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Memorandum.

Prague, August 8, 1938.

Hungary. A recent five days' trip to Hungary was extremely interesting. My last trip to Hungary took place at the end of March this year, that is about two weeks after the Anschluss. In March the impression I have received was devastating. It, indeed, seemed that Hungary was at the brink of complete submergence in the German orbit. As the chances for a "Nazification" of Hungary were in those days almost 90 to 10, I thought Hungary was lost for good. But for some mysterious reasons the Germans have not exploited their chance in Hungary then. And today their chances are probably fifty:fifty-- that is no longer the favorable situation of five months ago.

In March, indeed, things looked bad in Hungary. The Anschluss of Austria to Germany was a sudden blow which noticeably upset all calculations of the Magyars. While they expected the Anschluss to come some months later, in March it surprized the leading personalities of Hungary. All responsible quarters in Hungary, including Regent Admiral Horthy and Premier Daranyi were shaking with fear, and in two countries, more than elsewhere, namely in Italy and Hungary the Anschluss created a psychosis which, it was thought, is bound to have farreaching consequences.

The Hungarian Nazis immediately exploited this psychosis, and their camp seemed to be strong and united-- at least more united than was the case for some time. Szallasi, the Nazi leader, had become a popular hero, and his following was apparently growing by leaps and bounds. His entourage was already making a deal for the division of the Ministerial and other fat jobs in the country.

It remains still a mystery why the Germans failed to exploit this favorable atmosphere? Just one big effort would have been sufficient to make the country roll into the Nazi camp, especially because the Premier, Coloman Daranyi, was a weak and frightened person. If twenty Nazis would have gone to the Premier's palace and would have arrested Daranyi, power would had been with them. In those days the army and the police was strongly influenced by Nazi propaganda and subterranean work.

Why did the Germans hesitate? One explanation is that the complications arising out of the incorporation of Austria proved to be so strong that they did not dare to make a further step before the Austrian question was not halfway settled. The other, more plausible explanation, however, is that Germany had to chose between two alternatives: to Nazify Hungary or to obtain the Magyar harvest. A nazification in Hungary in the spring would have meant the loss of the harvest of Hungary for German purposes. This the Germans could not afford in face of their own bad harvest. Thus they had to relinquish the revolutionization of Hungary because a revolutionary Hungary would have been so much involved in politics that the harvest was bound to go lost.

The German need of the Hungarian harvest thus perhaps saved Hungary. Time is a great heeler, and as soon as the fright was over, it was clear that the Magyar gentry was once more collecting their forces. Daranyi, the weak man, had to go, and Béla Imrédy, a former Minister of Finance and head of the Hungarian National Bank, was appointed in his place.

In the old days Regent Horthy, once the nominal head of the White Terror in 1919-21, was always regarded as a sympathizer of Nazism. Undoubtedly he is an admirer of the German military machine. But the stupid Nazi propaganda in Hungary succeeded to turn this friend into an enemy. I reported in a previous memorandum that in March the Nazis were issuing pamphlets attacking Madame de Horthy. One of the leaflets had the inscription: "Out from the

Royal Palace!" (The Horthys live in the former Royal Palace.)

And other leaflets spoke of Madame Paula Horthy as "Rebecca Horthy" because some Nazi discovered that one of her ancestors, a Csoemoeri, was of Jewish extraction...

This attack on Madame Horthy was unwise and costly from the Nazi point of view. Now the Horthys knew that in case of a Nazi regime the new rulers would work to oust them from their high position, and from that time on their resistance had considerably grown. It was a tremendous faut pas on Nazi side, but it is not for the first time that such thing happen.

Imredy, again, is more a person like Schuschnigg was in 1934-36. Courageous, determined, and it is out of question that a bunch of conspirators could intimidate him and force him to resign. I the meantime Horthy made an attempt to regain the army, and according to the evidence available in important neutral quarters the army and the police is again firmly controlled, and the Nazi machination is banned. During my short stay in Hungary I had the opportunity to speak with a number of young officers , lieutenants and first lieutenants, and my impression was that, while there is still a great admiration for the German army machinery, the individual officer is now again a Jingo Magyar, and thus anti-German. The large sums devoted in Imredy's new investment program to the army naturally is partly responsible for this change. The feverish reconstruction of the Magyar army now gives plenty of work to the subaltern officers and they have no time to waste on politics.

The Imredy regime, however, has its weak sides, too. First, Imredy attempts to do the same what Schuschnigg did: to drive out the devil with Belzeboob, namely to fight Nazism with another form of Fascism. He is trying to introduce Italian measures of Fascism, such as dopolavoro, corporative system, family wages for workers etc. This is not the best way... Moreover, he tries to fight Nazism with its own methods. He introduced Jewish restrictive measures which, if carried into practice, may cripple Hungary's economic life.

Imredy's conception is to create a new system of rule for Central European countries: a kind of compromize between the dictatorship of the Fascist countries and the old Hungarian Parliamentary system. He is distancing himself from Parliamentarism, and like Schuschnigg, he is not willing to embark on elections as long as elections can be influenced by the propaganda machinery of Dr.Josef Goebbels. The life of Hungarian Parliament will expire this winter, but I doubt that there will be new elections. Horthy probably will prolongue the life of the present Parliament and this is how Imredy will try to rule.

The great question mark, in addition to the political uncertainty, is the financial and economic situation. Once must however admit that Imredy is an able economist who can be compared in many ways to Hjalmar Schacht, but that he has more power than Schacht though working for a smaller country. Imredy is convinced that the autarchy methods of the dictatorships are bound to lead to a failure. Even if he is ready to revize certain features of old economics, and worked out a fantastic plan for the reconstruction of Hungary, he knows that these measures are just palliatory adventures, and that there has been no method yet invented which would assure a departure from old fashioned economics. Imredy, after his Italian journey, even if he wishes to fortify Italo-Hungarian relations, realizes that Italy is at the verge of bankrupte and that Germany is lagging just a few months or years behind...

His present economic and financial reconstruction scheme for Hungary is a loan of 1,000 million pengoes ($ 200 millions or

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(L 40 millions), of which 600 million pengoes shall be raised by a forced loan (capital levy) in the next five years, and 400 millions by supertaxes, also to be raised during the next five years. This of course is a rather heavy burden on Hungarian economics, especially if we take that during this five years the number of Jews in the economic life should be reduced to twenty percent, but in reality to five percent. This will be a too great stress for Hungarian economic life because the leaders of industry and commerce were mostly Jews. Five years is too short for such a conversion, and there are no suitable successors available in Hungary! It was after all the fault of the Hungarian ruling classes that industry and commerce went over into Jewish hands. The ruin of the Hungarian yeoman and squire in 1880 corresponded with the industrial revolution in Hungary, but the rulers of the country, instead of encouraging the ruined gentry to go into these new commercial posts, still maintained the motto that work was not fit for a gentleman. Then the huge bureacratic machinery of old Hungary was created and business was left to Jews and Germans, or other foreigners.

Imredy's other problem is trade. About 42 percent of Hungary's total trade goes to Germany. Now Berlin can give in return only photographic cameras, lenses and aspirin. Hungary is already saturated with these goods, and for this reason the pro-British Imredy would like to see if Great Britain, not too conspicuously, would take a greater share in Hungary's trade. If Britain could buy some more goods in Hungary(the plus would be only about one million pound more or so per annum), and if England would not demand a corresponding increase of Hungarian purchases for the moment, then Imredy thinks that Hungary could be saved from German influence, without "insulting" or angering the mighty neighbor. It seems that certain quarters in Britain are willing to give such a help. Neutral observers believe that such money would be not wasted, because at present the chances of Hungary to withstand the Nazi assault are still fifty-fifty, and such help from England can increase the chances of resistance very considerably.

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