György Szőke on the State of Hungarian-American Relations and Developments Expected for the year 1962] MOL XIX-J-1-k, USA 4/bd KüM i. k. n. (box Nr. 11), in Borhi: *Iratok*, pp. 310.

⁶⁴ "A Külügyminisztérium III. osztályának feljegyzése a magyar-amerikai viszonyról, Budapest, 1958. március 7." [Memo of Department III of the Foreign Ministry on the Hungarian-American relations] MOL XIX-J-1-j USA 4/bd KüM 99/1958 (box Nr. 11) in Borhi: *Iratok*, 90

⁶⁵ "Identifiable property of Hungary and of Hungarian nationals removed by force or duress from Hungarian territory to Germany by German forces or authorities after 20 January 1945 shall be eligible for restitution."

The Hungarian missions whose errand was to retrieve these valuables started their work after the Peace Treaty, but they were expelled from the occupation zones in 1948, well before their work was finished. This was after to the Voegeler-affair, which I have already presented in the previous chapter. The 1958 document claims that these goods were worth 100 million dollars, and included among other things industrial equipment, several hundreds of valuable horses, the Crown of Saint Steven and 24 carriages of the “Golden Train”. Actually there were two Golden Trains, one carrying the valuables confiscated from the Hungarian Jews and the other one the gold reserves of the Hungarian National Bank.

The second group of Hungarian claims concerned assets that were frozen in the United States. A part of these assets were blocked after the Hungarian declaration of war, then after the peace they were confiscated under Article 29 of the Peace Treaty.⁶⁶ The document claimed that they had already started distributing some of this property, which was contrary to the rulings of the Peace Treaty. The estimated value of these claims was 8-10 million dollars. The other part of these frozen assets was the pensions of dual citizens. In 1952 the United States had stopped paying the pension for the Hungarian recipients.

The American claims were divided into five subgroups. Long-term debts belonged to the first one. These originated in the period before the war, and the due installments had been repaid in order until 1931. From 1931 to 1944 Hungary had concluded only interest payment, and from 1944 not even that. In 1958 the estimated value of these debts was 63 million

Article 30 of the “Treaty of Peace with Hungary,” *Foreign Relations of the United States, 1946 – Volume IV, Paris Peace Conference: Documents*, (Washington, United States Printing Office, 1970). pp. 108.

⁶⁶ “Each of the Allied and Associated Powers shall have the right to seize, retain, liquidate or take any other action with respect to all property, rights and interests which at the coming into force of the present Treaty are within its territory and belong to Hungary or to Hungarian nationals, and to apply such property or the proceeds thereof to such purposes as it may desire, within the limits of its claims and those of its nationals against Hungary or Hungarian nationals, including debts, other than claims fully satisfied under other Articles of the present Treaty. All Hungarian property, or the proceeds thereof, in excess of the amount of such claims, shall be returned.” *ibid.*

dollars, and it was noted that the Americans did not press for payment. The other kind of debts originating in the period before the war were the “Stillhalte,” or as they were called in other documents the “standstill” debts. There had been an agreement between Hungary and her creditors concerning these debts, but their repayment also stopped at the end of the war. Their estimated value was 9.5 million dollars. The Hungarian officials noted that the Americans did not press for payment in this case either.

The so-called “surplus” loans originated in the period shortly after the war. The American army had a lot of surplus goods in Europe the storage of which was expensive, but which it did not really need any more. H.F. Arthur Scoenfeld, who had been the Minister in Hungary from the end of the war to 1947, saw the rise of the country’s economic dependence on the Soviet Union. He proposed to the Secretary of State that a loan should be made available for Hungary, so that the country would be able to buy some of these goods.⁶⁷ This way the Americans could at last to a certain extent counter the economic influence of the Soviets, and at the same time sell their surplus goods. Eventually Hungary took up a loan of 16 million dollars. According to the 1958 document the expenditures of the Mission of the United States in Budapest were covered by the interests. But Hungary should have started principal repayment in 1952, with about half a million dollars a year. In this case the Americans slightly urged Hungary to start repaying the debt. The Hungarians referred to the various trade restrictions as an excuse, because of which they did not have the necessary amount of dollars to fulfill the demands of the United States.

The last group of claims included those that owe their existence of the economic policy of the communist regime. This consisted of American property that had been

⁶⁷ “The Minister in Hungary (Schoenfeld) to the Secretary of State, Budapest, February 9, 1946,” *Foreign Relations of the United States, 1946. Eastern Europe, the Soviet Union* Volume VI, (Washington, United States Government Printing Office, Washington: 1969. pp. 257.

nationalized in the late 1940s. These were industrial companies and plants, land nationalized under the regulations of the land reform act and houses that fell under the effect of the 4th statutory rule of 1952. This statutory rule passed certain kinds of real estate into state ownership. There were American demands concerning this topic, but the document noted that they did not do any more than to specify the claims, they did not start negotiations on the compensation. The memo also included an item that was not considered to be a financial claim at that time, but was eventually included in the final claims agreement. This was related an aerial incident that took place in 1951. On 19 November that year an American C-47 aircraft entered the Hungarian airspace in the southeast, near Gyula. The plane was forced to land by Soviet airplanes, the four-member crew had to pay a remarkably high fine⁶⁸ and they were expelled from the country. In 1958 the Hungarians were neither willing to pay compensation, nor did they want to give back the plane.

In 1958 the financial claims were not the most important aspect of the Hungarian-American relationship. The conclusion of this document also was that Hungary should avoid dealing with these questions. Settling the claims of the United States would have been a big burden for the economy of the country. Besides, the Americans did not seem to be interested in a comprehensive solution, and some of the claims were not even mentioned. This of course meant that in return Hungarians did not press the restitution issue either. As in 1958 the Hungarian government did not want to deal with the problem they did not examine the details very thoroughly. They did not list all the claims, the description of some of them was rather sketchy. The value of some of the claims was already there numerically, while at some of the items there were not even rough estimates.

⁶⁸ 360,000 forints each, at a time when the price of a loaf of bread cost 2.80 forints

2.3. The Resolution of the United Nations Question

By the early 1960s the leaders of the Hungarian People's Republic felt that the time had come to improve the international standing of the country. The most important issue from this respect was the situation in the United Nations. A proposal made by the Foreign Ministry and the Foreign Policy Department of the Central Committee for the Politburo prepared in the beginning of January 1960⁶⁹ dealt with the Hungarian question in the United Nations. Here it was suggested that the United States was the main actor in this "propaganda campaign", and the main target was the Soviet Union, although it was quite naturally also troublesome for Hungary. They claimed that although the future of this question was mainly dependent on the proceedings of Soviet-American relations the Hungarian People's Republic should cooperate with the Soviets in order to resolve this issue. It was decided that before the next session of the UN General Assembly the Hungarians should approach the Americans with a comprehensive proposal for the normalization of relations between the two countries. During the session Hungary should conduct negotiations with the United States, and try to propose solutions. This should be such that would not mean ideological concessions for Hungary, but would make it possible for the Americans to cease their activities without a loss of prestige.

As the Hungarians were looking for issues on which concessions could be made they also examined the question of the various claims. Already in January 1960 Géza Kardos, the Assistant Minister of Finance wrote a memorandum for Károly Szarka, the Assistant Foreign Minister that discussed this issue⁷⁰. Both the Foreign Ministry and the Ministry of Finance

⁶⁹ "A Külügyminisztérium és az MSZMP KB Külügyi Osztályának előterjesztése az MSZMP KB Politikai Bizottságához a magyarkérdés ügyének helyzetéről az ENSZ-ben, Budapest, 1960. január 8. [Proposal of the Foreign Ministry and the MSZMP (Magyar Szocialista Munkáspárt, Hungarian Socialist Worker's Party) KB (Központi Bizottság, Central Committee) to the Politburo of the MSMP KB on the Status of the Hungarian Question in the UN, January 8, 1960], Borhi, *Iratok*, pp. 213.

⁷⁰ "Kardos Géza Pénzügyminiszter-helyettes feljegyzése Szarka Károly Külügyminiszter-helyettesnek a magyar-amerikai pénzügyi tárgyalásokról, Budapest, 1960. január 21." [Memorandum from Károly Szarka Assistant

agreed that settling the claims would mean that Hungary would have to pay to the United States. This meant that unless it would be connected to some other benefit – for example the possibility to request loans on preferential terms – it would not be worth from a financial point of view. Kardos admitted that the numbers were relatively optimistic, as the United States would probably not accept a proportion of the Hungarian claims, and they would evaluate their own ones higher than the Hungarians did.

When examining the various claims Kardos took into account the rulings of several previous but similar agreements. One was the settlement between the United Kingdom and Hungary, which was concluded in the summer of 1956, and the other between the United States and Czechoslovakia, which was in the final phase of discussion at the time. As far as the value of the long-term loans was concerned his estimates were lower than those of the 1958 document: 50.4 millions of dollars instead of 62 million. In connection with the repayment he claimed that it was contrary to the American practice to allow for redemption discount. On the short-term loans (the standstill loans), war claims, land reform and nationalization he had a different opinion. Here he relied on the precedents created by the previous claims agreements again. He stated that out of the 11.1 million dollar short-term loan Hungary would have to pay back 20-25%, while to satisfy all the other claims about \$20 million would have to be paid. So he expected that Hungary would eventually have to pay \$22.5 million, and the issue of the long-term loans would remain unsettled.

Kardos did not list any Hungarian claims other than the restitution. The most important difficulty was that that the aforementioned Article 30 of the Peace Treaty was applicable only to goods taken out of Hungary after January 20, 1945, when Hungary signed

Minister of Finance to Károly Szarka Assistant Foreign Minister on the Hungarian-American Financial Negotiations, Budapest, January 21, 1960] Borhi, *Iratok*, pp. 218.

the armistice. Of course it was very difficult to prove that a particular object belonged to this group. Among the goods not restituted by the Americans Kardos enumerated the 105 horses, and jewelry and silverware originating from the Golden Train. As far as the other claims were concerned he estimated that the goods left in the American occupational zone of West Germany were worth \$143,980,000, out of which \$19,430,000 were properly documented, while in Austria the corresponding sum was \$60,800,000 with \$16,400,000 documented. The Hungarians expected to get part of this money from the West German and the Austrian governments. They knew that most of the Hungarian claims were not documented, and even suspected that legal objections would be raised against some of those that were. There were several claims that were not included in the document. Still it was significant, because its existence means that the Hungarian government seriously started to consider resolving the issue of the claims. The importance of the issue in Hungarian-American relations had started to rise.

In the beginning of the 1960s there were considerable improvements in Hungarian-American relations. The United States wanted a concession in return for the resolution of the conflict around the Hungarian question in the United Nations. It was amnesty for the participants of the revolution of 1956. The memorandum that confirmed this intention was handed to the Hungarian diplomats by Deputy Assistant Secretary of State Richard H. Davis on October 20, 1962 – in the middle of the Cuban missile crisis. The memorandum also mentioned several issues that would be discussed after the resolution of the aforementioned question. These included the status of Mindszenty and the financial claims of the two countries.⁷¹ First the Hungarians considered this suggestion to be an interference into

⁷¹ “Az amerikai külügyminisztérium emlékeztetője a magyarkérdés és az amnesztia tárgyában, Washington, 1962. október 20. [Memorandum of the American State Department on the Hungarian Question and the Amnesty, October 20, 1962]] MOL XIX-J-1-j USA 4/bd KüM i.k.n. (box Nr. 6)

Hungarian internal affairs⁷², but eventually in 1963 Kádár did give amnesty to the participants of the revolution.⁷³ The Hungarian question was taken off the agenda in the United Nations, and the mandate of the Hungarian People's Republic was restored. Most of the American reactions were moderately positive, but there were some who considered this step a betrayal of the Hungarian revolutionaries.⁷⁴

Towards the party and the general public this was communicated as a great achievement for the Hungarian People's Republic. In a proposal for the session of the Politburo which took place on 18 February, 1963, Foreign Minister János Péter and Assistant Foreign Minister Frigyes Puja boastingly stated that this was a great victory for Hungarian diplomacy. They claimed that while first the Americans wanted to interfere with Hungarian domestic policy finally they were eventually forced to give up their position on the issue, primarily due to their failure in Cuba.⁷⁵ What they forgot to mention was that on the one hand the issue was already about to be discussed when the memorandum was sent, and what is even more important Kádár eventually did grant the amnesty to the participants of the revolution.

The officials of the Foreign Ministry claimed that the resolution of the question was related to the Cuban missile crisis. They were telling the truth – the Cuban missile crisis did at least partially influence the *Hungarian* decision. After getting the memorandum Radványi

⁷² “Radványi János ügyvivő jelentése Péter János külügyminiszternek az amnesztia kérdéséről, Washinton, 1962. március 24.” [Report by Minister János Radványi to Foreign Minister János Péter on the Question of the Amnesty, Washington, March 24, 1962] MOL XIX-J-1-j USA 5/e KÜM 001224/B (box Nr. 15), in Borhi, *Iratok*, pp. 315.

⁷³ Borhi, “A magyar-amerikai viszony változásai,”

⁷⁴ “Radványi János ügyvivő jelentése Péter János külügyminiszternek a magyar-amerikai kapcsolatokról, Washinton, 1963. május 24.” [Report by Minister János Radványi to Foreign Minister János Péter on the Changes in Hungarian-American relations, Washington, May 24, 1963] MOL XIX-J-1-j USA 4/b 00598/2 (box Nr. 6), in Borhi, *Iratok*, pp. 358.

⁷⁵ “Részlet az MSZMP KB Politikai Bizottságának jegyzőkönyvéből: A Külügyminisztérium előterjesztése a magyar-amerikai tárgyalásokról, Budapest, 1964. február 18. [Excerpts from the Records of the Politburo of the MSZMP KB: Proposal of the Foreign Ministry on Hungarian-American negotiations, February 18, 1964] MOL M-KS 288. f. 5. cs. 327. ő. e. in Borhi, *Iratok*, pp. 393.

was instructed by the Politburo to inform the diplomatic representatives of other socialist countries. This included Anatoly Fyodorovich Dobrynin, who was the recently appointed Soviet ambassador – and he had remained in that position until the mid-1980s. The opinion of Dobrynin was that once the Hungarian government had already decided to take certain steps in domestic policy the resolution of the question was easy. He claimed that once the Cuban crisis was sorted out the normalization of Hungarian-American relations would contribute to the ease of tensions.⁷⁶ Practically before making the decision on whether to accept the American proposal the Hungarians asked for the advice or rather permission of the Soviets. What Dobrynin said on the issue probably influenced the course of events and the Hungarian decision to a large extent.

In 1962 it already seemed probable that the Hungarian question at the United Nations and the issue of the Hungarian mandate would be solved soon. The Hungarians examined other problems that needed to be solved as well. This was also because they were looking for something that they could use in the discussions with the Americans as the concession that Hungary would grant in return for the resolution of the UN question. Initially the issue of Cardinal Mindszenty was also brought up as a possibility⁷⁷, but as we know finally the Hungarians agreed to granting the amnesty. In the same document it was examined whether concessions some other issues, such as that of the financial discriminations, the pension of those returning to Hungary or that of the “stolen crown jewels” should also be demanded from the Americans. Although the issue was eventually not raised at the discussions a document

⁷⁶ “Radványi János ügyvivő jelentése az amerikai külügyminisztérium emlékeztetője tárgyában, Washinton, 1962. november 7.” [Report by Minister János Radványi on the Question of the Memorandum of the American State Department, November 7, 1962) MOL XIX-J-1-j USA 4/b KüM 00124/8/1962 (box Nr. 6) in Borhi, *Iratok*, pp. 347.

⁷⁷ “Részlet az MSZMP KB Politikai Bizottsága jegyzőkönyvéből: Nemes Dezsőnek, az MSZMP KB titkárának előterjesztése a Mindszenty-ügy rendezésére vonatkozóan [Excrepts from the Records of the Politburo of the MSZMP KB: Proposal by Dezső Nemes, Secretary of the MSZMP KB, on the Resolution of the Mindszenty-affair] MOL M-KS 288. f. 5. cs. 274. ő.e., in Borhi, *Iratok*, pp.331.

evaluating the claims was also prepared by the Foreign Ministry⁷⁸. This was more detailed and more realistic than the previous ones. The reason for this improvement was that by this time the United States had already concluded similar settlements with Romania, Czechoslovakia and Poland. This meant that the Hungarian experts had a clearer vision of what they should expect.

In the 1962 document two figures were attached to each claim: the face value and an estimate on how much would actually have to be paid. The American claims were separated into two groups, those that originated in the period before the war and those that came after it. The figure on the long-term bonds was similar to what could be found in the previous documents, around 50 million dollars. It was expected that Hungary would have to pay around 5 million dollars. The face value of the standstill debt was also similar to the earlier estimates, 11.7 million dollars, but here the Hungarians planned to pay no more than \$0.6 million. The Surplus debt was also included among the claims, although it was noted that it was already being repaid, and perhaps it could be dealt with apart from the other claims.

This document estimated the value of the war claims and the nationalization claims to be around \$150 million altogether, out of which Hungary would have to pay \$10 million. This conclusion was arrived at with the application of a rather peculiar method. A little bit more than half of this sum were the war claims. The Ministry argued that according to the terms of the peace treaty two thirds of the sum would have to be paid in forints, the Hungarian currency. It was supposed that the Americans would use the same ratio in the case of the nationalization claims as well. The forint was not a convertible currency at the time and its

⁷⁸ „A Külügyminisztérium IV. főosztályának feljegyzése a két ország közötti rendezetlen pénzügyi kérdésekről, Budapest, 1962. november 8. [Memorandum of the Main Department IV of the Foreign Ministry on the Unresolved Financial Questions Between the two Countries, Budapest, November 8, 1962] in Borhi, *Iratok*, pp. 349.

nominal rate did not have much to do with what it was worth in reality. Thus Hungarians speculated that if they would agree repay this sum in dollars instead of forints then the Americans would agree to get only around 10%.

The list of the Hungarian claims was more or less the same as in the previous document. Still, there were a few important differences. While according to the calculations of Kardos the value of the properly documented claims was around \$16 million the figure here the corresponding sum is \$36 million. The document does not specifically mention what accounts for the change. My suspicion is that probably the Golden Train was also included in this estimate. The other difference when compared to the previous lists of Hungarian claims is that here the “goods confiscated because of discrimination” were also included. Since 1947 the United States had blocked even those Hungarian interests that did not fall under the effect of the peace treaty, as they originated in the period after the signing of the treaty. The Hungarians claimed that this was discrimination. The Hungarian Foreign Ministry estimated that these claims amounted to 1.5 million dollars.

This paper was the first one that speculated on the possible methods of payment. The face value of the American claims was \$170.5 million while that of the Hungarian ones was only \$65.1 million. But of course if the Americans had agreed to reduce the value that the Hungarians would have to pay it meant that the Hungarians would also have to reduce their claims. The document argued that this was the better scenario for the Hungarians, because instead of more than 100 million dollars they only had to pay around \$20-30 million. It was supposed that the United States would like to receive the money in dollars, but this led to new problems. Hungary was neither willing nor able to pay this amount of money in foreign currency. The paper envisaged two possible solutions. One was that the United States would

provide a loan covering the cost of the claims, and Hungary would pay this new loan back.

The other was that Hungary would pay by shipping goods to the United States. The problem here was that with the amount of trade that had been going on between the two countries this would have taken at least as long as paying back the loan.

As it had already been suggested by the memorandum of Davids after the resolution of the conflicts around the United Nations negotiations on other issues were also started. The international situation was favorable towards discussions between the United States and the socialist countries. The Cuban Missile Crisis showed that a nuclear war constituted a real threat, and talks were started on nuclear disarmament. In 1963 the nuclear test ban treaty was signed in Moscow. Moreover during the discussions leading to the treaty Kádár and Harriman met several times in Moscow, and they have agreed on starting negotiations. A decision of the Politburo at the end of 1963 also supported the idea of improving Hungarian-American relations.⁷⁹ Minister János Radványi suggested that settling the financial claims would be beneficial for Hungary only if it was connected to the Most Favored Nation agreement.⁸⁰ He noted that while Poland received the Most Favored Nation status as a result of the claims settlement Romania and Bulgaria only got a promise to improve trade. The suggested argument was that Hungary did not have enough currency. If the country got the Most Favored Nation status it would have enough dollars from the increased amount of trade to repay the debts. An even better scenario would have occurred if the United States had agreed to let Hungary receive a larger amount of American import and pay for it in forint.

⁷⁹ “Részlet az MSZMP KP Politikai Bizottsága jegyzőkönyvéből: A Ford Alapítvány által felajánlott ösztöndíjak elfogadásának feltételei, Budapest, 1963. November 26.” [Excerpts from the Records of the Politburo of the MSZMP KB: Conditions of Accepting the Scholarships Proposed by the Ford Foundation] MOL M_KS 288. f. 5/320 ő. e. in Borhi, *Iratok*, pp. 379.

⁸⁰ “Radványi János ügyvivő feljegyzése Péter János Külügyminiszter számára a magyar-amerikai kapcsolatok fejlesztéséről, 1964. január 10.” [Memorandum by Minister d'affaires János Radványi for Foreign Minister János Péter on the Development of Hungarian-American Relations] MOL XIX-J-1-j USA 4/b KüM. 0028/1/1964 (box Nr. 6), in Borhi, *Iratok*, pp. 387.

In February 1964 the Politburo agreed to link the Most Favored Nation status to the claims settlement.⁸¹ The Hungarian government – and Kádár personally – approved of the initiative, and a memorandum was sent to the American Embassy.⁸² This decision made sense especially as the Americans had already linked the two issues, but the other way round. While the Hungarians did not want to settle the claims unless they were given the Most Favored Nation status the Americans were not willing to grant this to countries which had debts towards the United States. The Johnson Act (Foreign Securities Act, ch. 112, 48 Stat. 574, 18 U.S.C. § 955, 1934-04-13), which was passed in 1934, forbade loans to nations that were on default in their debts.⁸³

⁸¹ “Részlet az MSZMP KP Politikai Bizottsága jegyzőkönyvéből: A Külügyminisztérium előterjesztése a magyar-amerikai tárgyalásokról, Budapest, 1964. február 18.” [Excerpts from the Records of the Politburo of the MSZMP KB: Resolution of the Foreign Ministry on Hungarian-American Negotiations, Budapest, February 18 1964.] MOL M-KS 288. f. 5. cs. 327. ö. e. in Borhi: *Iratok*, pp. 389.

⁸² “A Magyar Forradalmi Munkás-Paraszt Kormány 3062/1964. sz. határozata a magyar-amerikai tárgyalások megkezdéséről, Budapest, 1964. február 19. [Statute Nr. 3062/1964 of the Hungarian Revolutionary Worker-Peasant Government on the Commencement of the Hungarian-American Negotiations] XIX-J-1-j USA 4/b KüM. 002812/1964 (box Nr. 6) in Borhi, *Iratok*, pp. 394.

⁸³ “Whoever, within the United States, purchases or sells the bonds, securities, or other obligations of any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after April 13, 1934, or makes any loan to such foreign government, political subdivision, organization or association, except a renewal or adjustment of existing indebtedness, while such government, political subdivision, organization or association, is in default in the payment of its obligations, or any part thereof, to the United States, shall be fined under this title or imprisoned for not more than five years, or both.” -

http://www.law.cornell.edu/uscode/html/uscode18/usc_sec_18_00000955----000-.html (8 June 2008)

3. The Negotiations in the Mid-1960s

3.1. Preparations for the First Meeting

The Hungarian-American negotiations that eventually led to the conclusion of the claims settlement took much more time than it was previously planned. This was because of various reasons, including changes in the international situation, lack of real determination to agree on the issues, domestic reasons, and sometimes simply bad luck. The first few rounds of the discussions took place in the mid-1960s. They were stopped and followed by a longer intermezzo of several years because of reasons that will be discussed later. The negotiations were renewed in 1969-1970, and led to the conclusion of the claims settlement in 1972. In this chapter I will examine the course of these discussions, examine how the standpoints on various issues changed, and finally arrive to the settlement.

According to the statute issued by the Hungarian government⁸⁴ the leader of the Hungarian party at the negotiations became Béla Szilágyi. Originally a worker in the textile industry Szilágyi was the Assistant Foreign Minister of Hungary from 1963 to 1973. He already had diplomatic experience, he had been ambassador to the United Kingdom in the 1960s,⁸⁵ a talented and intelligent diplomat. Hillenbrand, the first ambassador of the United States in Hungary, remembered him being an adversary who deserved to be respected.⁸⁶ The

⁸⁴ A Magyar Forradalmi Munkás-Paraszt Kormány 3062/1964. sz. Határozata,” in Borhi, *Iratok*, pp.394.

⁸⁵ *International Who's Who, 40th Edition, 1970-72* (London: Europa Publications Ltd.)

⁸⁶ Martin J. Hillenbrand, *Fragments of Our Time – Memoirs of a Diplomat*, ((Athens and London: The University of Georgia Press, 1998) quoted in Borhi, ”A magyar-amerikai viszony változásai, 1957-1978.” [Changes in the Hungarian-American Relationship, 1957-1978] in Ferenc Gazdag and László J. Kiss, eds. *Magyar külpolitika a 20. században – tanulmányok*. [Hungarian Foreign Policy in the Twentieth Century – Studies] Budapest: Zrínyi kiadó, 2004. pp. 91.

negotiations were to be conducted in absolute secrecy. The members of the government were not to disclose anything on the topic to anybody, and to treat the issue as top secret. As a preparation for the negotiations shortly after the decision of the government the Hungarian Foreign Ministry presented a note on the claims that the two countries had towards each other.⁸⁷ It was suggested that the two delegations would first meet in Budapest for preliminary meeting. What would follow was the exchange the documentation of the various claims, their evaluation, and then the parties would engage in the actual discussion.

In the appendix of the document the claims were listed and discussed in detail. It was obvious that the sum of the value of the American claims was greater than that of the Hungarian ones. The experts at the Foreign Ministry also calculated the expected worth of these various claims, examined whether there was a chance of realizing them, and what proportion of them they expected to pay eventually. In the previous chapter I have already presented the earlier Hungarian calculations and how they had changed through the years. Here we can see what the Hungarian expectations were at the beginning of the negotiations, what they have included among the claims, and we will be able to see what they have managed to realize.

The document starts with the list of the claims settlements already concluded by the United States. This shows that as we could already see from the previous documents the Hungarians expected to achieve an agreement similar to the ones the United States had with other socialist countries. What follows the enumeration of the Hungarian claims. These were grouped into three subgroups. The first one was the issue of Hungarian property that was

⁸⁷ "A Külügyminisztérium VIII. C. osztályának feljegyzése a magyar-amerikai pénzügyi és vagyoni tárgyalásokkal kapcsolatban, Budapest, 1964. március 9. [Note of Department VIII C of the Foreign Ministry on the Hungarian- American Negotiations Concerning Finance and Property Law, March 9, 1964] MOL XIX-J-1-j USA 5/b KüM i. k. n. (box Nr. 12), in Borhi, *Iratok*, pp. 399.

confiscated in the United States as enemy property during the war according to Article 29 of the Peace Treaty. The second one was that of the “discriminatory” claims, assets frozen after the Peace Treaty took effect. They were estimated to be around \$ 1,400,000.

The last and biggest subgroup of Hungarian claims was that of the restitution claims. As far as these were concerned the Hungarians returned to the figures of the 1960 document⁸⁸. It was estimated that the goods that were located in the American zone of Germany were worth 146,000,000 dollars, out of which they were able to support \$19,000,000 with documents, while in the case of Austria the respective numbers were \$60,000,000 and \$16,000,000 (instead of the \$36,000,000 in the 1962 document). Moreover during the occupation the American authorities gave industrial equipment to the Western shareholders of the respective companies, regardless of whether they were entitled to those goods. As a new element of the claims the Hungarians wanted compensation, and estimated that altogether these were worth \$7,300,000. The Hungarians expected around \$25.6 million for the restitution claims, and in addition the return of certain cultural goods. Interestingly in this document the Holy Crown was also listed under this heading, and the return of these artifacts was named as a condition for the accomplishment of the American claims.

The Hungarian authorities divided the American claims into five subgroups. As this was still before the negotiations they could only suppose what these demands would be. When estimating the amount of money that would really have to be paid they always reduced the original amount. To come to this figure they examined the practices employed by the United States in similar cases, or by Hungary when dealing with other claimants. The first subgroup of the American claims was American property, companies or real estates nationalized in

Hungary, or land owned by Americans that fell under the effect of the land reform act. The estimated value of these items was \$395,000,000, out of which the Hungarians wanted to pay \$17,200,000. The second group was that of war claims against Hungary under Article 26 of the peace treaty. Hungary wanted to apply the method used in the settlements she had concluded with France, Belgium and the United Kingdom to reduce the value of these claims. Thus Hungary was ready to pay two million dollars to cover these losses.

The third kind of demands were related to the short term debts originating in the period before 1931, the so called “standstill” debts. These amounted to \$8,600,000, which the Hungarians wanted to cover with \$1,900,000. The fourth group included the Hungarian long-term bonds that were issued before 1930, and were in American possession. The nominal value of the bonds was \$33,200,000, out of which the Hungarians were willing to pay \$7.1 million. The bonds originating in the 1920s to cover the losses of those involved in the land reform were also listed in this subgroup. These were called LEBOSZ [Földbirtokrendezés Pénzügyi Lebonyolítására Alakult Szövetkezet, Association Established to Transact the Financial Aspects of the Land Settlement] bonds, and they were due in 1979. Nominally these were worth \$23,800,000, and Hungary was ready to pay 10% of this nominal price. The last item in the list was the “surplus” loan, which Hungary took out after the war to buy surplus goods from the American army. By 1963 part of this money had already been paid back, and was used to cover the costs of the American Legation in Budapest. The remaining sum amounted to \$8,800,000. Out of this amount \$4,400,000 of principal repayment and \$1,400,000 worth arrears of interest were due.

Finally around the end of the document the estimated values of the various claims were organized into a table, which I have slightly amended. The original lists what belongs to

these various claims in more detail. This data can be found in the previous paragraphs, so I have omitted it. I have also written the total sum of the value all the claims of the two countries at the bottom of the table, which was not there in the original document.

Hungarian claims	Million dollars	American claims	Million dollars
Hungarian property confiscated in the U.S. as enemy property	6	Expected U.S. claims because of the nationalization and the land reform	17.2
Hungarian demands blocked because of “discrimination”	1.4	War claims	2
Hungarian restitution claims	25.6	Standstill debts	1.9
		Long-term bonds and LEBOSZ bonds	7.1 and 2.3
		Due payment of the “surplus” loan	4.6
All together	33	All together	35.1

Table Numer 1. Source: “A Külügyminisztérium VIII. C. osztályának feljegyzése a magyar-amerikai pénzügyi és vagyoni tárgyalásokkal kapcsolatban, Budapest, 1964. március 9.” [Note of Department VIII C of the Foreign Ministry on the Hungarian- American Negotiations Concerning Finance and Property Law, March 9, 1964] In Borhi: *Iratok*, pp. 408-409.

Although according to this table the claims of the two countries are on the same scale the Hungarians knew that the reality was different. They listed the Hungarian claims mostly at their face value, they included all the documented restitution claims, or in the case of the Hungarian property confiscated in the United States they used the highest possible calculation. On the other hand when the American claims were concerned they already listed the reduced sum, what they expected to arrive at by the end of the discussions. They knew that probably Hungary would have to pay, and they estimated the final sum to be around 10-

20 million dollars. When discussing the various financial demands they often referred to the claims settlements that the United States had concluded with other socialist countries and to the ones that Hungary had signed with Western countries. The exact worth and legitimacy of the various items was very often a field open for debate, as we will see from the ensuing negotiations. The list of claims was not closed either, some more were added later while some others were eventually not settled by the final agreement.

The means of how the debt would eventually be repaid was also a question that had to be discussed. The paper argued that the United States would have to provide the economic means for Hungary to be able to get the necessary amount of money. In the case of other countries Hungary usually paid with either a certain percent of the export (5-7%) or by receiving long-term loans. In relation to the United States the first option was out of the question, because the amount of trade between the two countries was not enough. The financial burden resulting from the claims settlement would have to be balanced somehow. The document proposed asking for trade or credit benefits.

An article that appeared in *The New York Times* in August 1963 was also mentioned in the document. The article⁸⁹ specifically mentioned the issue of Cardinal Mindszenty and the financial claims, although its information on the claims was not very accurate. It also mentioned the Foreign Claims Settlement Commission. The Foreign Claims Commission is a semi-independent agency of the Department of Justice that is still in existence⁹⁰. It adjudicates claims of U.S. citizens against foreign governments, and played a role in the Hungarian-American claims debate as well. According to the *New York Times* the Commission decided that the face value of the claims was \$68,000,000 should be scaled down to \$20,000,000. The

⁸⁹ Henry Ramont, "U.S. and Hungary Prepare to Renew Normal Ties Soon – U.S. Is Preparing Ties with Kádár," *The New York Times*, August 9, 1963.

⁹⁰ <http://www.usdoj.gov/fcsc/> (8 June 2008)

Americans were also ready to reevaluate how much these demands were actually worth. The Article also mentioned that Kádár had met American diplomats in Moscow, but it did not provide many details.

The first round of the negotiations was to be held in May 1964 in Budapest. On April 30, 1964 the United States sent a reply note to Hungary listing the topics that should be discussed.⁹¹ They laid down that the talks would be held in complete secrecy, without the presence of the press. This would have been useful for both governments: the Americans did not want to deal with the possible protests of the Hungarian-Americans, while the Hungarians did not want to explain to the public why they negotiated with the greatest enemy of the socialist world. The preliminary list of topics offered for discussion by the Americans was divided into four larger groups. The first one was that of economic issues, which included the financial claims as well as trade relations. The second concerned the work of the diplomatic missions, the third cultural affairs, and the last group was that of the consular affairs.

3.2. The First Rounds

Although the expectations towards the first round of negotiations were high eventually things did not work out as they were planned. Owen T. Jones, the Minister appointed by the Americans to lead the discussions, fell ill, so the discussions could not start on time. He got some infection, and had to be transported to the American military hospital in Wiesbaden, West Germany. Finally after almost two weeks of delay Assistant Foreign Minister Szilágyi conciliated with Foreign Minister Péter and invited Shelton, the American Counselor to start

⁹¹ "A budapesti amerikai követség jegyzéke a Magyar Külügyminisztériumhoz a magyar-amerikai tárgyalások lebonyolításáról, Budapest, 1964. április 30." [Note of the American Mission in Budapest to the Hungarian Foreign Ministry on the transaction of the Hungarian-American Discussions, April 30, 1964] MOL XIX-J-1-j USA 5/bd KüM i. k. n. (box Nr. 6), in Borhi, *Iratok*, pp. 412.

the discussions⁹². There was another event that happened before the first meeting and which made the start quite uneasy. Although both parties agreed that the negotiations should be conducted in complete secrecy the Marton and the AFP news agencies had managed to get some information on the issue. Thus articles were published about the top secret discussions before they were even started. The Americans were quite uneasy about the leak. As far as the substantial aspect of the meeting is concerned they managed to agree on the schedule of the negotiations. It was also decided that there would be a plenary session, where committees would be established. There would be a committee of experts for each important aspect of Hungarian-American relations: trade, consular affairs, financial issues, and culture. The political issues would be dealt with by the two leaders.

Jones got better by the time the next session of the negotiations was due.⁹³ He said that the Americans disagreed with the idea of establishing committees. This was probably because as it will be more apparent in some later documents the Americans wanted a political, not a professional decision. On the other hand Jones stated they were not ready to continue the negotiations for the time being, because they did not have a financial expert in Budapest. Szilágyi drew the conclusion that the Americans were procrastinating the negotiations. His suspicions were reinforced when at the next round of discussions Jones failed to show up again. Shelton claimed that this was because he was still sick.⁹⁴ Szilágyi listed several reasons

⁹² "Szilágyi Béla külügyminiszter-helyettes feljegyzése a magyar-amerikai tárgyalások állásáról" [Memorandum of Béla Szilágyi Assistant Foreign Minister on the State of Hungarian-American Negotiations]] MOL XIX-J-1-j USA 5/bd KüM i. k. n. in Borhi, *Iratok*, pp.418.

⁹³ "Házi Vencel külügyminisztériumi főosztályvezető emlékeztetője Szilágyi Béla külügyminiszter-helyettes megbeszéléséről Owen T. Jones amerikai ügyvivővel, Budapest, 1964. június 18." [Memorandum by Vencel Házi Head of Department at the Foreign Ministry on the Discussion of Béla Szilágyi Assistant Minister of Foreign Affairs and Owen T. Jones American Minister, Budapest, June 18, 1964] MOL XIX-J-1-j USA 5/bd KüM i. k. n. (box Nr. 6), in Borhi, *Iratok*, pp. 424.

⁹⁴ "Szilágyi Béla külügyminiszter-helyettes feljegyzése a Turner B. Shelton amerikai követségi tanácsossal a magyar-amerikai tárgyalásokról folytatott megbeszélésről" [Memorandum of Béla Szilágyi Assistant Foreign Minister on the Discussion with Turner B. Shelton American Counsellor on Hungarian-American Negotiations] MOL XIX-J-1-j USA 5/bd KüM i. k. n. (box Nr. 6), in Borhi, *Iratok*, pp. 427.

why he came to this conclusion. He interpreted the American delay as a consequence of the coming elections, the discussions between Hungary and the Holy See on the status of Mindszenty, as a sign that the Americans wanted to continue in Washington instead. He suspected the Minister would be replaced soon, and this could have been behind his unwillingness to get deeply involved in the negotiations.

The speculations of Szilágyi made perfect sense. The elections were approaching, and Johnson had to be careful. Kádár was still very unpopular in the United States, especially among the most important groups of the Hungarian-Americans. The influence of Hungarian-Americans was higher than what one would think taking into consideration their relatively small number. In a discussion with Péter Mód, the Hungarian Assistant Foreign Minister Harriman had already alluded to the role of Hungarian-Americans in forming the American public opinion.⁹⁵ The events of the 1956 revolution were still fresh in the memories of the voters, and the image of Hungarians was very positive – unlike that of Kádár. The news of the negotiations with him could have influenced the campaign. The negotiations were continued only after the elections. As far as the status of Mindszenty was concerned the Americans had already expressed that this was the most pressing issue of Hungarian-American relations.⁹⁶ The Americans thought that this was not a problem to be solved by negotiations between the two countries. The Vatican, the Cardinal and the Hungarian government had to come up with a solution. But this also meant that having discussions when there was no chance of resolving the most important problem was less significant. A year later, back in Washington, Shelton

⁹⁵ “Feljegyzés Mód Péter külügyminiszter-helyettes megbeszéléséről Averell Harriman Amerikai külügyminiszter-helyetessel, Budapest, 1963. december 15.” [Memorandum on the Discussion of Péter Mód Assistant Foreign Minister with Averell Harriman American Under Secretary of State, Budapest, December 15, 1963] MOL XIX-J-1-j USA 4/bd KüM 320/Szi/1963 in Borhi, *Iratok*, pp. 381.

⁹⁶ Ibid. 381.

surprised Radványi by telling him that the Americans could not do anything to advance on other issues until the Mindszenty-affair was resolved.⁹⁷

In the end of 1964 the Hungarian-American discussions were continued on a level much higher than before. On December 4 János Péter Foreign Minister, who was there attending the session of the General Assembly of the United Nations, met Secretary of State Dean Rusk in New York.⁹⁸ The meeting was proposed by the State Department, which shows that once the elections were over the Americans were ready to resume the negotiations. Rusk suggested that the two countries should first resolve the simpler questions and move on to the more complicated issues only afterwards. Quite tactically he made allusions to possibility of Hungary getting the Most Favored nation status in 1965. He also mentioned increasing trade and tourism between the two countries. Péter emphasized the importance of trade in the advancement of relations between the countries of the two blocs, and linked the resolution of claims to the increase in trade and long-term credits. The issue of the Hungarian emigration also came up during the meeting. The Hungarian leaders considered the Hungarian-Americans a threat to the advancement of Hungarian-American relations. Quite often they wanted the Americans to restrict the activities of the right-wing Hungarian organizations in the United States, and to stop receiving their representatives. Although this concern of the

⁹⁷ "Radványi János ügyvivő jelentése a Külügyminisztériumnak Turner B. Sheltonnal, a budapesti amerikai követség volt tanácsosával folytatott beszélgetéséről, Washington, 1965. április 12. [Report by Minister János Radványi on his Discussion with Turner B. Shelton former Minister at the American Mission in Budapest] MOL XIX-J-1-j USA IV-14 KüM 00134/2/1965 (box Nr. 13) in Borhi, *Iratok*, pp. 450.

⁹⁸ "Péter János külügyminiszter feljegyzése a Dean Rusk amerikai külügyminiszterrel a magyar-amerikai tárgyalások újabb fordulójáról folytatott megbeszélésről, New York, 1964. december 4." [Memorandum by János Péter Foreign Minister on the Discussion with Secretary of State Dean Rusk on the Following Round of Hungarian-American Negotiations, New York, December 4, 1964]] MOL XIX-J-1-j USA 4/b KüM 00612/1964 (box Nr. 6) in Borhi, *Iratok*, pp.438.

Hungarian government was not entirely unfounded in this particular case several leaders of the émigré community were supporting Hungarian-American negotiations.⁹⁹

The meeting of Péter and Rusk started the next round of negotiations. The discussions that stopped in the middle of summer were recommenced again. This time the leader of the American party was O'Shaughnessy, the new Minister. He came to the first meeting rather unprepared, which fact was also noted by Szilágyi. Again he suspected that the Americans were not completely interested in resolving the standing issues. Topics related to the status of the diplomats and the missions of the two countries, among them the issue of raising relations to the ambassadorial level were discussed. Szilágyi brought up the question of the Holy Crown, on which the Americans remained very vague. They knew that the return of the Holy Crown would stir up the emotions both among the Hungarian-Americans and many Catholics. It is rather strange that Szilágyi could not read the signs and he seemed to remain oblivious of the real significance of the issue. In fact he even suggested that it would be a nice gesture from the Americans to return the Crown without asking for anything in return.¹⁰⁰ As far as the financial claims were concerned it was agreed that an American Chargé would arrive by the end of January.

3.3. The Vietnam War

At the meeting between Szilágyi and O'Shaughnessy the issue of Vietnam came up for the first time in Hungarian-American discussions. Soon this became the most important issue

⁹⁹ "Memorandum of Conversation - The Hungarian Situation and US-Hungarian Relations, Washington, September 10, 1964," *Foreign Relations of the United States, 1964-1968 Volume XVII Eastern Europe*

¹⁰⁰ "Házi Vencel külügyminisztériumi főosztályvezető feljegyzése a magyar-amerikai viszonyról, Budapest, 1965. január 7. [Memorandum by Vencel Házi Head of Department at the Foreign Ministry on Hungarian-American Relations, Budapest, January 7, 1965] MOL XIX-J-1-j USA 5/b KüM i.k.n. (box Nr. 12) in Borhi, *Iratok*, pp. 449.

blocking the improvement of relations between the two countries. The changes in the international situation influenced Hungarian-American relations once again. Spangler left Hungary on February 18, 1965, and this was the beginning of another intermission in the course of meetings. The Foreign Ministry claimed that because of the American involvement in Vietnam the Hungarian standpoint on the Hungarian-American negotiations had to be revised.¹⁰¹ They knew that this would almost certainly result in the postponement of the normalization of the relations of the two countries. At the same time the Americans seemed to be ready to continue the discussions, officially they claimed that they would like to improve relations with the Eastern European countries.¹⁰² Of course they knew that no important issues would be resolved, in fact in more informal circumstances they even admitted this.¹⁰³ As a consequence of the Vietnam War Hungarian-American negotiations came to a halt. The fact that only some minor topics were discussed in the following few months was not the main problem: the attitude of the Hungarian party changed, they were less interested in the improvement of relations. The issue was also discussed in the Politburo in May 1965.¹⁰⁴

This was the session of the Politburo that has already been used to present the internal differences inside the Party.¹⁰⁵ There was a clash between the opinions of the two camps, those who wanted to improve relations with the United States and those who were against this. Apart from what has already been discussed what Kádár said also had an influence on the

¹⁰¹ "A Külügyminisztérium V.osztályának összefoglaló feljegyzése a magyar-amerikai viszonyról, Budapest, 1965. április 24." [Summary Memorandum of Department V of the Foreign Ministry Hungarian-American Relations. April 24, 1965] MOL XIX-J-1-j USA 5/b KüM i.k.n. (box Nr. 12 in Borhi *Iratok*, pp. 454.

¹⁰² "Radványi János ideiglenes ügyvivő jelentése a Külügyminisztériumnak Harold Vedelerrel, az amerikai külügyminisztérium európai ügyekkel foglalkozó hivatalának igazgatójával folytatott megbeszélésekről, Washington, 1965. április 25. [Report by Minister János Radványi to the Foreign Ministry on the Discussion with Harold Vedeler, Director of the Office of Eastern European Affairs in the State Department]] MOL XIX-J-1-j USA IV-528 KüM 001304/3/1965 (box Nr. 13) in Borhi, *Iratok*, pp.459.

¹⁰³ "Radványi ügyvivő, Washington, 1965 április 12." in Borhi, *Iratok*, pp.452.

¹⁰⁴ "Részlet az MSZMP KB Politikai Bizottsága Jegyzőkönyvéből: A Külügyminisztérium előterjesztése a magyar-amerikai viszony napirenden levő kérdéseiről, Budapest, 1965. május 11. [Excrepts from the the Records of the Politburo of the MSZMP KB: Resolution of the Foreign Ministry on the Current Issues in Hungarian-American relations] MOL M-KS 288. f.5.cs. 365. ő.e. in Borhi, *Iratok*, pp.461.

course of Hungarian-American relations at the given moment. At this meeting of the Politburo he said that as long as the negotiations were in the interest of the People's Republic of Hungary they should be continued. While probably all members of the Politburo agreed that Hungary should condemn the American actions in Vietnam there was disagreement on what should be done about the negotiations. Kádár had the last say in his debate, and he was pragmatist enough to say that the two issues should be separated, that Hungary should condemn the United States and continue the negotiations.

As the political decision was made the negotiations were resumed about two months later in the end of July.¹⁰⁶ While it was made clear that the international situation was unfavorable there were important results. The two parties managed to reach agreement on several aspects of the claims, and both agreed that the negotiations were useful. Although there were issues on which their opinions differed from each other, neither the Americans nor the Hungarians saw these as impassable barriers. As far as the claims themselves were concerned the most important problems that the Americans had were related to the repayment of the long-term bonds and the LEBOSZ bonds. The Hungarians accepted most of the American claims and they were willing to pay for them, although less than what was proposed by the Americans. Szilágyi stated that they would be reluctant to accept a solution that would be unfavorable compared to other similar settlements. Making a separate agreement concerning the bonds was also contemplated, although the Hungarians would have preferred a lump sum agreement. What the Hungarians were most concerned about was the issue of the restitutions, which the Americans did not intend to recognize. Opinions also differed on the importance of the claims agreement. While the Americans argued that its conclusion would

¹⁰⁶ "A Külügyminisztérium V. osztályának feljegyzése a magyar-amerikai pénzügyi tárgyalásokról" [Memorandum of Department V of the Foreign Ministry on the Hungarian-American financial negotiations, August 3, 1965] MOL XIX-J-1-j USA 5/b KüM i.k.n. (box Nr. 12) in Borhi, *Iratok*, pp. 471.

bring about developments in the other fields the Hungarians wanted simultaneous advancement on several fields – primarily to issues of trade.

It was clear that the Hungarians were not eager to settle the claims issue in the near future. In the Hungarian Foreign Ministry the policy was not to urge the continuation of the negotiations on the one hand, but to be open for discussion in case the Americans initiated on the other hand. It was decided that although Szilágyi would still be the responsible leader of the negotiations he would not participate when the talks were over minor issues.¹⁰⁷ This conveyed a message: although the Hungarians were still ready to engage in discussions with the Americans this was not an issue of primary importance.

Although at the end of the 1965 round of negotiations the two parties have agreed that they would continue in three-six months this plan was not realized. Due to the escalation of the Vietnam War international tension was rising between the two blocs. Hungary, and Foreign Minister János Péter personally, were ready to act as an intermediary between the United States and North Vietnam. Of course this could happen only happen with the consent of the Soviets. Other socialist countries, such as Poland or Romania, were also involved in the communication between America and Vietnam. Péter met Secretary of State Dean Rusk several times in the fall and winter of 1965-66, and then again in the fall of 1966. The Hungarian mediatory role was ended in October 1966. Péter held a press conference where he made many details of the negotiations public. This move was resented by the Americans,

¹⁰⁷ “A Külügyminisztérium V. osztályának feljegyzése a magyar-amerikai kapcsolatok alakulásáról, Budapest, 1965. szeptember 4.” [Memorandum of department V of the Foreign Ministry on the State of Hungarian-American Negotiations] MOL XIX-J-1-j USA 5/b KüM i.k.n. (box Nr. 12) in Borhi, *Iratok*, pp. 476.

who would have preferred to keep these secret.¹⁰⁸ Besides later North Vietnam claimed that what Péter had said did not represent their standpoint of the issue.

While Hungarian-American negotiations came to a halt in 1965 this did not mean that there were no developments in the bilateral relationship of the two countries. In the fall of 1965 Mindszenty fell ill. Agostino Casaroli was sent as a papal legate from the Vatican to resolve the affair, but due to some misunderstandings he could not meet János Péter. During the negotiations that took place in the fall of 1965 the Americans realized that the Hungarians were ready to resolve the question. The main problem was the person of the Cardinal himself, who was not willing to leave Hungary. As Raymond Lisle, the said to János Radványi if it had been up to only the Hungarians and the Americans the affair would have been solved long ago.

As the Americans saw that the Hungarians were ready to solve the issue they did not consider the Mindszenty affair an obstacle in the way of the normalization of relations any more. When Minister Elim O'Shaugessy died in October 1966 the question arose whether to elevate the relations to the ambassadorial level. Péter was in the United States at the time conducting talks with Rusk, trying to mediate between the Americans and the Vietnamese. He asked Rusk whether the United States wanted to send a Minister or an Ambassador to Hungary. As the Secretary of State answered that the Mindszenty affair still posed a problem Péter recommended him to revise the American position in light of the new developments.¹⁰⁹ The Americans did this, and they proposed raising the status of the missions both to Hungary

¹⁰⁸ "Feljegyzés Radványi János ügyvivő és Llevelyn Thompson amerikai moszkvai nagykövet eszmecseréjéről a vietnami háborút érintő kérdésekről, Washington, 1966. október 24. [Memorandum on the Conversation between János Radványi Minister and Llevelyn Thompson American Ambassador in Moscow on Questions Related to the Vietnam War] MOL XIX-J-1-j USA IV-135 KüM 005250/1966 in Borhi, *Iratok*, pp. 587.

¹⁰⁹ "Radványi János ügyvivő feljegyzése a Péter János magyar és Dean Rusk amerikai külügyminiszter között lezajlott megbeszélésről, Washington, 1966. október 10. [Memorandum of Minister János Radványi on the Meeting of János Péter Hungarian Foreign Minister and Dean Rusk Secretary of State, Washington, October 10, 1966] MOL XIX-J-1-j USA IV-135 KüM 005244/1966 (box Nr. 15) in Borhi, *Iratok*, pp. 584.

and Bulgaria. The Politburo discussed and accepted the offer,¹¹⁰ and the relations of the two states were raised to the ambassadorial level.

Meanwhile the Hungarian position on the negotiations and the claims issue was also changing. In the spring of 1966 the Americans proposed resuming the negotiations in summer. Péter consulted the leaders of the ministries concerned with affairs of the economy, and their opinion was that Hungary should go on with these discussions. Rezső Nyers, who was to become the initiator of the economic reforms in 1968, also supported accepting the proposal. He said that as the East-West relations were deteriorating it made sense to deal with economic issues rather than cultural or political ones.¹¹¹ Eventually the Government declared that the Hungarians should not only continue the discussions, but aspire to come to an agreement.¹¹²

The meeting of experts took place in the summer of 1966 and was also continued in 1967, but they did not come to an agreement.¹¹³ In fact both parties knew that probably this is going to be the case. The final conclusion of the Hungarians was that there were no serious advances. There were two barriers that made the conclusion of the settlement improbable. The first one was the situation in Vietnam, and the other was that because of the war the Congress would not accept granting the Most Favored Nation status to Hungary. While there could have

¹¹⁰ “Részlet az MSZMP KB Politikai Bizottságának jegyzőkönyvéből: a magyar-amerikai kapcsolatok nagykövetségi szintre emelése” [Excrepts from the Records of the Politburo of the MSZMP KB: Raising Hungarian-American relations to the Ambassadorial Level] MOL 288. f. 5. cs. 409. ő. e. in Borhi, *Iratok*, 595.

¹¹¹ “Részlet az MSZMP KB Politikai Bizottsága Jegyzőkönyvéből: Előterjesztése a magyar-amerikai kapcsolatok aktuális kérdéseiről, Budapest, 1966. április 26. [Excrepts from the the Records of the Politburo of the MSZMP KB: Resolution of the Foreign Ministry on the Current Issues in Hungarian-American relations] MOL M-KS 288. f.5.cs. 393. ő.e. in Borhi, *Iratok*, pp.558.

¹¹² “A Magyar Forradalmi Munkás-Paraszt Kormány 3146/1966. sz. határozata a magyar-amerikai kapcsolatokról, Budapest, 1966. május 12. [Statute Nr. 3146/1966 of the Hungarian Revolutionary Worker-Peasant Government on the Hungarian-American Relations] MOL XIX-J-1-j USA 4-IV KüM 002350/1966 (box Nr. 15) in Borhi, *Iratok*, pp. 571.

¹¹³ “Összefoglaló jelentés a magyar-amerikai vagyoni tárgyalások negyedik szakaszáról, Budapest, 1967. május 4.” [Summarizing Report on the Fourth Stage on the Hungarian-American Claims Negotiation, Budapest, May 4, 1967] MOL XIX-J-1-j USA 4-552 KüM 0017234/4-1967 (box Nr. 13) in Borhi, *Iratok*, pp. 598.

been an agreement in spite of the Vietnam War the Hungarians linked the issue of the claims to the granting of the Most Favored Nation status.

While the standpoints of the two countries did not seem to have gotten any closer they got to know more about where the other party stood. On the issue of the nationalized companies there were considerable differences between the two countries. The total sum of these claims was \$53 million. By far the biggest demand in this group was the one raised because of the MAORT, the Hungarian-American Oil Company. The Americans were asking for \$28 million, while the Hungarians were willing to pay only \$3.5 million. The Americans were referring to the Romanian agreement, where they had reduced the sum that had to be paid to 27%, which would have meant \$20 million in the Hungarian case. As far as the standstill debts, the League of Nations bonds and other bonds were concerned there was no major disagreement between the parties. The Surplus loan and the aerial incident of 1951 were to be discussed at the next occasion.

The restitution remained to be a much debated issue. The Americans claimed that the Hungarian restitution claims were not supported by any treaties, and that those items were considered to be war booty. When the Hungarians tried to show that they had the right to reclaim those goods the Americans argued that the restitution was suspended because of the nationalizations. As the restitution committees were expelled already in the beginning of 1948 and the nationalizations took place in 1948-49 the Hungarians did not accept this explanation either. Finally the Americans said that they would satisfy the Hungarian claims by deducing the value of the restitution from what would be paid to them.

3.4. The Defection of Radványi and the Arrival of the first Ambassador

The first Hungarian ambassador in the United States would have become János Radványi, the former Chargé d'affaires. But in May 1967 Radványi defected, and was followed next month by Erno Bernat, Third Secretary of the Hungarian Legation. In 1967 Radványi was the highest-ranking Communist diplomat ever to have defected to the West.¹¹⁴ The reasons that he gave for the *Time* were personal on the one hand, and the attitude of Hungary towards the United States on the other hand. He said that as he was a firm believer in East-West relations, and the instructions of the Hungarian government upset him. He claimed that the Hungarian attitude towards the American position in Vietnam was hardening. He was right, soon the improvement Hungarian-American relations would come to a halt. The main reason was indeed the Vietnam War, but the “treason” of the two diplomats also contributed to the deterioration of relations.

Although Martin Joseph Anthony Hillenbrand had already been appointed ambassador he had to wait until the end of 1967 before he could occupy his position. John M. Leddy, Assistant Secretary for European Affairs, arrived to Hungary in the fall of 1967, but Szilágyi told him that normalization of relations was not a realistic aim in the near future. Even if some issues could be resolved the absolute normalization was out of the question because of the involvement in Vietnam.¹¹⁵ The fact that the United States congress passed a decision that promulgated economic sanctions against those countries that had economic relations with North Vietnam also made the situation worse. This meant that Hungary had no

¹¹⁴ “Crossing the Potomac,” in *Time*, May 26, 1967.

¹¹⁵ “Házi Vencel külügyminisztériumi főosztályvezető feljegyzése a washingtoni nagykövetségnek John M. Leddy amerikai külügyi államtitkár látogatásáról, Budapest, 1967. szeptember 29. [Memorandum by Vince Házi Head of Department at the Foreign Ministry on the Visit by John M. Leddy, Assistant Secretary of State] MOL XIX-J-1-j USA 146 KüM 00976/11/1967 in Borhi, *Iratok*, 610.

chance of getting the Most Favored Nation status, which was taken away from Poland as well. Szilágyi claimed that the economic discriminations against Hungary had to be repealed in order for the negotiations to continue. All through the meeting the Americans were emphasizing the importance of cultural and scientific cooperation, while the Hungarians were eager to make economic questions the central issue.

In spite of all the difficulties the presence an American ambassador in Budapest was already a great achievement. Already when he arrived Martin J. Hillenbrand was quite well informed on the Hungarian-American situation. While he knew that the international situation was unfavorable he stated that there were possibilities to improve the Hungarian-American relationship. Hildebrand told the Hungarian leaders that the policy that he would follow was outlined by the speech President Johnson made in October 1966. The United States was aiming to normalize her relations with the socialist countries, approach them from a pragmatic perspective, and solve the problems step by step. He thought of several minor issues, such as consular, cultural and economic affairs of lesser importance.¹¹⁶ He was conscious of the fact that neither the claims settlement nor the Most Favored Nation issue can be expected to be solved in the near future. When Hildebrand met Kádár after his arrival he noted the Premier saying that “The great majority of the Hungarian people undoubtedly support better relations with the US, and this was a fact that any Hungarian leader had to take into account.”¹¹⁷ This was a clear sign of the fact that although the major issues the Hungarians were willing to cooperate in some minor issues.

¹¹⁶ “Martin J. Hillenbrand amerikai nagykövet bemutatkozó látogatása Péter János külügyminiszternél, Budapest, 1967. november 21. [Introductory Visit by the American ambassador Martin J. Hillenbrand at János Péter Foreign Minister, Budapest, November 21, 1967] MOL XIX J-1-j-ny-114/PJ-1967 (box Nr. 14) in Borhi, *Iratok*, 640.

¹¹⁷ “Conversation with Party First Secretary Janos Kadar, Budapest, November 30, 1967” in *Foreign Relations of the United States, 1964-1968, Volume XVII – Eastern Europe*.
http://www.state.gov/www/about_state/history/vol_xvii/n.html (June 8, 2008)

Hildebrandt was a talented professional, who after leaving Hungary in 1969 became Assistant Secretary for European Affairs. But there was not much improvement in the relations of the two countries when he was ambassador in Hungary. Once again, this was primarily because of the international situation. At the same time the international developments could not stop, only slow down the process of normalization. There were discussions the reopening of the two consulates in New York and Cleveland that had not been functioning since the war. The Americans wanted to change the forint/dollar exchange rate for the repayment of the Surplus loan¹¹⁸. But these negotiations failed, as there was another event in international politics that proved to be more important for both countries than the bilateral relations.

In 1968 the countries of the Warsaw Pact intervened in Czechoslovakia, and put an end to the “Prague Spring.” Hildebrand tried to give a helping hand to the Hungarian politicians by implying that Hungary did not have a choice but János Bartha, Head of Department at the Foreign Ministry, said that this was not the case. He claimed that Hungary joined the military operation voluntarily.¹¹⁹ Hildebrand noted that “The essentially satellite character of Hungarian policy in the crunch is all too painfully clear.” What he prognosticated was a decline of Hungarian-Western relations on the short run, and that Hungary might be willing to give concessions to compensate for her role in the events in Czechoslovakia.

In early 1969 Hildebrand left Hungary, and Alfred Puhán was appointed the new ambassador in Hungary. Puhán personally had a lot to do with the improvement of Hungarian-American relations. Puhán was familiar with the Central European situation. He was born in Germany, and helped negotiating the Austrian State Treaty in the 1950s. Borhi

¹¹⁸ Borhi, “A magyar-amerikai viszony,” pp. 88.

¹¹⁹ Borhi, “A magyar-amerikai viszony változásai”

claims that he considered the improvement of Hungarian-American relations more or less his personal mission.¹²⁰ He managed to establish a good relationship with most Hungarian politicians. This was especially true to his relationship with János Bartha, with whom he occasionally had dinner together. At these occasions they could have discussions in a more open and informal manner.

¹²⁰ Borhi, "A magyar-amerikai viszony," pp. 94.

4. The Completion of the Claims Settlement

4.1. Improving Prospects

In April 1969 the Politburo reconsidered Hungarian-American relations.¹²¹ The last decade of the relationship of the two countries was described. The document argued that it was time to take steps towards normalization. The foreign policy of the Nixon administration was evaluated as favorable both from the international and from the bilateral perspective. The Americans had stopped bombing Vietnam, negotiations had started between the Americans and the Vietnamese, and Soviet-American talks were also in prospect. A new method for the practical side of the discussions was also proposed. The Political Committee proposed to get rid of the obstacles blocking trade and economic cooperation, to accept the consular agreement if the consulates in New York and Cleveland could be reopened, to restart the negotiations on the claims issue, and concessions were put forward in most fields. In the Political Committee most members agreed with the proposal, primarily for economic reasons. Kádár also agreed, what is more he suggested that the delegation should get a freer hand in the discussions.

The Americans received the message in which the Hungarians requested to continue the negotiations, and gave a positive reply a month later. Already at this early stage it was communicated that the Americans would like a quicker resolution of the issue of the Surplus debt.¹²² The reason given was that there had been enough discussions on this particular issue,

¹²¹ "Jegyzőkönyv a Politikai Bizottság 1969. április 9-én tartott üléséről" [Records of the April 9, 1969 Session of the Politburo] MOL M-KS 288. f.5./478. ő. e

¹²² "Memorandum of Conversation - Hungarian Ambassador's call: US Reply to Hungarian Note of May 22," *Foreign Relations of the United States, 1969-1976, Volume XXIX, Eastern Europe; Eastern Mediterranean*, (Washington: United States Government Printing Office, 2008), pp. 262.

and its resolution should not be delayed any longer. After a relatively short period of discussions the subject were successful. In return for the Hungarian offer to change the exchange rate of the dollar the Americans allowed Hungary to open a trade office in New York. While originally it had been a part of the lump sum agreement the issue of the surplus debt was eventually resolved earlier.¹²³ The real reason behind the American decision could have been that they wanted to see how determined the Hungarians really were.

But if that was the case their test proved to be wrong. The positive trend in Hungarian-American relations did not last long. The international situation changed again: the United States invaded Cambodia, and the Soviet-American relationship was deteriorating. Kádár thought that this should be mirrored in the Hungarian-American relations as well.¹²⁴ Although President Nixon wanted to include Budapest in the worldwide tour of the astronauts who had been on the Moon Budapest refused to accept them. This was done in a letter the language of which highly upset the Americans.¹²⁵ Later the position of the White House was revised, they attributed the affair to Soviet influence, and the Americans were ready to continue the discussions with the Hungarians.¹²⁶ The Hungarian leadership knew that it was the State Department not the White House that had been conducting the negotiations with Hungary.

¹²³ "Memorandum of Conversation – Meeting with Deputy Prime Minister Szilágyi," *Foreign Relations of the United States, 1969-1976, Volume XXIX, Eastern Europe; Eastern Mediterranean*, (Washington: United States Government Printing Office, 2008), pp. 263.

¹²⁴ Borhi, "A magyar-amerikai viszony változásai," pp. 94.

¹²⁵ "Telegram From the Department of State to the Embassy in Hungary, Washington, September 20, 1969," *Foreign Relations of the United States, 1969-1976, Volume XXIX, Eastern Europe; Eastern Mediterranean*, (Washington: United States Government Printing Office, 2008), pp. 270.

¹²⁶ "Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger), Washington, January 23, 1970 - Relations with Hungary: Secretary Rogers Wants to Resume Efforts to Clean up Pending Bilateral Problems," *Foreign Relations of the United States, 1969-1976, Volume XXIX, Eastern Europe; Eastern Mediterranean*, (Washington: United States Government Printing Office, 2008), pp. 272.

This was considered an advantage, because they saw the strategy of the State Department as advancement with small steps, while the White House preferred big, theatrical steps.¹²⁷

After the decision was made by the Americans an Aide-Mémoire was sent to the Foreign Ministry by the American Embassy, and the negotiations were resumed in February 1970¹²⁸. In the Aide Mémoire Americans proposed a lump sum of \$32.5 million to cover the claims. The basis still was the decision of the Foreign Claims Committee, but they decided to reduce it to 65%. Although the Hungarian restitution claims were not acknowledged the Americans included them in the calculations, that is how they arrived at the aforementioned figure. The Hungarians said that these terms were basically the same that they had refused to accept in 1966. They considered the decisions of the Committee unfounded, as it was not supported by documents, and argued that it applied American laws extraterritorially. While this offer was as unacceptable for them as the one four years ago the Hungarians continued negotiating. The experts of the two parties met in May, but the discussions produced no results.

The experts suspected that the Americans came up with a proposal that the Hungarians would not accept because they knew that they would not be able to grant the Most Favored Nation status. The most serious debates were related to the MAORT, the Hungarian-American Oil Company.¹²⁹ The value of this company constituted more than 50% of the value of the American claims. The problem was that the Americans wanted compensation for the hypothetical profit of the company. This was \$17 million worth of oil that had not been mined

¹²⁷ „Magyar-amerikai kapcsolatok (A nagykövetség javaslatai), 1970. április 2.” [Hungarian-American Relations (Suggestions of the Embassy)] MOL XIX-J-1-j USA 4-13 /00428/6/1970, box Nr. 16

¹²⁸ “Magyar-amerikai megbeszélések, Szilágyi elvtárs és Puhan amerikai nagykövet 1970. február 13-I találkozójára” [Hungarian-American Negotiations, the Meeting of comrade Szilágyi and Puhan American Ambassador on February 13, 1970] MOL XIX-J-1-j USA 4-13 /00428/2/1970, box Nr. 16

¹²⁹ “Az USA javaslata a vagyoni jogi igények rendezésére, 1970. február 24.” [Proposal of the USA to Settle Financial Claims, February 24, 1970] MOL XIX-J-1-j USA 4-15 /00126/1/1970, box Nr. 16

when the company was nationalized. The Hungarians resented this solution, and were ready to pay only for the capital that had been invested into the company - \$2.5 million. They also considered the American proposal discriminative. While Poland had to pay for 39% and Romania for 35% of the claims for Hungary the number would have been 65%. Finally the Hungarians said that they could not accept figures of the American Aide Memoire, and expected the Americans to take the matter more seriously. They wanted documentation on at least three of the American claims, and a discussion of the Hungarian claims, which were properly documented.

At these negotiations the aims of the two parties were very different. The Americans considered the claims settlement a political issue, and were not that much interested in the details of the claims. The Hungarians on the one hand were acting according to the decision of the Politburo and the government – they were slowing the negotiations down. On the other hand they really did not want to pay that much money to settle the claims. And as they could not hope for any further benefits from the issue they were not hurrying the negotiations.

In July the Politburo discussed the prospects of Hungarian-American relations.¹³⁰ It was decided that the course of negotiations should be slowed down again, and the issues important for the Hungarians should be emphasized. As far as the claims were concerned the situation was even worse. The Politburo supposed that as the American party saw granting the Most Favored Nation status as a political question. Thus it was highly improbable that Hungary would receive this status. Consequently negotiation on the claims was seen as unnecessary, they wanted the Americans to know that settling the financial claims was only possible after Hungary received the Most Favored Nation Status. The explanation provided

¹³⁰ “Jegyzőkönyv a Politikai Bizottság 1970. június 2-án tartott üléséről” [Records of the June 2, 1970 Session of the Politburo] MOL M-KS 288. f.5./478. ő. e

for these measures was of course the foreign situation, the “American aggression in the Far East”. The relationship of the two countries deteriorated even further after Péter held a speech in the United Nations. Borhi attributes this to the growing influence of the left wing of the party in Hungary.¹³¹ The speech condemned the foreign policy of the United States, ruined the Péter-Rogers meeting that was arranged by Puhan, and confused the Americans about the real intentions of the Hungarians.¹³²

In 1971 the most important issue in Hungarian-American relations was the status of Cardinal Mindszenty. Foreign Minister Péter visited the Holy See, and after he returned he met Puhan. Péter proposed that the United State should help by pressing the Vatican to propose Mindszenty to leave. Meanwhile the health of Mindszenty was deteriorating¹³³. The Vatican eventually agreed to help, and finally they had managed to persuade the elderly cleric to leave the American Embassy and Hungary. This was not an easy operation, the personal intervention of both the Pope and the President of the United States was needed to convince the Cardinal to leave.¹³⁴ After an agreement had been signed by Hungary and the Holy See a few days before on September 15, 1971 this remarkable man left the embassy on the Szabadság square after fifteen years of exile. While the Mindszenty affair is a topic that has many implications what is important for us is that it was an important milestone in the improvement Hungarian-American relations.

As détente was evolving there were positive changes in the Hungarian-American relationship as well. The resolution of the Mindszenty affair was already a sign of this trend,

¹³¹ Borhi, “A magyar-amerikai viszony változásai,” pp. 96.

¹³² “Telegram From the Embassy in Hungary to the Department of State - U.S.-Hungarian Bilateral Relations, Budapest, November 6, 1970, *Foreign Relations of the United States, 1969-1976*, pp. 273.

¹³³ Borhi, “A magyar-amerikai viszony változásai,” pp. 98.

¹³⁴ “Telegram From the Embassy in Hungary to the Department of State - Cardinal Mindszenty: Mindszenty Letters to President and Pope Budapest, June 29, 1971,” *Foreign Relations of the United States, 1969-1976*, pp. 282.

and later that year the topic was also discussed in the Central Committee. The Soviet-American relationship was examined in detail. Most of the hardliner communists also agreed¹³⁵ that – following the new Soviet trend – Hungary should develop her relations with the Western states. There were also talks on raising the level of discussion between the two countries. Péter proposed that the newly appointed Deputy Prime Minister Péter Vályi would travel to the United States, and he requested that an American cabinet member to return the visit.¹³⁶ Puhán thought that this would be a very good idea, he had a good opinion of Vályi. Vályi was one of the initiators of the economic reforms, and Puhán considered him to be flexible and open-minded. Puhán even brought up the possibility Nixon coming to Hungary after his visit to Moscow.¹³⁷

4.2. The Visit by Secretary of State Rogers

Although President Nixon did not visit Hungary in 1972 Secretary of State Rogers did. There had been talks on the subject in May, and the official request came on the 16th of June.¹³⁸ There was only about a month to prepare for the visit. As Prime Minister Jenő Fock was on a trip to Mongolia first it was proposed that Rogers would be able meet Péter Vályi. While he had a good opinion of Vályi Puhán clearly wanted Rogers to talk to the most powerful people in the country. He specifically asked whether it would be possible to arrange meetings with Premier Kádár and Pál Losonczi, the Chairman of the Presidential Council, the titular head of state. First neither of them wanted to meet the Secretary of State, but eventually both did. Kádár was particularly reluctant, but at the personal request of Nixon he agreed to

¹³⁵ “Jegyzőkönyv a Központi Bizottság 1971 november 3-án tartott üléséről” [Records of the November 3, 1971 Session of the Central Committee] MOL M-KS 288. f. 4/114. ő. e.

¹³⁶ “Telegram From the Embassy in Hungary to the Department of State - Foreign Minister Peter on Raising Level of Dialogue, Budapest, July 21, 1971.”

¹³⁷ Borhi, “A magyar-amerikai viszony változásai,” pp. 99.

¹³⁸ “Előterjesztés az amerikai külügyminiszter fogadására, 1972. június 17.”, [Proposal to Welcome Secretary of State Rogers, June 17, 1972] MOL XIX-J-1-j USA 4-135 /002680/1/1972, box Nr. 12

talk to Rogers. This affair was resolved at the last moment: on the 4th of July Puhan was told that Kádár would not meet Rogers. Then on the 5th he received a memorandum by Péter that informed him of what the President said. Then finally Kádár gave his consent to meet Rogers on the 7th of July. He wrote his comments on the paper of the memorandum: “it seems that it can’t be avoided,” and that the members of the Politburo should be contacted. They gave their consent, and the meeting could take place.¹³⁹

Borhi contemplates the reasons for the reluctance of Kádár to meet Rogers.¹⁴⁰ First of all there could have been political motives. In February Brezhnev expressed his concerns about the recent developments in Hungary, the revision of the reforms was started, and probably this also had its implications in the field of foreign policy. But I think that after the successful talks in Moscow that led to the SALT agreement, in the heydays of détente this was not likely. Probably the personal convictions of Kádár had a greater role in his initial decision, but finally political rationality and pragmatic thinking surmounted over his personal concerns.

Hungarian-American relations were the main focus of the meetings, although there was some discussion on topics of international politics as well.¹⁴¹ Both parties agreed that the course of Hungarian-American relations was dependent on American-Soviet relations. Kádár claimed that due to simple geographic reasons the relationship of the two countries had always been distant, and that this would also be the case in the future. Still, he supported the normalization of relations. Hungary was a country highly dependent on foreign resources,

¹³⁹ “Jegyzőkönyv a Politikai Bizottság 1972. július 11-én tartott üléséről” [Records of the July 11, 1972 Session of the Politburo] MOL M-KS 288. f. 5/585. ő. e.

¹⁴⁰ Borhi, , “A magyar-amerikai viszony változásai,” pp. 102.

¹⁴¹ “Kádár János elvtárs beszélgetése Rogers amerikai külügyminiszterrel” [The Discussion of comrade János Kádár with Secretary of State Rogers] MOL XIX-J-1-j USA 4-135 /002680/15/1972, box Nr. 12 and Telegram From the Department of State to the Embassy in Hungary, Washington, July 22, 1972” in *Foreign Relations of the United States, 1969-1976*, pp. 297.

around forty percent of the Hungarian national income was from foreign trade. Kádár argued that the political and economic issues were related. He said that although trade with the West was expanding it was improbable that the United States would become a really important trading partner of Hungary. Péter Vályi, on the other hand, envisaged a substantial increase in Hungarian-American trade. While at the moment only 0.4% of Hungarian foreign trade was conducted with the United States Vályi said that this figure could be raised to 4%. He also claimed that this would be rather important from an economic perspective. Most of the Hungarian foreign trade outside the Eastern bloc was conducted with the countries of the European Economic Community, and by increasing commerce with the Americans Hungary could diversify the markets.¹⁴² As far as the issue of the claims were concerned Vályi said that if the international situation was favorable Hungary would be ready to continue the negotiations.

Rogers recommended that groups of experts should meet for discussion. As a preparation for these negotiations a position paper was prepared a few days after he had left.¹⁴³ It pointed out trade relations as the most important aspect of Hungarian-American relations. The document noted that the claims settlement was a precondition to the Most Favored Nation agreement, so this issue also discussed. By that time the United States was the only Western country with which Hungary had not settled this issue. It was noted that the consular agreement would be concluded in the near future. The fact that the Soviets and the Americans have managed to agree that the Soviets would repay their war-related debts¹⁴⁴ also contributed to the favorable atmosphere.

¹⁴² "Rogers amerikai külügyminiszter látogatása Vályi Péter miniszterelnök-helyettesnél" MOL XIX-J-1-j USA 4-135 /002680/14/1972, box Nr. 12

¹⁴³ "Tárgyalási anyag a magyar-amerikai gazdasági és pénzügyi kérdésekről, 1969. július 18." [Material for the Hungarian-American Discussion on economic and financial affairs, July 18, 1972] MOL XIX-J-1-j USA 4-135 /002680/16/1972, box Nr. 12

¹⁴⁴ Borhi, , "A magyar-amerikai viszony változásai," pp. 103.

4.3. The Conclusion of the Agreement

There was a change in the delegation that traveled to Washington not long before the departure. Instead of Réti, who had been conducting the claims negotiations for years, János Fekete became the leader of the group. This time the Hungarians did want to conclude the agreement. Puhan noted the signs of this intention: when he read the list of the participants he noted that this was a strong delegation.¹⁴⁵ Finally the negotiations resulted in success, and the claims settlement was initialed on October 12.¹⁴⁶ Obviously both parties considered this to be a major achievement. The only controversy was around the issue of whether Hungary should get the Most Favored Nation Status in return or was it just a future option. The Americans suspected that the Hungarians would link the settlement directly to the Most Favored Nation treatment, and they were surprised to see that this was not the case. The Hungarians revised the 1970 resolution of the government. János Nagy commented that the decision was made under different circumstances, and that the Most Favored Nation treatment is no longer a prerequisite of the claims settlement.

The agreement was that Hungary would eventually pay \$18.9 million¹⁴⁷. This sum was to be paid during the course of twenty years in yearly installments of \$945,000. But the parties had managed to come up with a solution that was even better for both of them. This meant that if the 6% of the trade between the two countries was higher than the installment then that was the sum that had to be paid. This was favorable for both countries, because they

¹⁴⁵ MOL XIX-J-1-j USA 415/18/1972, box Nr. 12.

¹⁴⁶ Memorandum From Helmut Sonnenfeldt of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger) – US-Hungarian Claims Settlement, Washington, October 13, 1972, *Foreign Relations of the United States, 1969-1976*, pp. 297.

¹⁴⁷ MOL XIX-J-1-j USA 4-116/1973, box Nr. 17.

would be interested in improving trade on the one hand, and on the other hand if economic relations improved there was a chance for earlier repayment.

The following months saw further development in Hungarian-American relations. The consular agreement was ratified, and the Hungarians got a promise that they would be allowed to reopen the two consulates in two years. The Congress was debating issues of Eastern-Western trade, and a group of senators were to come to Hungary in April 1973 to examine the situation here. But what is really important from the perspective of this thesis is that Péter Vályi was sent to the United States to finally conclude the claims settlement. But before going to American Vályi went to Moscow to consult the Soviets. He met Nikolai Patolichev in February.¹⁴⁸ Vályi asked him about the details of the Lend-Lease agreement, and how it was related to the Most Favored Nation Status. The Soviets said that the Hungarians also have to be prepared to pay at least a portion of the money without the Most Favored Nation status, while an other part only after the status was gained. The problem with the Most Favored Nation status was that the Congress had to vote it in order to take effect.

During his trip in the United States Vályi met Secretary of State Rogers, Secretary of the Treasury Shultz, David Rockefeller and many other people. He could not talk to Nixon, but the Hungarians did not interpret this as a sign of anything. The issues discussed covered a wide range of topics, but the most important result of Vályi's trip was that the claims settlement was finally concluded. The most important issue that had to be discussed was how the Most Favored Nation status and the claims settlement related to each other. Eventually the parties have agreed to attach several letters to the agreement. One of the letters was signed by Rogers, in which he claimed that if the Congress approves the United States would start

¹⁴⁸ MOL XIX-J-1-j USA 4-130/1973, box Nr. 17

negotiations with Hungary on granting the most favored nation status. In the Hungarian reply, which was there under the name of Vályi, the Hungarians reserved the right to reconsider the payments in case the most favored nation status was not granted in reasonable time.

4.4. The Evaluation of the Claims Settlement

According to Richard B. Lilich¹⁴⁹ the settlement was not favorable for the United States because of several reasons. He resented the fact that the United States gave a reduction from the sum. This way many claims that were included in similar agreements with other countries were excluded from this one. Lilich calculated that if he took into account the time that had passed and what would pass until the finally all the money was repaid the claimants would receive only 4.5% of their awards. He noted that these figures were the consequences of previous agreements, so by then the negotiating goal was only forty percent. He argued that this way basically the claimants paid for the political benefits of the community and a small group of businessmen interested in Hungarian-American trade.

The Hungarians evaluated the visit as having been successful. But a few days after the settlement was concluded Kenneth Rush Under Secretary of State called the Hungarian ambassador in. The topic was the Hungarian involvement in the International Commission of Control and Supervision in Vietnam. The Americans were not satisfied at all, they claimed that the Hungarians were acting in an impartial way, and were promoting the interests of the North Vietnamese. The accusations were true, the Politburo had decided that the Vietnamese should be consulted and that the political interests were to be upheld. Besides Puhon was called back and Richard Pedersen, the new ambassador, linked the advancement of

¹⁴⁹ Lilich, "US-Hungarian Claims", pp. 556.

Hungarian-American relations to the role Hungary would play in the Committee. There was another halt in Hungarian-American relations, this time because of the International Commission. The most favored nation could not be granted to Hungary in 1974, but Hungary continued paying the money due from the claims settlement.¹⁵⁰

The next period of the improvement of Hungarian-American relations came about in 1975-76. This began with the “relief credit” being repaid. This was a debt that dated back to the 1920s, and the fact that it had not been included in the claims settlement meant that the Johnson Act still had been in effect – even after the claims settlement was signed¹⁵¹. In 1978 the last two issues were also resolved. First the Holy Crown returned to Hungary in February 1970, and then the most favored nation status was granted a few months later. With these events the normalization of Hungarian-American relations was completed.

¹⁵⁰ Borhi, “A magyar-amerikai viszony változásai,” pp. 112.

¹⁵¹ Ibid. pp. 115.

Conclusion

In my thesis I have examined the course of the negotiations leading to the conclusion of the United States-Hungarian Claims Settlement of 1973. The negotiations that finally led to the conclusion of this settlement had lasted for almost ten years. The fact that the Hungarian-American claims settlement was not concluded earlier is mainly due to political reasons. When the Americans would have been ready to engage in serious negotiations the Hungarians had some problems and vice versa. Once the political decision was made and both sides were ready it did not take long to come to an agreement. In case of the Americans the negotiations were delayed either because of bilateral problems, such as the Mindszenty affair, or because of domestic reasons.

The Hungarians procrastinated mainly because of negative events in the international field. This signifies that most of the time they were following the Soviet line, or what they perceived as such. During the course of the years the Hungarian diplomacy became more independent, Although Hungary did not try to hop off the Soviet bandwagon there were times when it was getting a bit closer to it.

We could get an insight into the decision making processes and inner debates of the Party. The generation involved in the negotiations was laid off in the mid-1970s because of the advancement of the more “idealist” wing of the party, but eventually they returned in the late 1980s. Kádár was balancing between the two groups. Sometimes he sided with the proposals of the “realists,” sometimes with the other camp. Later when the MSZMP broke up in 1989 many of the members of the “realist” wing became members of the more moderate Hungarian Socialist Party, the MSZP (e.g. Nyers became the first chairperson of the party).

The “idealists” remained in the old party, which was “reestablished” under the name of Munkáspárt, Workers’ Party (e.g Frigyes Puja).

As far as the Americans were concerned the economic consequences of the settlement were almost irrelevant. For the Hungarians the financial losses that were caused by the regular payment were compensated by the fact that American banks and investors became more and more interested in the Hungarian economy. The normalization of relations with the United States fits some of the persistent factors of the Hungarian foreign policy. Ever since the treaty of Trianon it was one of the persistent aims of Hungary to find new markets for Hungarian goods, and the normalization served this purpose. This was one of the reasons why Hungary always tried to promote the economic issues and tried to achieve the most favored nation status. But as we know it was granted only five years later. The reason why the claims settlement itself was really important is connected to one of the other persistent factors. Namely that Hungary needed capital during most parts of the twentieth century, and with the claims settlement the American financial market opened up for Hungary. In fact this was the beginning of the accumulation of debts in Hungary, which became a real problem in a few years.

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