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The First Bailout – The Financial Reconstruction of Austria 1922 – 1926

Submitted for the degree of Ph.D

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2015

I declare that this thesis is all my own work

.....

Abstract

This thesis examines the League of Nations' project for Austrian financial reconstruction 1922-1926. By 1922, the First Austrian Republic (1918-1938) was experiencing enormous problems, including hyperinflation. Little confidence existed that the country could survive as a unified and independent entity. In this context, the Economic and Financial Organisation (EFO) of the League designed a financial reconstruction scheme for Austria. The scheme was the first such project carried out by an international institution and this thesis explores its genesis, attributes and impacts.

This thesis argues that this programme came into existence less, as is sometimes argued, because of the work of idealistic internationalists at the League of Nations, and more because the governments, diplomats and officials of certain powers, particularly France, but also Britain and others, wished to see Austria survive because they regarded its continued existence to be an important part of upholding post-war European order, and furthering their interests and diplomatic strategies. Furthermore, the support of financial elites was crucial in successfully launching the scheme, and representatives of these groups were centrally involved in the design and implementation of the programme via the EFO's Financial Committee. The programme reflected their beliefs about the proper operation of finance and economics, and introduced to Austria orthodox financial measures that had a mixed, in many ways negative, effect on the Austrian economy and on Austrian prospects for stability. This thesis explores the often neglected political and social impact of the programme, such as the detrimental effects of unemployment, and the tensions generated between central government and the regional governments of Austria, particularly the City Government of Vienna. Ultimately, a programme that was created as an extension of the peace settlement worked in some respects to exacerbate the difficulties that would lead to crisis in Austria and in Europe in the 1930s.

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Chapter One

Introduction

In his memoir, written in the context of his flight from Europe as a refugee and shortly before his suicide, Stefan Zweig produced an idealised portrait of fin de siècle Habsburg Austria as a land basking in a ‘golden age of security’. He looked back to his youth and recalled a ‘serene epoch [in which] individual freedom was at its zenith’. Zweig depicted Vienna as a citadel of culture, where people had a ‘fanatical love of art’ and lamented that:

the world in which I grew up and the world of today, not to mention the world in between them, are drawing further and further apart and becoming entirely different places... all the bridges are broken between today, yesterday and the day before yesterday.¹

Zweig’s memoir creates a dramatic sense of caesura between pre-First World War Austria and later eras. He reflected upon the ‘pale horses of the apocalypse [which] have stormed through my life: revolution and famine, currency depreciation and terror, epidemics and emigration’. It was the First World War and its immediate aftermath that presented for Zweig the first traumatic break with what he regarded as the lost civilisation of the Habsburg era. Zweig’s perceptions may not have been as universal as he assumed,² but nevertheless, his portrayal of the contrast between pre and post-war Austria dramatizes the bereft and desperate condition of Austria in the aftermath of the First World War, a country characterised by Stephen Beller, echoing Austrian novelist Robert Musil, as a ‘land without qualities’.³

¹ Stefan Zweig, *The World of Yesterday*, trans. Anthea Bell (London, 2009). First published in German as *Die Welt von Gestern* (Stockholm, 1942).

² Zweig talked of ‘those of us’ and ‘our generation’ and ‘we [who] have experienced more history than any of our forefathers did’. His perceptions were rooted, however, in his background as an intellectual Viennese bourgeois, and in his experiences as a Jew and a liberal of Nazi takeover, and consequent exile from Austria.

³ Stephen Beller, *A Concise History of Austria* (Cambridge, 2006), 197. Musil’s novel was *A Man Without Qualities*, trans. Sophie Wilkins and Burton Pike (London, 1997), published in German between 1930 and 1943 as *Der Mann ohne Eigenschaften*.

Conditions in post-First World War Austria were highly unstable, and, as the writing of Zweig and other Austrian authors reveal, traumatic for its inhabitants.⁴ The newly empire-less country, previously the dominant entity in an imperium of some 52 million people, now contained only 6.4 million inhabitants. Vienna was a ‘giant city in a dwarf state’.⁵ The war, the defeat and the collapse of the monarchy and the empire created an almost overwhelming multitude of problems for Austria; refugees, political unrest, demobilisation, trade problems, shortages, Spanish Influenza, TB and starvation amongst them. At this stage, it was commonly felt within Austria itself that the new country was *lebensunfähig*: unviable.⁶ By 1922 inflation was running at over forty per cent a month and a desperate Chancellor Seipel toured Europe, according to Maurice Fanshaw, ‘practically (offering) Austria in return for financial assistance’.⁷

This thesis explores the significance of the events that followed, as, in an unprecedented move, the League of Nations determined to help Austria. This was the first ever intervention by an international organisation in the reconstruction of a country’s finances and represented a major extension of the League’s remit. The scheme for Austria, which ran until 1926, was designed and implemented by the League’s Economic and Financial Organisation (the EFO). It involved the provision to the country of a League-backed international loan, measures to ensure currency stabilisation and a balanced budget, and the appointment of a League High Commissioner – the Commissioner-General – to oversee the programme in Austria and enforce budgetary discipline. The programme succeeded in halting inflation, and the

⁴ See, for example, Joseph Roth, *The Emperor’s Tomb*, trans. Anthea Bell (London, 2013), first published in 1938 as *Die Kapuzinergruft*; Stephan Zweig, *The Post-Office Girl*, trans. Joel Rotenberg (New York, 2008), published in German as *Rausch der Verwandlung*.

⁵ Mark Mazower, *Dark Continent: Europe’s Twentieth Century* (London, 1999), 106.

⁶ Discussions about the un-viability of Austria were common at this time: see Helmut Gruber, *Red Vienna – Experiment in Working-Class Culture 1919-1934* (Oxford, 1991), 22; Bruce F. Pauley, ‘The Social and Economic Background of Austria’s *Lebensunfähigkeit*’, in Anson Rabinbach (ed.), *The Austrian Socialist Experiment: Social Democracy and Austromarxism, 1918-1934* (Boulder, Colorado, 1985), 21-37.

⁷ Fanshaw was an early commentator on the League’s work in Austria from 1922. Maurice Fanshawe, *Reconstruction: Five Years of Work by the League of Nations* (London, 1925), 136. Hyperinflation can be defined as an inflation level that exceeds a level of around 50% per month. Steve H. Hanke and Nicholas Krus, date Austrian hyperinflation from October 1921, see ‘World hyperinflations’, in Randall E. Parker and Robert Whaples (eds.), *Routledge Handbook of Major Events in European History*, (Abingdon, Oxon, 2013), table 30.1, 372-373.

collapse of the Austrian state seemed to have been prevented. The apparent effectiveness of the League's work in Austria vindicated the nascent organisation and particularly the role of the EFO, which was not officially at this stage a permanent part of the League's apparatus.⁸

The work of the League of Nations on financial reconstruction in Austria was thus a critical event for both Austria and the League, and also, this thesis argues, a significant moment in interwar history, as its apparent success established a template for responses to economic and financial difficulties in the interwar era. The perception in the international community was that the programme for Austria had been successful, and thus its predominantly orthodox economic and financial precepts appeared to receive endorsement.⁹ This thesis shows, however, that the impact of the scheme for Austrian reconstruction was complex and in some respects destructive of Austrian and European stability.

As the first major occasion of international post-war financial reconstruction, the story of League intervention in some ways represented a dawning era of internationalism: a new international institution pioneered a novel method of international intervention in order to support a just-founded nation. My research reveals that this internationalism, in the context of the Financial Committee of the League (who were instrumental in the design and execution of the scheme), was an internationalism that sought the establishment of small-state, balanced-budget, gold currency finance and economics. In this sense, the League programme for Austria reflected continuities with the pre-war as much as it did a new era. The scheme was labelled a 'reconstruction' at the time, and in

⁸ The EFO was called at this time the Provisional Economic and Financial Committee and consisted of two committees and their secretariats (known in the League as sections). It was not until 1924 that the word 'provisional' was dropped from the title of the organisation and it was officially named the Economic and Financial Organisation. The EFO comprised a Financial Committee, an Economic Committee and their corresponding sections. There was complete continuity between the Provisional Committees and the EFO and for simplicity I will refer to both as the EFO. It was the Financial Committee that was responsible for the Austrian scheme.

⁹ I use the term 'orthodox' in relation to finance and economics to mean commitment to balanced government budgets, a limited role for the state in service provision and economic enterprises, and fixed currency values backed up by gold.

many ways it was an attempt to re-establish pre-war economic values – albeit pursued through novel ‘internationalist’ means – as much as it was an innovation or a decisive break with the past. This thesis argues that these apparently ground-breaking steps in post-First World War Europe still reflected elements of traditional power structures and pre-war values, but that the use of new institutions and methods did lead at times to innovative developments in the means by which these developments were pursued.

This case study also reveals that international institutions such as the League sometimes pay insufficient attention to the effects that their work has on recipient nations and their people.¹⁰ In investigating these elements, new and often absent voices are added to the story, such as those of local Austrian politicians and ordinary Austrian citizens. Through these sources, the at times detrimental effects of the programme on employment levels, service provision, state- and nation-building and political polarisation in Austria become clear: when a wide range of sources are considered, the view that the League’s work in Austria was an unquestionably positive development becomes very problematic.

Despite its significance as the first post-First World War case of inflation that reached crisis point, and the first financial intervention by an international institution, the hyperinflation crisis in Austria is not a widely remembered or studied event. In contrast, Germany’s hyperinflation in 1923 has an infamous status in common historical memory and has been the focus of considerable scholarly attention.¹¹ The earlier and similar Austrian experience is not much known about, and nor is it the subject of substantial historical research, never mind controversies of the sort that have occurred in relation to Germany in 1923. Research into Austrian history is not a large field outside the country, and the interwar situation in Austria is often relegated to the status of a

¹⁰ For more recent examples, see Ha-Joon Chang, *Bad Samaritans – The Guilty Secrets of Rich Nations and the Threat to Global Prosperity* (London, 2008).

¹¹ See, for example, Gerald D. Feldman, *The Great Disorder: Politics, Economics and Society in the German Inflation* (New York and Oxford, 1993); Carl-Ludwig Holtfrerich, *The German Inflation, 1914-1923* (Berlin and New York, 1986); Ian Kershaw (ed.), *Weimar – Why did German Democracy Fail?* (1990); Martin Broszat, *Hitler and the Collapse of Weimar Germany* (Lemington Spa, 1987).

footnote in German history, although there are a few Anglophone histories of Austria.¹² The historiographical focus on Germany is understandable, but in some respects anachronistic. In the early 1920s, the crisis in Austria was the subject of enormous attention at international conferences, allied meetings, and in the Treasuries and Foreign Offices of the leading powers. Events in Austria were seen as hugely important at the time and critical for the establishment of the post-war order: as one British official commented to the foreign secretary, ‘the disappearance of Austria as a body politic would signify the definite failure of the Peace Settlement’.¹³ For French diplomat Paul Cambon, an independent Austria was ‘crucial’ in the post-war efforts to contain Germany – containment being a central ambition of French foreign policy at this time.¹⁴ This study addresses the relative historiographical neglect of Austrian hyperinflation and the League’s response, and thus restores Austria to the centre of events in Europe in the early 1920s, as they were at the time.

The tendency to overlook the Austrian crisis of 1922 can be seen in some of the general histories of the interwar and twentieth century Europe, which give scant attention to events in Austria in 1922. Eric Hobsbawm, for example, does not mention it at all and Robert Boyce only alludes to Austria in a brief discussion of the work of the Financial Committee of the League.¹⁵ Even a study of twentieth-century Austrian history

¹² Although, of course, many of the histories of Nazi Germany do include Austrian history as the country was incorporated into the Third Reich in 1938. Steven Beller’s *Concise History of Austria* is a general and rather brief overview whilst Barbara Jelavich’s *Modern Austria – Empire and Republic 1800-1980* (Cambridge, 1987), is a much more substantial survey. F.L. Carston focusses specifically upon the period before Nazi annexation in his *The First Austrian Republic 1918-1938 – A Study Based on British and Austrian Documents* (Vermont and Aldershot, 1986). Charles A. Gulick’s study is still a very comprehensive account: Charles A. Gulick, *Austria: From Habsburg to Hitler* (Berkeley, 1948). Austromarxism and Austrofascism have attracted scholarly attention. See, for example, Tim Kirk, ‘Fascism and Austrofascism’ in *The Dollfuss-Schuschnigg Era in Austria: A Reassessment, Contemporary Austrian Studies* 11 (New Brunswick and London, 2003) 10-31 and ‘Ideology and Politics in the State that Nobody Wanted - Austro-Marxism and Austrofascism and the First Austrian Republic’ *Contemporary Austrian Studies* 20 (2011), 81-98; Rabinbach (ed.), *The Austrian Socialist Experiment* and Gruber, *Red Vienna*.

¹³ Note from Mr Lindley of the Austrian Section of the Reparations Commission to Earl Curzon, November 3, 1920, the British National Archive, Kew (TNA), T160/57, 14/10/20 – 23/12/20.

¹⁴ Pierre Paul Cambon (1843-1924), cited by Peter Jackson, *Beyond the Balance of Power – France and the Politics of National Security in the Era of the First World War* (Cambridge, 2013), 242.

¹⁵ Eric Hobsbawm, *Age of Extremes: The Short Twentieth Century, 1914-1991* (London, 1994); Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke, 2009).

produced by Austrian historians fails to give coverage to the events of 1922-1926.¹⁶ In the light of recent publications, it can no longer be said that the history of international organisations is neglected.¹⁷ The League of Nations itself is a central focus in Patricia Clavin, Glenda Sluga's and Susan Pedersen's recent work and a key element in the studies of Mark Mazower.¹⁸ Despite this recent trend for historical research into the League, however, Clavin argues that the economic and financial work of the League still constitute a largely 'lost history',¹⁹ and historians of the League of Nations often overlook Austrian stabilisation, a curious omission perhaps, given the perception of one contemporary League insider that the 'importance in the history of the League [of the Austrian reconstruction scheme] can hardly be overstated'.²⁰

Some historical works do consider the issue of Austria and the League's stabilisation programme. Zara Steiner's survey of the politics, economics and diplomacy of the 1920s and early 1930s includes events in Austria in 1922 and the League and Britain's response. Anne Orde also gives the event a clear focus within the context of British policy in Eastern and Central Europe after the First World War.²¹ In these works, however, the case of Austria is not a major theme, and nor is it the subject of wide-ranging archival research. Nathan Marcus' unpublished thesis from 2012 examines Austrian hyperinflation and the impact of League stabilisation in detail, using documents from the League as well as Austrian sources. Marcus examines the Austrian stabilisation scheme in relation to Austria's later banking collapse after 1931, and so

¹⁶ Rolf Steininger, Günter Bischof and Michael Gehler (eds.), *Austria in the Twentieth Century* (New Brunswick and New Jersey, 2002).

¹⁷ International institutions have only, as Glenda Sluga points out, attracted 'belated historical interest', Glenda Sluga, 'Editorial – the transnational history of international institutions', *Journal of Global History*, 6 (2011), 219-222.

¹⁸ Patricia Clavin, *Securing the World Economy – The Reinvention of the League of Nations, 1920-1946* (Oxford, 2013); Glenda Sluga, *Internationalism in the Age of Nationalism* (Philadelphia, 2013); Susan Pedersen, *The League of Nations and the Crisis of Empire* (Oxford, 2015), and Mark Mazower, *Governing the World – The History of an Idea* (London, 2012) and *No Enchanted Palace* (Princeton, 2009).

¹⁹ Clavin sees, for example, Peter Yearwood's major history of the League's role in British policy as typical in that it does not even cover its financial and economic work despite the strong British presence within the EFO, and these aspects of the League's work are certainly not the focus of Sluga's volume, nor Mazower's. Peter Yearwood, *Guarantee of Peace: The League of Nations in British Policy, 1914-1925* (Oxford, 2009).

²⁰ W.M. Hill, *The Economic and Financial Organisation of the League of Nations. A Study of Twenty-Five Years' Experience* (Washington, 1946), 28.

²¹ Zara Steiner, *The Lights that Failed: European International History 1919-1933* (Oxford, 2005), 278-290; Anne Orde, *British Policy and European Reconstruction After the First World War* (Cambridge, 1990).

examines the programme's broader relevance to the interwar period. Marcus does not examine the ramifications of the League's programme for questions of the Austrian state's legitimacy, nor does he look at provincial responses, and he does not seek to investigate the impact of events on the League. Although he does investigate the impact of League actions upon Austria, his analysis is mainly restricted to the impact of the scheme in strictly economic and financial terms. He also does not consider the significance of who the League's personnel were and what interests they represented.²² All of these questions are central to this thesis.

Some Austrian historians have examined League intervention from the Austrian perspective, although much of this scholarship is not very recent.²³ Austrian historians have often been condemnatory of League policies in Austria, in marked contrast to most League historians. Siegfried Mattl, for example, characterises League actions in the 1920s and the organisation's later 1930s intervention as deflationary and politically destructive. He even labels League intervention the *Finanzdiktatur*.²⁴ Herbert Bachingen and Karl Matis, along with Karl Ausch, also regard the programme as responsible for creating depressive conditions in Austria.²⁵ Peter Berger has more recently examined the role of League official Meinord Rost van Tonningen in Austria the 1930s²⁶ as well as

²² Nathan Marcus, *Credibility, Confidence and Capital: Austrian reconstruction and the collapse of global finance, 1921-1931*, unpublished Ph.D thesis (New York University, 2012). Marcus finds that the League scheme was successful in stabilising Austria, and that the League played a key role in Austria. He also contends that ultimately insufficient reforms to the Austrian economy and failure to obtain longer-term funds for Austria meant that the League's work did not see long term stability come to Austria. My thesis supports aspects of Marcus's findings and challenges other parts of his argument, whilst also offering other perspectives.

²³ Austrian historiography in the decades after the Second World War often served the purposes of the state and its attempts to nation-build and deal with the legacy of the Nazi era. For a discussion of this, see Peter Thaler, 'National History – National Imagery: The role of History in Postwar Austrian Nation-Building', *Central European History*, 32/3 (1999), 277-309. See also Thomas Angerer, 'An Incomplete Discipline: Austrian Zeitgeschichte and Recent History', *Contemporary Austrian Studies*, 3 (1995).

²⁴ Siegfried Mattl, 'Die Finanzdiktatur, Wirtschaftspolitik in Österreich 1933-1938', in Emmerich Talos and Wolfgang Neugebauer (eds.), *Austrofascismus – Beiträge über Politik, Ökonomie und Kultur 1934-1938* (Vienna, 1984), 133-159. Mattl's deployment of this term should be seen in the context of the 'Austrofascist' dictatorship that ruled Austria at the time.

²⁵ Karl Bachingen and Herbert Matis, *Der Österreichische Schilling – Geschichte Einer Währung* (Graz, 1974); Karl Ausch, *Als die Banken fielen – Zur Soziologie der politischen Korruption* (Vienna, 1968), 115-191.

²⁶ Peter Berger, *Im Schatten der Diktatur – Die Finanzdiplomatie der Vertreter des Völkerbundes in Österreich, Meinord Marinus Rost van Tonningen, 1931-1936* (Vienna, 2000).

exploring some aspects of the League work there in the 1920s.²⁷ Unlike some of the earlier Austrian historians, Berger does not regard League intervention as entirely a foreign imposition, as he points out that there was support for League actions from some conservative sectors in Austria. John Deak provides some endorsement for this view by focussing upon the role of Chancellor Ignaz Seipel.²⁸ Berger is slightly more positive than many other Austria historians about the impact of the 1920s scheme, although he does concede that League actions had a ‘restraining impact upon Austria’s economic growth’.²⁹ Very little attention is given to considering evidence on the effect of the programme on political or social conditions in Austria by these authors, however, even though they acknowledge these issues.³⁰ Jens-Wilhelm Wessels’ much more recent work is interesting but also limited in this respect as he investigates the impact of interwar economic and financial policies (including those of the League) on a set of major Austrian corporations, and reflects upon the impact that specific policies, as opposed to structures, have upon economic development.³¹

Some historians with a more international or economic perspective have recently turned their attention towards the work of the EFO. Patricia Clavin, in particular, goes a long way to address the fact that the League’s EFO has largely been, as she says, ‘an organization without a recorded past’.³² She contends that the economic and financial operations of the League were a very important (and overlooked) aspect of its work,

²⁷ Peter Berger, ‘The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction’, in Günter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss-Schuschnigg Era in Austria: A Reassessment*, *Contemporary Austrian Studies* 11 (New Brunswick and London, 2003).

²⁸ John Deak, ‘Ignaz Seipel (1876-1932) Founding Father of the Austrian Republic’, in Gunter Bischof, Fritz Plasser and Eva Maltschnig (eds.), *Austrian Lives*, *Contemporary Austrian Studies* 21 (New Orleans, 2012), 32-55, and ‘Dismantling Empire: Chancellor Ignaz Seipel and Austria’s Financial Crisis, 1922-1925’, in Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *Contemporary Austrian Studies* 19, *From Empire to Republic: Post-World War I Austria*, *Contemporary Austrian Studies* 19 (New Orleans, 2010) 123-141.

²⁹ Peter Berger, ‘The League of Nations’, 80.

³⁰ This is illustrated when Berger describes the outcome of the League’s intervention in Austria in the early 1930s as ‘doubtlessly [sic] impressive’ shortly after mentioning that unemployment rates ran at 21.7% after League intervention, nominal wages fell by 5% and the burden of tax, meanwhile, increased for the poorest sectors of society whilst decreasing for the richest, *ibid.*, 84.

³¹ Jens-Wilhelm Wessels, *Economic Policy and Microeconomic Performance in Inter-War Europe – The Case of Austria 1918-1938* (Stuttgart, 2007). Wessels concludes that underlying economic structures have a greater impact on economic development than individual policies. In Austria, he regards the key problem as being the reliance upon un-modernised traditional heavy industries. His assessment thus raises some interesting questions for anyone trying to assess the ‘success’ or otherwise of the League’s policies in Austria.

³² Clavin, *Securing the World Economy*, 2.

and were a crucial means by which the League sought to advance the cause of international peace. Clavin focusses predominately on the EFO after 1927, and I build upon her work to focus in-depth on an early example of its operations. Examining Austrian financial reconstruction between 1922 and 1926 thus enables more of the ‘lost history’ of the EFO’s role in international affairs to be recovered.

Much of work on the project for Austrian financial reconstruction examines it from a rather narrow perspective, as the programme is either only briefly considered, or only one area of it is explored. Gary Ostrower looks at the scheme only fleetingly in his study of the League, whilst Katharina Erdmenger considers Austria and the League as part of her study of the relationship between the British and officials in Geneva.³³ As in the case of Steiner and Orde, she examines primarily the role of the British, a crucial element of the story, but one which overlooks the critical perspectives and input of the Austrians and other relevant parties (such as, for example, J. P. Morgan Co. bank). Nicole Piétri’s early study explores the programme very much from the perspective of the League,³⁴ and Frank Beyersdorf also briefly outlines the scheme, and explores the role of the League and its efforts to promote a narrative of success for the scheme.³⁵ Beyersdorf, who does not examine the record in Austria, is positive about the impact of the scheme and the role of transnational networks in facilitating it.³⁶

With respect to the question of relations between the central state and the Austrian regions, historiography on the programme for Austrian reconstruction also does not consider in much depth its significance in the light of its effects on provincial politics, and the tensions it generated between the central federal state and regional and local government. Jill Lewis does make mention of but does not explore in detail the tensions

³³ Gary B. Ostrower, *The League of Nations from 1919-1929*, (New York, 1996), 100 and Katharina Erdmenger, *Diener zweier Herren? Briten im Sekretariat des Völkerbundes 1919-1933* (Baden-Baden, 1998).

³⁴ Nicole Piétri, *La Société Reconstruction Financière de L’Autriche 1921-1926*, (Geneva, 1970).

³⁵ Frank Beyersdorf, “Credit or Chaos?” The Austrian Stabilisation Programme of 1923 and the League of Nations’, in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 134-157.

³⁶ Decorzant also depicts a positive and benign role for transnational networks in the establishment and effective operation of the EFO, Yann Decorzant, ‘Internationalism in the Economic and Financial Organisation of the League’, in Dan Laqua (ed.), *Internationalism*, 115-133.

between the League and the Seipel government on the one side, and the government of the City of Vienna, who pursued very different political and financial agendas during the time of the League's work in Austria, on the other.³⁷ This thesis uncovers the ways in which the internationalist project of the League came into conflict with the radically alternative programme of the socialist government of Vienna, and in doing so illuminates the ideological aspects of the scheme in the context of the politically polarised interwar period. Examination of the tensions and conflicts between the League, the central government and the provincial administrations, which included the City of the Vienna, also serves to illustrate an often overlooked aspect of the work of international organisations, that is, their effect upon local or regional situations, and not just their interactions with central government or countries as whole entities. In the Austrian case, a scheme that was supposed to assist in the creation of a stable and united future for the country had some negative effects in exacerbating centre-regional conflicts and tensions.

The studies that there are on League intervention in Austria 1922-1926 tend to examine matters either from the League perspective, and, therefore, as part of the history of international institutions, or from the perspective of the history of Austria. This thesis integrates examination of the impact of events on Austria with consideration of the importance of this moment for the League, whilst it also investigates the significance of events in Austria for international politics, economics and international diplomacy. In doing so, various aspects of scholarship are drawn upon, including the work of transnational, international, political, economic and social historians and economists. Thus, this thesis not only enriches our understanding of the League, but also draws together different perspectives and areas of research on the interwar situation, and illuminates the intersection of political and economic issues of this period.

³⁷ Jill Lewis, 'Conservatives and Fascists in Austria, 1918-34', in Martin Blinkhorn (ed.), *Fascists and Conservatives*, (London, 1990), 98-117.

A significant part of this thesis examines the role of transnational networks working through the League of Nations. Whilst drawing upon transnational histories, I move away from the characterisation in some League histories of transnational networks as a necessarily positive ‘internationalist’ force.³⁸ Transnationalism here is defined as flows of ideas, goods, people or money that occur across borders, or work that occurs across borders, involving the cooperation or collaboration of actors from a variety of states. In the case of the work of the EFO at the League, a multinational group of actors worked together in a non-national setting to design and implement the programme for Austria. Underpinning the work of some transnational historians is sometimes an assumption that ‘experts’ working across borders, such as those at the League and involved in the EFO, represent a kind of transcendence of national interest for the benefit of the common good. Similarly, ‘internationalist’ impulses are often regarded as by definition a positive development, a countervailing force opposed to negative dynamics of nationalism or imperialism. Akira Iyrie, one of the originators of the recent transnational historical focus on internationalism and international organisations, seems to view internationalism as unproblematically positive.³⁹ A startling example of why this assumption of the benign internationalism of experts may be false can be found in the person of Rost van Tonningen, a Dutch national and League official based in Austria. He worked on the EFO programme for Austria between 1923 and 1928 and led the later League intervention there between 1931-1936. Rost became a Nazi sympathiser whilst still a senior League employee based in Austria, and was later a leading light in the Dutch fascist movement.⁴⁰ While Rost is not a major preoccupation here, his example serves to illustrate that transnational assumptions may not always be correct.

³⁸ Beyersdorf “Credit or Chaos?” and Decozant, *ibid.*, reveal this tendency.

³⁹ Akira Iyrie, *Global Community – The Role of International Organisations in the Making of the Contemporary World* (Berkeley and Los Angeles, 2002).

⁴⁰ Rost remained in Austria 1926-1928 after the Commission General had departed overseeing the residual parts of the League programme. Rost committed suicide in captivity in 1945 before he could stand trial.

Some scholarship has complicated the depiction of the meanings of ‘internationalism’.⁴¹ In investigating the networks involved in the EFO’s programme in Austria, I add to this by showing how economic elites, acting in their own material interests, may operate in a transnational manner that sometimes goes beyond national interests. They may be working on programmes that could be regarded as ‘internationalist’ in the sense that they enmesh nation-states together through political, financial, economic, social and ideational connections, but I also examine the interests that were represented by these interactions. This is an area that some international political economists have also fruitfully explored.⁴²

I also seek to build upon the work of economists, such as Elmus Wicker,⁴³ who have examined some of the effects of the League’s programme for Austria, by adding to economic analysis of social effects and the actual experiences of and reactions to events of ordinary people. As Francesco Boldizzoni argues, economic analyses that overlook these aspects are in some respects impoverished.⁴⁴ Furthermore, historians of international institutions do not always explore the impact of their work on recipient countries, and this is true of most of the histories relating to the Austrian case.⁴⁵ I examine the impact of the Austrian financial reconstruction scheme economically, politically and on society.

⁴¹ Internationalism can have different meanings, as Jessica Reinisch explores in ‘Internationalism in Relief: The Birth (and Death) of UNRRA’, Mark Mazower, Jessica Reinisch, and David Feldman (eds.), *Post-War Reconstruction in Europe – International Perspectives, 1945-1949, Past and Present Supplement 6* (2011), 258-289.

⁴² See, for example, the work of the Amsterdam School. The work of Kees van der Pijl of the Amsterdam School is rooted in historical research: Kees van der Pijl, *Transnational Classes and International Relations* (London, 1998). He traces the impact of a group of diplomats, civil servants and statesmen (or in the case of Cecil Rhodes, adventurers) that he terms the Rhodes-Milner group on political and economic policies and diplomacy, and reveals their transnational links and influences.

⁴³ Elmus Wicker, ‘Terminating Hyperinflation in the Dismembered Habsburg Monarchy’, *American Economic Review* 76/3 (1986), 350-364.

⁴⁴ Francesco Boldizzoni, *The Poverty of Clio – Resurrecting Economic History*, (Princeton, 2011).

⁴⁵ Partly, this is much of the history of the international institutions is conducted from an intellectual history or history of ideas perspective, and partly because in studying international or transnational history, the relevance of national histories can be overlooked. Both Mazower and Sluga’s recent work focus on the history of the ideas: Mazower, *No Enchanted Palace* and *Governing the World*, and Sluga, *Internationalism*.

Whilst I investigate here an international institution engaged in what could be characterised as transnational work, I also explore the role of national interest. A common perception is that the EFO acted as a proxy for particularly British but also sometimes French national interests, and this study also looks at these aspects of the story.⁴⁶ The work of Miklós Lojkó, for example, examines the British role in terms of the notion that Britain sought to further its strategic and economic position with respect to central Europe via such programmes.⁴⁷ In contrast, Peter Jackson has recently uncovered evidence that France's foreign policy in the 1920s did not always simply amount to the pursuit of traditional balance of power politics, but also contained within it strains of internationalist thinking.⁴⁸ The Austrian case is an instructive example of a policy that reflected both the tradition balance of power politics in pursued by Britain and France in Eastern Central Europe, fused with what might be considered a more 'internationalist' (although not necessarily high-minded) concern for restoring the international financial system.

In addition to the transnational and national perspectives, this thesis follows Clavin's example in seeking to place the history of EFO within the broader context of interwar politics and economics. In focussing on this early example of League work, I both investigate the EFO's work separately from the prism of the Depression and collapse of international order in the 1930s, and also elucidate the possible connection between events immediately post-World War One and the roots of political and economic breakdown in the 1930s. Here, the work of economists of the interwar period is highly relevant, and I explore the Austrian case in the light of debates in economics regarding the causes of the Depression. Barry Eichengreen contends that the Depression was caused in large part by a destructive 'gold standard mentality' which originated in the pre-war era and reflected a desire to return to what was perceived to have been the

⁴⁶ Steiner, Mazower and Orde tend to portray what occurred as having been primarily directed by the interests of the British, and as being primarily to their benefit: Steiner, *The Lights that Failed*; Mazower, *Dark Continent* and Orde, *British Policy*.

⁴⁷ Miklós Lojkó, *Meddling in Middle Europe – Britain and the 'Lands Between', 1919-1925*, (Budapest, 2006).

⁴⁸ Peter Jackson, *Beyond the Balance of Power – France and the Politics of National Security in the Era of the First World War* (Cambridge, 2013).

stability and prosperity of that period.⁴⁹ As Endres and Fleming discuss, there is also a debate between economic theorists regarding the nature of the League of Nations' economic thought around the extent to which the League's economic and financial specialists maintained adherence to economically and financially orthodox doctrines such as balanced and low government budgets and tight monetary control in the interwar era, and the extent to which there was innovation in their ideas. I test this debate in the light of the early example of the scheme that the League designed for Austria.⁵⁰ I ask how far this early example of League action was a reflection of the orthodox ideas about economics and finance that dominated in the pre-war era, and argue that the League's scheme did represent these values, although coordinated international action such as occurred in the Austria case was to some extent something new. Furthermore, this thesis shows how in Vienna, these values were challenged and in conflict with the policies of the regional government, but the apparent success of the Austrian scheme meant that it provided a template for further international and transnational diplomacy.

The next (second) chapter of this thesis examines why the decision was taken to attempt the financial reconstruction of Austria via an international organisation, and how it was that this scheme was successfully launched when others had foundered. Whilst precedents existed for international / transnational cooperation in the restructuring of a nation's finances, to have the League design and organise such a scheme was innovative.⁵¹ As no such plan had previously been attempted, it was not at first clear that the League could or should get involved, and indeed other methods of giving assistance to Austria, such as the provision of foreign bank loans through more conventional private channels, were explored before League control and oversight was

⁴⁹ See Boyce, *The Great Interwar Crisis* and Barry Eichengreen, *Golden Fetters – The Gold Standard and the Great Depression* (Oxford, 1992) in particular, and also Clavin, *The Great Depression in Europe* (Basingstoke, 2000). The gold standard was a monetary system in widespread operation prior to the First World War and largely restored in the interwar period in which some currencies were convertible into gold at a fixed rate. This maintained the value of currencies and their value vis-à-vis each other. If a currency was tied to a gold standard currency at a fixed rate (as in Austria), a de facto gold standard was created.

⁵⁰ See Anthony Endres and Grant Fleming, *International Organizations and the Analysis of Economic Policy 1919-1950* (Cambridge, 2002), particularly chapter 1.

⁵¹ Precedents include a scheme in Greece in 1893-1898 and one in China in the 1890s.

definitively determined upon. The decision to award the League the scheme and its successful promulgation by the organisation is sometimes depicted as resulting from the effective operation of transnational networks and the idealistic enthusiasm of certain key League officials for the scheme. I show how the role and support of certain allied powers, particularly France and Britain, was critical to the inception of the scheme, along with the involvement of banking interests, particularly the Bank of England. Indeed, transnational networks cannot be separated from these interests, and their involvement raises questions about how and why the decision to give the League the central role occurred, and the extent to which the League's role really represented a distinctive innovation. How far was the new institutional context a new means of conducting international politics and economics, or the pursuance of established methods in a formally reconfigured manner? Whilst acknowledging that the resort to an international organisation was in some respects innovative, I argue that use of the League did not entirely represent a break with the past: it had simply become the best (or perhaps only) means to pursue the reconstruction of the pre-war economic order in Austria that most of the politicians, bankers, and League financial and economic 'experts' sought. In this sense, what appeared to be an indication of a new world of international economic cooperation was just the most efficacious method of recreating pre-war economic and financial standards such as fixed values for money and balanced budgets. The innovative use of the League did confer, however, some novel benefits upon the scheme that assisted in its effectiveness. The appearance of at least some sort of neutrality that use of the League provided helped the scheme to be accepted within Austria and by other important actors, such as the international money markets and international bankers.

The third chapter investigates the nature of the scheme designed for Austria. I examine who was involved in shaping the decision-making, what ideas and interests they represented, and the assumptions that influenced the programme's form. I show that the Financial Committee of the EFO had a particularly important role in designing the scheme. They regarded the most critical goal for Austria to be obtaining a stable currency that would ultimately be fixed to gold, and this was understood as tied

irrevocably to budgetary discipline. Therefore, the central features of the plan revolved around ending the creation of money for the purposes of government expenditure and cutting government expenditure. There may not have been any other options for Austria, in the sense that the country had little room for manoeuvre in its negotiations with the League and other avenues for assistance had been exhausted.⁵² I argue that it was not inevitable, however, that the problems of Austria be assessed in the manner that they were, nor that the solutions offered take the form that they did.⁵³ In examining the decision-making behind the scheme, I seek to move beyond the polarity of a depiction of on the one hand apparently benign transnational efforts, and on the other, of the capture of the EFO by British interests. I investigate the work of League 'experts' in shaping the policies that emerged.⁵⁴ Study of this area helps to build upon the work of Clavin and Wessels, who emphasise the specific role of the secretariat in the operation of the EFO, and also allows reflection upon the role of these experts, an area of recent historical interest.⁵⁵ The work of the EFO was an early example of expert economic advising, and it reveals the influence that functionaries can have on historical events.

The fourth chapter of this thesis relates to the impact of the League's work on Austria. From the perspective of Austria, with respect to currency stability and the acquisition of the funds necessary to enable the government to keep the country afloat in the short term, the scheme achieved its aims. From the League perspective, the programme was widely regarded at the time as a great achievement. Currency reform and loans were

⁵² See Clavin, *Securing the World Economy*, 29. Peter Berger ascribes more agency to Chancellor Ignaz Seipel, arguing that League intervention and the League programme was what he wanted, and not just because the country was so desperate: Berger, 'The League of Nations'.

⁵³ Zara Steiner challenges the idea (as did some contemporary Austrian economists and politicians) that there were no other policy options for Austria and claims that Austria's real problem was the absence of a restoration of its pre-war trading patterns, rather than primarily the currency and inflation issue, Zara Steiner, *The Lights that Failed*, 283.

⁵⁴ The term 'experts' may be a useful shorthand to refer to those who, qualified and experienced in relevant fields, provide technical advice to governments or international bodies, but it implies a kind of bureaucratic or scientific objectivity that sometimes serves obscures the often political and partisan work that such people engage in.

⁵⁵ Patricia Clavin and Jens-Wilhelm Wessels, 'Transnationalism and the League of Nations: understanding the work of its Economic and Financial Organisation', in *Contemporary European History* 14/4 (2005). See also Decorant, 'Internationalism' and Timothy Mitchell, *The Rule of Experts: Egypt, Techno-Politics and Modernity* (Berkeley and London, 2002).

obtained and Austria apparently ‘saved’. League literature at the time portrayed the scheme as a triumph: for W. M. Hill ‘the success of the scheme is well known’, whilst historians of the League also often present it in this way: for Beyersdorf, the programme was ‘a great success’.⁵⁶ It was a ‘successful’ scheme, however, that resulted in a severe unemployment problem, (the level of which was at times the highest in the world), a very damaging stock market bubble and bust in 1923, repeated economic and financial difficulties throughout the second half of the 1920s and early 1930s, culminating in a banking collapse in 1931, which pre-dated that of Germany. Furthermore, economists, who have pointed to positive and negative features of the impact of the programme, do not often consider the human impact of the statistics and numerical evidence that they examine: they may discuss levels of unemployment, but make no attempt to hear the voices of those affected.⁵⁷ In deploying Austrian as well as League sources, I build a rounded picture of the various impacts of the League action in Austria. I consider the implementation of the scheme, and examine the impact on not just currency stabilisation, but also on trade, unemployment, government services, and the ways in which these had social effects. I seek to recover some of the overlooked experiences of non-elite groups in Austrian society, such as those of women and the working class. As Marcus points out, the story of Austrian reconstruction is generally a very male and bourgeois one.⁵⁸ Examining the economic and social impact of the scheme in Austria allows the inclusion of the experiences of a wider range of social groups.

The next (fifth) chapter investigates the connections between the political and the economic / financial through consideration of the scheme’s impact upon the Austrian polarised political scene. Historical research has often focussed upon the conservative support for the scheme (in the shape of primarily the Christian Social Party) and

⁵⁶ Hill, *The Economic and Financial Organisation of the League*, 28; Beyersdorf, “Credit or Chaos”, 148.

⁵⁷ See, for example, Elmus Wicker, ‘Terminating Hyperinflation in the Dismembered Habsburg Monarchy’, *American Economic Review* 76/3 (1986), 350-364, which examine unemployment levels.

⁵⁸ Marcus, *Credibility*. There were no women operating in a decision making capacity within the EFO at this time, and all the major politicians and bankers involved were male.

socialist opposition (from the Social Democrats or SDAP).⁵⁹ I examine this dynamic, but also seek to consider the relationship of events on debates on Austrian unviability, and the impact on the nascent, arguably non-existent, Austrian ‘nation’. I also demonstrate the effects of the programme on state building in the Republic, and upon perceptions of the legitimacy of this new state. In this chapter, I also reveal an overlooked aspect of the significance of the programme for Austrian reconstruction – that is, its impact upon the tensions between regional and national power in the Austrian state. Provincial leaders were concerned that the programme would result in a reduction of their powers and prerogatives, and in the City of Vienna, in particular, there developed a conflict between the League-articulated vision of ‘reconstruction’ following orthodox principles, and that of the SDAP government of Vienna, who promoted a radically different utopian socialist ‘reconstruction’.

In the sixth and concluding chapter I consider the overall impacts of the League’s work in Austria 1922-1926 in the light of the subsequent decade. I show its relationship to later events in Austria, such as the Austrian banking collapse of 1931 and League’s subsequent re-involvement in the country, the establishment of the Christian Social / fascist dictatorship, and the ‘civil war’ of 1934. In Chapter Six I also demonstrate the longer-term significance of the scheme for the League of Nations itself. As Berger says, the legacy of League involvement was much less problematic for the League than for Austria.⁶⁰ The scheme was seen to have established the credibility of the League and the feasibility of co-ordinated international action in financial and economic matters. The scheme marked an expansion in the remit of the League, whose founding charter, after all, made only scant reference to economic matters. At the time of the intervention in Austria, the EFO was only a ‘provisional’ part of the League and its work in Austria was the major factor in the permanent establishment of the EFO.⁶¹ I show

⁵⁹ The *Christlichsoziale Partei* and the *Sozialdemokratische Arbeiterpartei Österreichs*. The Christian Socials were conservative, Catholic, and represented predominately rural areas and also business interests. Not all parts of the Christian Social Party were pro-League reforms, and the radical right nationalists in the Pan-Germans were generally hostile. The Social Democrats were socialist, and represented primarily the urban working class.

⁶⁰ Berger, ‘The League of Nations’, 73.

⁶¹ See Decozant, ‘Internationalism’.

how the work of the League in Austria impacted upon the institution's future work. The League's intervention in Austria was the first of a number of similar schemes, and was regarded as an important precedent in establishing the principle of the intervention of international organisations in countries' economies and the foundations of what would become, after the Second World War, institutions such as the International Monetary Fund.⁶² I investigate the extent to which apparent success in Austria strengthened the position of the League in these areas in the 1920s, and how the League's programme was in many respects a template for other schemes, like that in Hungary in 1924. It influenced the shape of the Dawes Plan for Germany (1924) and set a precedent for international efforts in financial stabilisation. Furthermore, I argue that the apparent success of the scheme, at least as far as many non-Austrians were concerned, helped to solidify support for certain economic and financial doctrines, and show how this related to later events, such as the economic and financial crises of the late 1920s and early 1930s.

The wide range of sources that I have deployed for this project include the literature on international institutions, the history of Austria and the politics and economics of the post-war reconstruction and interwar period. Other works on the role and significance of experts, and the nature of state and institutional power are also of relevance. Important contemporary sources are the archives of the EFO at the League of Nations in Geneva. The documents there include official volumes providing records of meetings, conferences and memoranda relating to the work of the EFO in Austria, as well as the papers of senior members of the secretariat, such as head of the Economic and Financial Organisation, Sir Arthur Salter, and his predecessor, Frank Nixon. The official papers are of significance in revealing the content and nature of discussions, and the input of various individuals, but of perhaps greater importance is the less mediated material contained in the personal papers of the crucial figures within the secretariat. These help to illuminate the processes and thinking that shaped the discussions and content of meetings, conferences and official memoranda and reports. The officials'

⁶² See Louis Pauly, 'The League of Nations and the foreshadowing of the International Monetary Fund', *Essays in International Finance*, 201 (Princeton, 1996), 1-47.

papers reveal the existence of private meetings, unofficial correspondence, debates and arguments, attempts to shape (even bully) the League, and information on the League's attempts to monitor and influence the views of Austrians. The papers also draw together material from a variety of different sources, containing as they do personal correspondence relating to Austria, notes from national civil servants and bankers, records of interactions between Austrian groups and the League and other governments, and records pertaining to private meetings, including with banks. There are also political reports and memoranda, newspaper clippings, statistical reports and documents relating to preparations of conferences and committee meetings.

For tracing the impact of the League's work, the monthly reports of the League of Nation's Commissioner-General Zimmerman in Vienna are an important source, although they were generally produced with a view to promoting a positive account of progress. They do contain, however, a wealth of information about the operation of the programme and the financial and economic situation in Austria. The statistics used in these reports were produced by Zimmerman's staff, often using information provided by Austrian government ministries. Other important sources are those in Austria, including newspapers, such as *Neue Freie Presse*, *Arbeiter-Zeitung*, and *Reichspost*, records of parliamentary debates, party, state and other archives and the personal records of Austrian political figures of the time. There was a varied and lively newspaper culture in Vienna, and a very active political scene. A rich variety of archives in Austria contain material of relevance, including the State Archive, which holds foreign and finance ministry records, some other governmental records, intelligence reports, and information about political parties. The Parliamentary Library contains the records of parliamentary debates, and the Historical Institute of the University of Vienna's Women's Collection contains some ego accounts from the period. The Institute for the Study of the Worker's Movement has valuable information relating to the reactions of the Socialist party.

The provinces of Austria each have their own archive, and I have drawn upon diverse material from these including records relating to local parliamentary debates,

documents about the reconstruction programme, and the personal documents of some politicians. The housing developments of city of Vienna form their own tangible record. I focus on the archives in the provinces of Salzburg, Upper Austria (in Linz), Styria (in Graz), the Tyrol (in Innsbruck) and Vienna. Salzburg, Styria and the Tyrol are interesting as major centres for reactionary politics in the interwar period, whilst Vienna and Linz had strong Social Democratic movements. These provinces represented (and represent) a cross section of different conditions and political situations across the country.⁶³

British government archives relating to the Austrian project also contain insights into the operation of League processes and reflections on the British perspective. British officials had a particularly critical role in the project and there were frequent communications between the Treasury and Foreign Office on the matter. Otto Niemeyer of the Treasury was also a member of the Financial Committee of the League, as was Sir Basil Blackett. People in these departments also communicated with other interested parties, such as the Bank of England and League officials, and records of these communications also exist in the archive. The comprehensive reports upon the situation in Austria produced by the British Legation in Vienna for the Foreign Office also provide valuable insight into events in Austria. The British archives contain a great deal of information about the situation in Austria at the time and whilst British officials were not neutral in their understanding of the situation, they were at least outsiders in Austria, outsiders who were close to the action and who analysed the situation.

The French Foreign Ministry archive, and the archive of the *Banque de France* provide an important corrective, however, to the tendency to privilege the perspective of the British. French diplomats, politicians and bankers were intimately involved in designing the programme, and their support for, and promotion of it was crucial for its success.

⁶³ For example, as in Carinthia and Burgenland, there had been issues around borders at the end of the First World War in the Tyrol. Like Lower Austria, Upper Austria was fairly industrial. In the Tyrol and Salzburg, as well as Voralberg, there had been some consideration at the end of the war of the possibility of seceding from Austria. Similarly to the Tyrol, Carinthia had a mainly, although not exclusively rural economy. The Tyrol also attracted many tourists, as did Vienna.

Additionally, banking archives, such as those at the Bank of England, and those of Rothschild Bank, London, also contain useful material, as key participants and backers of the League's scheme, such as Sir Montagu Norman, were based in these institutions, and important discussions and meetings about the programme occurred within and between these organisations and individuals. Finally, many of the participants in the League's work in Austria produced memoirs or analyses that are of relevance in uncovering events and revealing the League perspective. The accounts of Sir Arthur Salter are particularly useful.

I have produced all translations from German and French from documents or secondary material, unless otherwise stated.

Overall, this thesis makes an important contribution to the history of international financial diplomacy and interwar Austria. I investigate the question of what the League's scheme for Austrian financial reconstruction was, and what its impact was. I argue that although the programme was the first example of the use of an international institution to pursue such a project, it in many ways reflected the interests, or perceptions of their interests, of significant European powers, and an attempt by financial elites to restore the financial and economic values of the pre-1914 era. The means of pursuing this goal were to a large extent novel, however, and, as such, the programme was a significant advance in the role of financial and economic 'expert' advice, which also reflected the enhanced role and status of central banks in the post-First World War era. These experts and central bankers were not, however much they might have perceived themselves to be, neutral, technical actors, but represented a certain world view and certain interests, which were reflected in the League's plan for Austria.

Furthermore, I argue that in examining the effects of such prescriptions, a narrow analysis, often based upon technical data and statistics, has been used by economists

and some historians, and that this analysis often reflects the limited perception of their role held by the architects of the Austrian programme. This thesis broadens the analysis of the impact of the scheme in Austria by considering not just matters reflected in statistics, but also the effects upon the Austrian state and Austrian society in terms of, for example, service provision; experiences of unemployment; the responses to the programme from trades unions, representatives of war veterans, newspapers, the public and politicians, and in terms of how the programme affected the legitimacy of the new and fragile Austrian Republic. Innovatively, the effects upon the central-provincial relations are also considered, and I demonstrate that with the policies of the Viennese provincial government, the values and precepts of the League's programme for Austrian financial reconstruction came into conflict with a radically different alternative notion of reconstruction.

It is the contention of this thesis that when looking at the consequences of programmes such as Austrian financial reconstruction, it is necessary to give a wider view of its economic and financial effects, including its effects on society, rather than, say, just examining the level of stability that the new currency achieved. I show that in the Austrian case, the ramifications of some effects, such as high unemployment, caused suffering and also political reaction and concern. I argue that the programme had far reaching consequences both in Austria and without. It demonstrated that coordinated international action on financial and economic cooperation was possible, but it also created conditions which in many ways were not helpful for the creation of legitimacy and stability in Austria, and also provided a model for international financial diplomacy that contained some problematic elements that exacerbated and even created the profound financial and economic difficulties experienced in Europe in the 1930s.

Chapter Two

Why the League?

'Austria is a running sore in Europe's body of politics, its infection growing more venomous with the passage of time'

From 'The Condition of Austria', a report by the Special Correspondent of the *Chicago Daily News*, 7 September 1922.⁶⁴

'We wished to build on the shattered foundations of the older world a new and better one, with not only stable peace but increasingly assured prosperity'

Sir Arthur Salter's description of the League of Nations in the early 1920s, in *Slave of the Lamp – A Public Servant's notebook* (London, 1967), 173.

In August 1922, following a plea from the Austrian Chancellor, the conservative Catholic priest Ignaz Seipel,⁶⁵ the decision was taken by the powers victorious in the war to ask the League of Nations to implement a scheme for Austrian reconstruction. The scheme represented an unprecedented intervention in a sovereign state, and, as such, was a landmark in international relations. Other attempts to assist Austria at this time had failed, and the League's success in launching the scheme was a vindication of the nascent organisation. The institution's role in promulgating Austrian reconstruction was portrayed by some at the time and by some recent historians as a triumph for internationalist officials and experts in Geneva, and the scheme is also widely depicted as an innovation in international and financial affairs. However, an analysis of the circumstances surrounding the League's adoption of the scheme reveals that less idealistic and innovative factors also contributed to the decision to award the League the programme, that is, the perceptions of some leading powers and economic elites of their interests. Using an international organisation to mediate Austrian financial reconstruction proved more effective than other solutions proposed at the time, as it had the benefit of giving the scheme the *appearance* of a kind of neutrality. The 'neutrality' that the League's involvement appeared to represent served to partially obscure Great Power and financial interests, and thus make the scheme more

⁶⁴ Cutting in the League of Nations Archive (LNA), S97, Mr Nixon's Files.

⁶⁵ Ignaz Seipel, 1876-1932. Seipel had been part of the last Habsburg cabinet. Before that he had taught Moral Theology at Salzburg University.

efficacious. Whilst the involvement of an international institution in this scheme was a distinct innovation, the plan in Austria was also reflective of attempts to enhance British and French power and restore orthodox finance. The scheme was thus partially an attempt to preserve pre-war powers and pre-war values, enacted via novel means.

This chapter analyses the reasons why the League was awarded the scheme, the motivations of those involved, and how it came to be successfully launched.

Explorations of Austrian financial reconstruction often only include cursory examination of this.⁶⁶ Nathan Marcus does, however, describe the process leading to the adoption of the League's programme for Austria in detail but does not focus upon the role of finance and banking interests.⁶⁷ Nicole Piétri also describes the process from the perspective of the League.⁶⁸ This chapter addresses these issues and argues that the decision-makers who were instrumental in getting the scheme adopted and the financial elites whose support was critical were motivated to assist Austria in order to support the peace settlement and the new European borders, and in order to advance their programmes for the creation, or recreation, of financial and diplomatic order in Europe. Furthermore, certain key individuals at the EFO were keen for the League to be involved, whilst for its part, Austria seemed to have run out of other options.

⁶⁶ See, for example, Yann Decorzant, 'Internationalism in the Economic and Financial Organisation of the League', in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 115-133; Peter Berger, 'The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction', in Günter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss-Schuschnigg Era in Austria: A Reassessment, Contemporary Austrian Studies*, 11 (New Brunswick and London, 2003), 78, and Nicole Piétri, 'L'oeuvre d'un organisme technique de la Société des Nations – Le Comité Financier et la Reconstruction de l'Autriche' in Graduate Institute of International Studies (ed.), *The League of Nations in Retrospect – Proceedings of the Symposium Organised by the United Nations Library and the Graduate Institute of International Studies* (Berlin, New York, 1983), 319-342.

⁶⁷ Nathan Marcus, *Credibility, Confidence and Capital: Austrian Reconstruction and the Collapse of Global Finance, 1921-1931* (unpublished thesis, New York University, 2012).

⁶⁸ Nicole Piétri, *La Société des Nations et la reconstruction financière de l'Autriche 1921-1926*, (Geneva, 1970).

'You can thank your stars you do not have to live in Vienna' – Austria 1918-1922⁶⁹

The Austrian-British philosopher Ludwig Wittgenstein, who served along the Galician front during the First World War, continued to wear his army uniform for a number of years after the end of the conflict.⁷⁰ He had left his academic position at Cambridge University to return to Austria in order to fight in the Austrian Imperial Army, and although, as heir to one of Europe's largest fortunes, Wittgenstein was hardly an average Austrian citizen, his wartime experiences as a member of the regular forces reflected the experiences of many Austrian soldiers. Wittgenstein's action in continuing to wear his army uniform – the uniform of an army that had disintegrated, which had fought along a front in a region that had been dismembered, at the frontier of an empire that no longer existed – hints at his disorientated and bereft mind-set post-war, and his condition was mirrored by that of many veterans.⁷¹ But the trauma of the defeated and returning soldiers of the defunct empire, soldiers whom Peter Melchior calls 'the strange undead', was but one aspect of the troubles encountered by post-war Austria.⁷² Defeat and the collapse of empire proved disastrous for Austria. In the wake of these twin shocks, the country struggled to absorb demobilised soldiers and refugees from former Imperial lands and experienced acute disruptions to trade, the chaotic break-up of its currency, extremely high rates of inflation, huge shortages of raw materials and food stuffs and political unrest. Instability and privation were experienced across the former Habsburg lands, but according to one League of Nations' source, 'the country which... suffered most from the disintegration of the Austro-Hungarian Empire (was) the new Republic of Austria'.⁷³

⁶⁹ Sir William Goode to J. T. Davis, 9 November 1919, the Parliamentary Archives, London (PA), LG/F/197.

⁷⁰ Born in Vienna, 1889, died in Cambridge, 1951.

⁷¹ See Ray Monk, *Ludwig Wittgenstein – The Duty of Genius* (London, 1990). Wittgenstein suffered from depression post-war and renounced his fortune and decided to become an elementary school teacher. These actions should not necessarily be assumed to be those of a disturbed mind.

⁷² Peter Melichar, 'Die Kämpfe merkwürdig Untot: K.u.K. Offiziere in der Ersten Republik', *Österreichische Zeitschrift für Geschichtswissenschaften*, 9/1 (1998), 51-84. See also Maureen Healy, 'Civilising the Soldier in Postwar Austria', in Nancy M. Wingfield and Maria Bucur (eds.), *Gender and War in Twentieth-Century Eastern Europe* (Bloomington and Indianapolis, Indiana, 2006), 47-69.

⁷³ 'The Work of the League for the Financial Reconstruction of Austria', 3 August 1921, LNA S101, Mr Nixon's files.

Conditions for ordinary people were extremely difficult. Hunger and starvation afflicted the populace, and public health crises also occurred during the Spanish Flu epidemic of 1918-1919 in the form of an epidemic of tuberculosis. The liberal Vienna-based newspaper the *Neue Freie Presse* investigated the situation in 1919 and their report gives some sense of the scale of the problems of disease and hunger. ‘Today we have to reckon with a number of at least 350,000 to 400,000 people who require treatment for tuberculosis... As a result of malnutrition a bloodless generation is growing up with undeveloped muscles, undeveloped joints, and an underdeveloped brain’.⁷⁴ Despite international relief efforts and some improvements in the world trade situation, the crisis in Austria did not abate at the start of the new decade: forty times as many bodies were buried daily in the city in early 1920 than had been the case pre-war.⁷⁵ In the same year, a British intelligence report focussed on the desperate conditions for ordinary people in the country: ‘workmen work little, partly because they are underfed... the children and middle classes suffer from under-feeding. Seventy-five per cent of the children are rickety; more than fifty per cent tubercular; sixty-seven per cent of the deaths among young persons from 16 to 20 years old are due to tuberculosis’.⁷⁶

The economy struggled to cope with the disruption of war, defeat and loss of empire: post-war industrial production was down 60% on its pre-war level, whilst agriculture was down 50%.⁷⁷ During the war, the value of real incomes had reduced substantially.⁷⁸ By 1921, the Austrian currency, the *Krone* – which had emerged from the First World War reduced in value by one third, and depreciated further as the empire fragmented

⁷⁴ *Neue Freie Presse* (NFP) article cited by John Maynard Keynes, in *The Economic Consequences of the Peace* (London, 1919), 234, footnote 1. The article was from 31 May 1919.

⁷⁵ This statistic cited by F.L. Carsten, *The First Austrian Republic 1918-1938 – A study based on British and Austrian documents* (Vermont and Aldershot, 1986), 36.

⁷⁶ Intelligence report from the British delegation of the Inter-Allied Mission, Commission of Control, to the War Office, period ending 23rd January 1921, the National Archives, Kew (TNA), FO 371, Political Central Austria.

⁷⁷ Anton Rabinbach, *The Crisis of Austrian Socialism – From Red Vienna to Civil War 1927-1934*, (Chicago, 1983), 21. The production figures refer to the territory of the First Austrian Republic.

⁷⁸ Reinhard J. Sieder, ‘Behind the Lines: Working Class Family Life in Wartime Vienna’, in Richard Wall and Jay Winter (eds.) *The Upheaval of War – Family, Work and Welfare in Europe 1914-1918* (Cambridge, 1988), 117.

and successor states switched to new currencies – was also in crisis.⁷⁹ In October of that year, monthly price increases reached hyperinflation levels.⁸⁰ At this point, the Austrian Ambassador to London, Georg Freiherr von und zu Franckenstein,⁸¹ highlighted the issue and its consequences to the Governor of the Bank of England, Sir Montagu Norman:

the Austrian currency and finance have actually broken down... [the *Krone*] ceases to fulfil the function of money, not only abroad, but also in Austria herself.... Cereals have been bought for a few weeks, although they have not yet been paid... Manufacturers and business men are deprived, through the depreciation of the *Krone* and the uncertainty as to the further development of affairs, of the basis required for business transactions. It is to be feared that a panic might arise at any moment.⁸²

The currency crisis added to the problems of shortages and food supplies, as the collapsing value of the *Krone* made the purchase of the imports required to keep the country alive difficult, and the instability and uncertainty of the situation in Austria hindered attempts by the government to obtain private credit.

Some of the reports of Austrian immiseration at this time may have been somewhat hyperbolic, designed as they sometimes were to illicit support for foreign assistance to Austria (in the case, for example, of Franckenstein's account), but nevertheless,

⁷⁹ The currency union was dissolved in a rather chaotic and disadvantageous manner: see Peter M. Garber and Michael G. Spencer, 'The Dissolution of the Austro-Hungarian Empire: Lessons for Currency Reform', *Essays in International Finance* 191 (February 1994) for further details of the economic disruptions and currency dissolution.

⁸⁰ Hanke and Krus date the commencement of Austrian hyperinflation to this month, and its end as September 1922. They define hyperinflation as a monthly increase in prices of 50% or more. For the Austrian figure, they use the consumer price index. Steve H. Hanke and Nicholas Krus, 'World hyperinflations', in Randall E. Parker and Robert Whaples (eds.), *Routledge Handbook of Major Events in European History*, (Abingdon, Oxon, 2013), table 30.1, 372-373.

⁸¹ 1878-1953. Austrian Ambassador to the Court of St. James 1920-1938, later made Sir Georg Franckenstein in recognition of his anti-Nazi stance. Franckenstein was part of a Special Commission appointed by the Austrian government who helped to prepare for the issue of the Long-Term loan, along with Peter Bark and Frank Nixon, see *The Sixth Report of the Commissioner-General of the League of Nations for Austria*, (hereafter, *Report of the Commissioner-General*) 15 May – 15 June 1923), 1.

⁸² Ambassador Franckenstein to Sir Montagu Norman, 5 October 1921, Bank of England Archive, London (BOE), OV28/52 Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

circumstances were undoubtedly extremely difficult for the country.⁸³ Defeat, loss of empire and the material conditions in the country produced a very unstable social environment. Crime and violence were rife, as the author of *Die freudlose Gasse (The Joyless Street)*, himself murdered by a member of the National Socialist party in 1925, depicted.⁸⁴ Indeed, material, social and psychological circumstances were sufficiently serious that the question was raised in Austria and abroad as to whether Austria could even continue to exist. At this stage, it was commonly felt within Austria itself that the new country was *lebensunfähig*, that is, unviable.⁸⁵ In late 1920 British Ambassador Lindley reported that there was in Vienna a 'growing conviction that Austria will not be able to exist as a political entity', whilst in March 1921 the *Neue Freie Presse* ran a large feature on *Die Frage der Lebensfähigkeit von Oesterreich* ('the question of the viability of Austria').⁸⁶ Ambassador Franckenstein warned Sir Montagu Norman of the 'danger of the collapse of the State'.⁸⁷ In 1922, the Austrian legation in London, in an appeal to Prime Minister David Lloyd George, stated that 'the continued existence of Austria has become doubtful'.⁸⁸ Similarly, the British section of the Reparation Commission (an international body based in Vienna established to assess the level at which the reparations due from Austria should be set) expressed the view that without international assistance 'Austria will disintegrate'.⁸⁹ They felt that there were 'most

⁸³ It is interesting that a report on the condition of Austria by K. Riis Hanson in July 1921 produced a less entirely negative depiction of the position of Austria. Indeed, it was recognised by League official J. Van Waldre de Bordes that a problem existed in that some of the pessimistic and doom-laden reports that emerged from Austria at this time, which were designed to maintain international sympathy for the country, also served to deter potential private investors. See 'The Work of the League for the Financial Reconstruction of Austria', 3 August 1921, LNA S101, Mr Nixon's files.

⁸⁴ Hugo Bettauer, *Die freudlose Gasse* (Vienna, 1924). The book was made into a film starring Marlene Dietrich in 1925. Maureen Healy gives details on levels of violent crime including murder rates and the incidence of domestic violence in 'Civilising the Soldier', 60-63.

⁸⁵ Discussions about the un-viability of Austria were common at this time: see Helmut Gruber, *Red Vienna – Experiment in Working-Class Culture 1919-1934* (Oxford, 1991), 22; Bruce F. Pauley, 'The Social and Economic Background of Austria's *Lebensunfähigkeit*', in Anson Rabinbach (ed.), *The Austrian Socialist Experiment – Social Democracy and Austromarxism, 1918-1934* (Boulder, Colorado, 1985), 21-37.

⁸⁶ NFP, 22 March 1921, 1. They reported that on this question there was 'doubt in America and France'.

⁸⁷ Mr Lindley to Earl Curzon, 13 December 1920, the British National Archive, Kew (TNA), T160/57, 14/10/20 – 23/12/20 and Franckenstein to Norman, 5 October 1921, BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

⁸⁸ The Austrian Legation to the British Prime Minister, 7 August 1922, TNA T160/584, Part 1.

⁸⁹ This is a summary of the British section's view by British civil servant S.D Waley, in a memo 'Austrian Relief' 12 November 1920, TNA T160/57, 14/10/20 – 23/12/20. Like Germany, Austria was obliged by its First World War peace treaty (The Treaty of St. Germain 1919) to pay reparations. The Reparations Commission concluded that Austria could not pay reparations.

serious doubts as to the possibility of ensuring the continued existence of the present Republic of Austria as a political entity'.⁹⁰ Later this sentiment was echoed in a public call for international assistance from the head of the Austrian League of Nations Union, who wrote in 1922 'this is our last appeal, the signal of a sinking ship'.⁹¹

And it was not just in Austria, where the loss of its empire and the absence of a sense of national identity made concern about the country's viability almost inevitable, but also around Europe, that fears about Austria's continued existence were expressed. In 1921, for example, C. E. ter Meulen, a Dutch banker and member of the League's Financial Committee, wrote to Sir Montagu Norman, Governor of the Bank of England, of his worries about the sustainability of Austrian existence.⁹² At a similar time, the British cabinet were informed by civil servants that 'in the absence of some assistance (Austria will) fall into a state of dissolution'.⁹³

The sense of unviability was created partly by the scale of the problems that the new and defeated state faced and also by a view that Austria without an Empire was not a sustainable economic unit, having lost its hinterlands and trading bloc as the successor states erected high tariffs against Austrian trade. Coal was a particular problem, and shortages of it hindered Austrian industrial production. New Austria had been left with 20% of the industrial steam boilers of the old Empire, but only 0.5% of its coal fields.⁹⁴ The inflationary crisis added to this impression of the country's unviability, as the

⁹⁰ Report of the British Delegation, by John Bradbury, Reparations Commission, to the Lords Commissioners of the Treasury, 13 November 1920, TNA T160/57, 14/10/20 – 23/12/20.

⁹¹ Memorandum to the League of Nations by the head of the Austrian League of Nations Union, C. Dumba, 31 August 1922, LNA S107, Sir Arthur Salter's papers, No. 4 Austria.

⁹² Ter Meulen to Sir Montagu Norman, undated message, BOE, OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

⁹³ Austria and Note 'Cabinet Decision', 17 December 1920, TNA T160/57, 14/10/20 – 23/12/20. And on 29 April 1921, at the time of a financial committee delegation visit to Vienna, Lindley told Curzon that every previous enquiry into Austrian finances had found 'that this country cannot continue its separate existence as a civilized community without the financial support of the foreign government interested in that existence', TNA T160/57, 2073/4.

⁹⁴ Although, as Bruckmüller points out, Austria had been left with 30% of the income and 32% of the industry even though their population was only 22% of the old empire. And yet, 'diese relativ günstige Ausgangslage wurde durch zahlreiche Schwierigkeiten verdunstet', Ernst Bruckmüller, *Sozialgeschichte Österreichs* (Wien, 1985), 469.

currency became progressively ever more worthless. Another more psychological factor was that the breakup of the Habsburg Empire left many Austrians facing a crisis of identity in the sense that any ‘Austrian’ identity, such as it was, was closely connected with the possession of the Empire, and the existence of the imperial army. In this new state, which could seem to be only a pale echo of what had once been, there was no equivalent ‘national’ feeling as existed (and was being at this time hastily manufactured) in the successor states of the Empire.⁹⁵

In this context of Austrian desperation, efforts were made continually within Austria and sporadically by others to alleviate Austria’s position. Much of the assistance was in the form of short-term relief, such as a British loan to Austria for £250,000 in early 1922 for the purchase of food stuffs. Between 1919 and early 1922, around £40 million in aid and loans for basic provisions were granted to Austria primarily by Britain, France, and the United States through Herbert Hoover’s American Relief Administration, along with some contributions from Czechoslovakia and Japan.⁹⁶ There was a clear understanding early on of the depth of Austria’s difficulties: even the peace treaty with Austria, the Treaty of Saint-Germain-en-Laye (1919), contained reference to the need to provide financial assistance to the Austrian state. This awareness was also reflected in the fact that no attempt was ever made to collect reparations from the country in view of its fragile condition, despite the Treaty of St. Germain containing a ‘war guilt’ clause and reparations provisions similar to those in the Treaty of Versailles.⁹⁷

A more comprehensive financial and economic settlement for Austria was required if the country was to ever stabilise. As H.R.G. Greaves, a political scientist at the LSE and

⁹⁵ Peter Thaler suggests that it was only Austria’s very small Communist Party that tried actively to construct an idea of ‘Austrian’ identity in the interwar period. Peter Thaler, ‘National History – National Imagery – the role of History in Postwar Austrian Nation-Building’, in *Central European History* (32, 3, 1999), 277-309. The Communists were not a large force in Austria. From 1936 they came to regard Pan-German ideas as fascist and thus to promote the notion of a separate ‘Austria’.

⁹⁶ This figure is cited by H.R.G. Greaves in *The League Committees and World Order – a Study of the Permanent Expert Committees of the League of Nations as an Instrument of International Government* (Oxford, 1931), 80. The other figure given for the same period is \$150 million.

⁹⁷ Noted in Outline of the General Scheme for the Rehabilitation of Austria with special reference to the part played by the Bank of England, BOE, OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

early academic investigator of the work and significance of the technical, ‘expert’ aspects of the League, wrote in 1931: ‘the policy of relief... was nothing more than a policy of palliative and continual postponement of the real problem’.⁹⁸ With this in mind, a number of schemes for Austrian reconstruction (outlined later in this chapter) were designed. The League’s scheme was the last in a sequence of plans to attempt to stabilise the situation in the country. As early as 1919, both Sir William Beveridge, then working at the Ministry of Food, and British diplomat Sir Francis Oppenheimer, who visited Austria and reported on the conditions of Austria for British Prime Minister David Lloyd George, suggested that economic and financial reconstruction for Austria would be required.⁹⁹ Various proposals were then explored between 1920 and 1922 by the Austrian government, other countries and concerned individuals, like Sir William Goode of the Reparations Commission. A more general League programme, the Ter Meulen Scheme (named after the banker who designed it), aimed at stimulating lending around the world, failed, along with various plans of British, French, Dutch and Austrian officials, bankers and diplomats. None of the schemes proposed gained sufficient support from foreign powers and the international banking and financial community to succeed, and the crisis in Austria dragged on into 1922, which saw the Austrian government, for the fourth year in a row, request emergency assistance with basic food provision from the international community, as its budget deficit ran at 40%.

Following Seipel’s August 1922 appeal to the Supreme Council of the ex-allies, during a month in which hyperinflation ran at 129%,¹⁰⁰ the League of Nations was appointed officially by Britain, France, Italy and Japan to organise a scheme for Austrian reconstruction. The League’s response to the Austrian crisis was shaped primarily by the view that the country’s fiscal crisis, which left it unable to afford to pay for basic requirements and struggling to obtain credit, was central to Austria’s problem. Thus, the resuscitation of Austrian finances was regarded as critical to Austrian survival and the scheme for Austria was one of specifically *financial* reconstruction. The EFO plan for

⁹⁸ Greaves, *The League Committees*, 80.

⁹⁹ Memorandum by Sir Francis Oppenheimer relative to the situation in Austria, June 1919, printed for the War Cabinet, July 1919, PA LG/F/197.

¹⁰⁰ Hanke and Krus, ‘World hyperinflation’, Table 30.1, 372-373.

Austria entailed the provision of loans for the country, raised via the international money markets and from the Austrian public, the repayments of which were overseen by the League, whose leading members acted as guarantors on the loans in order to increase confidence in the scheme. The security for the loans were various Austrian assets, such as the customs receipts and receipts from tobacco sales. In return for assistance in obtaining loans, the Austrian government was compelled to cease printing money, cede control of the mints to an independent bank (with the aim of returning their currency to a fixed-value gold standard) and eliminate their budget deficit - that is, they had to introduce monetary control and austerity.¹⁰¹ A League of Nations appointed Commissioner-General was dispatched to Vienna to enforce budgetary discipline and control the monies raised from the foreign loans.¹⁰² In effect, Austria temporarily lost sovereignty over its economy in return for foreign assistance with restoring the confidence of investors to lend to Austria and in the negotiation of large loans. By 1923, this plan for Austrian financial reconstruction had been successfully launched and the loans publicly floated.

Why the League? The absence of alternatives

Why was the League handed the mandate to design and enact the scheme for Austrian financial reconstruction, and why did this scheme come to fruition, when other plans had failed to get off the ground? At the time, after all, it was not clearly established that the League had a financial remit, as the League's financial and economic committees were only provisional and the Covenant of the League made only one brief mention of economic issues in Article 23, point (e).¹⁰³ Previous international efforts at financial reconstruction, such as foreign involvement in the economy of Greece between 1893 and 1898, were not undertaken in an institutional setting. Thus, a League-organised scheme to restore Austria was not the inevitable, nor necessarily the

¹⁰¹ The term 'austerity' was not used as short-hand for fiscal retrenchment and cuts in the 1920s in the way that it is now. For more discussion on this terminology see page 92.

¹⁰² For more discussion of the nature of the plan, see the next chapter.

¹⁰³ Which says that members of the League 'will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League. In this connection, the special necessities of the regions devastated during the war of 1914-1918 shall be borne in mind'.

most obvious path. Moreover, the victorious powers could not even be sure that the League was likely to be able to put its scheme into practice. As Austrian Finance Minister Victor Kienböck said, ‘there were no prototypes’ for the programme for Austria.¹⁰⁴ And in the words of Maurice Fanshawe, an early commentator on the League’s economic and financial work, ‘at this time confidence in the League’s ability to solve a great international question like this was but slender’.¹⁰⁵

Part of the reason that the League of Nations ended up as a prime mover was that other plans to assist and stabilise Austria were blocked or exhausted. The Austrians attempted to generate their own solutions to their problems, but did not meet with success. The Government sometimes negotiated directly with bankers, for example, as in May 1922, when the finance minister spoke to J. P. Morgan and Co. regarding the possibility of a loan.¹⁰⁶ However, the failure of some foreign governments to release their claims (usually referred to as liens) on Austrian assets, such as those that arose from potential reparations or loan payments, as well as continued Austrian financial and trading problems, rendered obtaining direct assistance from private banks difficult. An attempt by the Austrian government to offer some valuable tapestries, the Gobelins, as security to the House of Morgan was somewhat farcical. Morgans rejected the offer, stating that it might create a ‘pawnbroking impression’.¹⁰⁷ As the Austrian Legation in London informed British Prime Minister David Lloyd George, by 1922, the scale of problems in the country was an impediment to assistance from bankers: Ambassador Franckenstein recounted that ‘foreign bankers, who a year ago were still willing to grant... a loan, today declare that it is impossible to do so’.¹⁰⁸

¹⁰⁴ Victor Kienböck, *Das österreichische Sanierungswerk* (Stuttgart, 1925), 7.

¹⁰⁵ Maurice Fanshawe, *Reconstruction: Five Years of Work by the League of Nations* (London, 1925), 136.

¹⁰⁶ Letter from Thomas Lamont of J.P. Morgan to Arthur Sweetser, 31st October, 1922, LNA S106, Sir Arthur Salter’s papers, No. 3. Austria.

¹⁰⁷ House of Morgan cited by Stephen A. Schuker, ‘Money doctors between the wars – the competition between central banks, private finance advisors, and multi-lateral agencies, 1919–39’, in Marc Flandreau (ed.), *Money Doctors: History, Theory, Policy - The Experience of International Financial Advising, 1850-2000* (London, 2003), 58. Morgans were prepared to support the French franc in March 1924, subject to certain conditions – see Chapter Six.

¹⁰⁸ The Austrian Legation in London to David Lloyd George, 7th August, 1922, TNA T160/584, Part 1.

In the view of Chancellor Seipel, another major obstacle blocking the possibility of Austria finding its own solutions to its problems of currency, shortages, budgets and trade, was that the two largest banks in Austria acted to prevent the country obtaining foreign credit, as they obstructed negotiations in order to ensure that any finance deal suited their interests. The Anglo-Austrian Bank and the *Länderbank* (Bank of the Austrian States) had been closely tied with British and French financial interests before the war, and after it they were converted into British and French corporations. The banks were aligned with the Bank of England and the *Banque de France*, and both worked to ensure that the national and financial interests of their countries were looked after.¹⁰⁹

In this, the banks' policies reflected a major obstacle that plans for Austrian rehabilitation faced. Britain, France and Italy were all anxious to ensure that any plan did not damage their interests in Austria and their diplomatic and strategic position, and blocked attempts to provide a more comprehensive solution for Austria for this reason. The Loucheur Scheme of 1921, designed by French politician (and French Prime Minister Georges Clemenceau's economic advisor at the Paris Peace Conference) Louis Loucheur, was one such plan. The scheme, which would have seen French banking and business interests take a dominant role in the Austrian economy, did not find support in either Austria or Britain, owing to fears that the plan would amount to little more than a French annexation of Austria. This reflected a feature of British foreign policy in the region at the time, as Anne Orde shows, namely, a desire to prevent French influence and alliances spreading.¹¹⁰

An indication of British attitudes regarding the question of Austrian alliances can be seen in a note from Otto Niemeyer of the Treasury and Financial Committee of the League to the British Chancellor, Austen Chamberlain: 'the question is not now really financial. It is political. Is Austria to be eaten up by Italy or united (under French

¹⁰⁹ For more on this see Margaret Myers, 'The League Loans', in *Political Science Quarterly*, 60, (New York, 1945), 498 – 499.

¹¹⁰ See Anne Orde, *British Policy and European Reconstruction after the First World War* (Cambridge, 1990).

auspices) with Bavaria?’¹¹¹ For Britain, neither of these possibilities were desirable.

Even British officials at the League were concerned: Frank Nixon, director of the EFO’s secretariat prior to Salter, wrote in 1921 to Sir Basil Blackett at the Treasury that ‘we must prevent... an active French policy’.¹¹² Nixon had a clear view of the strategic concerns of Britain and France with regards to Austria writing that, ‘in fact, both England and France are looking five or ten years ahead. England sees the danger of France creating discord by trying to encircle Germany, France sees the danger of England dissociating herself from Europe and setting up Germany as a counter-balance to France, thereby also perpetuating political trouble’.¹¹³ Here, we gain an insight into the ways in which France and Britain regarded Austria as a potential arena for the pursuit of their strategic goals in Europe, and how mutual suspicion over these could obstruct action over the situation in Austria.

Italy too was keen to protect its own interests, particularly around its borders with Austria. This was a sensitive issue in the febrile post-war era in the country. Irredentist Italy, riven with political instability and division, stirred up by the nationalism of figures such as poet and militia leader Gabriele d’Annunzio, was resistant to the League’s initial attempts to help Austria. Like Britain, they did not wish to see Austria join the Little Entente (the French-backed alliance of Czechoslovakia, Romania and Yugoslavia) and were suspicious of Austrian moves to obtain money in Prague, Paris or London.¹¹⁴ Another difficulty for Italy was that she was Austria’s largest creditor and as the primary force of occupation within Austria, had the first claim upon Austrian resources. Italy even pushed in 1921 for the right to extract extra funds from Austria to cover the costs of ‘liberation’, that is, occupation. Italy thus had significant doubts regarding the League’s scheme, as it entailed a suspension of all external claims on Austria, and yet

¹¹¹ Handwritten note from Otto Niemeyer to the Chancellor, Austen Chamberlain, 31 August 1922, TNA T160/584, Part 1.

¹¹² Frank Nixon to Sir Basil Blackett, July 11 1921, LNA S108 Sir Arthur Salter’s papers, No. 5, 2/8.

¹¹³ Ibid.

¹¹⁴ Reported A. Akers Douglas, then British Ambassador to Vienna to Lord Curzon, 16 February 1922, TNA T160/63.

their agreement was vital for the project's success.¹¹⁵ The great powers at times acted, then, as an obstacle to progress in Austria, and hindered the chances of Austria attaining a solution to its difficulties.

It was not just concerns about their power and influence in the region that motivated other European powers to obstruct proposals for Austrian reconstruction. Another plan for Austrian rehabilitation did not gain traction because of economic factors. The proposal of Sir William Goode, a British representative on the Reparations Commission, involved a massive aid programme to Austria. Sir William – a 'high-minded Irishman' according to pro-government Viennese newspaper – was a very popular figure in Vienna, as he based himself in the city for the duration of his work on the Reparations Commission and was very sympathetic to Austria's plight.¹¹⁶ Goode had also worked on food relief for Austria at the end of the First World War. The occasion of his departure from Austria in 1921 indicated the high degree of esteem in which he was held in official circles. Tributes were paid to him in Parliament and this 'clean-shaved, elegant gentleman' was given the privilege of observing proceedings from the Presidential Box, reported the *Neue Freie Presse*.¹¹⁷ Goode's programme was viewed positively in Austria, but Allied powers would not countenance the comprehensive economic support and assistance that the plan entailed, partly because of the expenditure it necessitated, particularly in the context of war debt, and partly because such an idea was considered to be a breach of notions of sound, orthodox, responsible finance. As a Treasury official wrote to Sir Basil Blackett incredulously 'it seems that Sir William Goode is in fact asking us to commit ourselves to finance Austria indefinitely'.¹¹⁸

¹¹⁵ See, for example, A. Akers-Douglas to Lord Curzon on Italian concerns and obstruction, 16 February 1922, TNA FO404/5, Further Correspondence Respecting Central Europe, Part V. Marcus highlights Italy's obstruction of solutions on a number of occasions in *Credibility, Confidence and Capital* on pages 67, 73, 83.

¹¹⁶ *Reichspost* (RP), 2 May 1922, translation from TNA, 160/57, 2073/4.

¹¹⁷ As reported in the NFP, 29 April 1921, 7, translation from TNA T160/57, 2073/4.

¹¹⁸ H.E. Fass to Sir Basil Blackett, 5 November 1920, TNA T160/57, 14/10/20 - 23/12/20. This file also contains further evidence of British scepticism towards the Goode Plan.

A further plan which might have been of assistance, the Ter Meulen scheme, which was intended to stimulate international trade, also founderered.¹¹⁹ The Ter Meulen plan envisaged that a League-appointed commission of bankers and businessmen would act as a conduit to direct foreign finance towards stricken nations, with the assets of countries who applied to the scheme to act as security. The involvement of the League would, it was hoped, help to produce the confidence to get borrowing going.¹²⁰ The scheme did not, however, really address the un-creditworthy status of potential applicants, nor provide borrowing on particularly favourable terms. No country ever made an application to the Ter Meulen Commission. According to Myers, states who might have applied to the scheme were deterred by the sense that their application would have defined them as 'impoverished'.¹²¹ The Ter Meulen plan had, however, importantly established the *idea* in the minds of governments and banks of the possibility of League involvement in matters of international finance.

Raising finance for Austria was the primary focus of the schemes outlined above, but many at the time and some historians since, such as Zara Steiner, have felt that most of Austria's problems were not so much caused by currency issues or the size of the government budgets, but were more a result of trade problems. Oppenheimer and Beveridge had been clear of the importance of trade to the Austria as early as 1919.¹²² Chancellor Seipel highlighted the issue in a speech to the League of Nations in September 1922.¹²³ Attempts to improve matters in these areas also failed, however. Trade obstructions erected in the aftermath of the collapse of the Austro-Hungarian Empire were very slow to be reduced, and international conferences and agreements on free trade, such as that in Brussels in 1920 and Porto Rosa, Italy, in 1921, did not succeed in improving the situation for Austria.¹²⁴ Austria attempted to take the initiative itself in negotiations with Czechoslovakia and Germany on bilateral trade

¹¹⁹ See Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations 1920-1946*, (Oxford, 2013), 26.

¹²⁰ See Myers, 'The League Loans', 493.

¹²¹ Ibid., 494.

¹²² See Memorandum by Sir Francis Oppenheimer relative to the situation in Austria, June 1919, PA LG/F/197.

¹²³ Myers, 'The League Loans', 499.

¹²⁴ As Seipel pointed out.

agreements in 1922, but were thwarted when France and Italy withheld vital credits to the country until the Austrians agreed that they would undertake no moves of this nature without their consent. The Treaty of St. Germain contained within it a stipulation that Austria could not change its status without the unanimous agreement of the members of council of the League of Nations, and it was under these terms that France and Italy justified their interference. Their fears, respectively, were of a trade agreement as a prelude to a wider political association with Germany, and of an extension of the Little Entente.¹²⁵

So, the post-war diplomatic, economic and ideological context in Europe made arriving at a comprehensive solution for Austria difficult, and the question arises as to how the League scheme *was* successfully launched in this context. In investigating this, some recent historiography has situated events within a narrative of transnationalism and idealistic internationalism. In these accounts, the operation of transnational networks of bureaucrats and financial experts are regarded as central to the adoption and enactment of Austrian financial reconstruction. Transnationalism relates to movements and interactions across borders, and when examining the work of international institutions, implies networks of people working in transcendence of narrow interests in the common international good. For Yann Decorzant, for example, fundamental to the successful adoption of the League's scheme was 'the emergence of a transnational community of experts whose economic and financial perceptions transcended national interests'.¹²⁶ Beyersdorf gives a similar account and Marcus writes that League experts had a 'common commitment to subjugate narrow national interests in favour of Austrians and a better future (which) produced an unprecedented spirit of international cooperation, which helped Austrians terminate hyperinflation and begin reconstructing their economy'.¹²⁷

¹²⁵ Myers, 'The League Loans', 498-499.

¹²⁶ Yann Decorzant, 'Internationalism in the Economic and Financial Organisation of the League', in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 129.

¹²⁷ Frank Beyersdorf, "Credit or Chaos?" The Austrian Stabilisation Programme of 1923 and the League of Nations', in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011) and Nathan Marcus, *Credibility, Confidence and Capital*.

This kind of idea of an idealistic animating spirit in the League's work can be found in the memoirs of Sir Arthur Salter, head of the Secretariat of the EFO at the time of Austrian reconstruction. Salter wrote that there were hopes in the early 1920s at the League's headquarters in Geneva that the League could build 'on the shattered foundations of the older world a new and better one, with not only stable peace but increasingly assured prosperity'.¹²⁸ The League's work in Austria seemed to be part of this new world of international cooperation within which (rather heroic) transnational and internationalist experts and officials played a decisive role. Despite the desperate condition of Austria, there were, according to Salter, at the League's headquarters 'a few men there who thought that there was just a chance of success' for a programme of Austrian reconstruction.¹²⁹ Sir Arthur recounted a picnic on Lake Geneva that he took in 1922 with Jean Monnet, at this point the Under Secretary General at the League, later a leading light in the establishment of what has become the EU, and Basil Blackett of the British Treasury and League's Financial Committee, during which the three made the decisive resolution that the League should act to assist Austria. In this account, the role of the League and the dynamism and idealism of its officials were the critical factors in the League obtaining and successfully launching the scheme.

Whilst not discounting the impact of the work of transnational officials and financial experts, some of the recent transnational history, as well the accounts of League officials and supporters at the time, may reflect the 'wishful thinking' that Mark Mazower has recently argued has characterised some of the histories of

¹²⁸ Sir Arthur Salter's description of the League of Nations in the early 1920s, in *Slave of the Lamp – A Public Servant's Notebook* (London, 1967), 173. It is possible that his recollections over-emphasize the idealism in the air at the League at this time. According to Robert Boyce, Salter was 'serious, colourless... but by all accounts an admirably efficient bureaucrat'. Robert Boyce, *British Capitalism at the Crossroads, 1919-1932: A Study in Politics, Economics and International Relations* (Cambridge, 1987), 27. Boyce's account makes Salter sound the model of the detached and technocratic official. He was, however, as his writings indicate, apparently animated by deeply-held idealism in his work during the interwar period, as is illustrated by the title of one of his works, *Thirty-Five Years of Service for Abolition of War, 1910-1945, International Conciliation* 417 (January 1946).

¹²⁹ Sir Arthur Salter, *Memoirs of a Public Servant* (London, 1961), 176-177.

internationalism.¹³⁰ Ultimately, as well shall see next, the League of Nations was awarded the scheme for Austrian financial reconstruction less because of the energetic work of its idealistic employees, and more because the victorious powers did not want to allow the peace settlement or Austria to fail.

Why the League? The role and motivations of European powers

The actions of, in particular, British and French governments and officials were critical in ensuring that the League's scheme for Austrian financial reconstruction came to fruition. Mazower suggests that an overlooked question in the history of international organisations is why powerful countries such as Britain and France 'should have invested time and political capital in building international institutions at all'.¹³¹ This question can be applied to the situation with respect to Austrian financial reconstruction. It was their decision (along with Italy and Japan) to have the League manage the programme, and British and French officials and politicians worked to ensure the successful launch of the scheme. Both countries engaged in great efforts to urge for the lifting of the liens that various countries had on Austrian finances, lobbying vigorously for this and, in Britain's case, repeatedly bringing the issue up with the Americans, as Balfour did on a trip to Washington in 1921.¹³² America finally lifted its claims on Austria for a period of twenty years in 1922, something that was vital for the possibility of obtaining financing for Austria. Balfour also worked to persuade the Italian government to accept the scheme, meeting privately with the Foreign Minister Carlo Schanzer to convince him of the case.¹³³ Furthermore, British and French governmental guarantees to underwrite the loans to Austria were crucial for the successful floatation of the loans, as only with this sort of guarantee would private banks undertake to

¹³⁰ Mark Mazower, *No Enchanted Palace – the End of Empire and the Ideological Origins of the United Nations* (Princeton, 2009), 8.

¹³¹ Mark Mazower, *Governing the World – The History of an Idea* (London, 2012), xv.

¹³² Frank Nixon to Sir Basil Blackett, November 24 1921, LNA S116, Sir Arthur Salter. The League Archives and British National Archives reveal the efforts of Britain and France with regards to lifting liens: see LNA S107, Sir Arthur Salter's papers, No. 4, Austria, file 2/13/1 and TNA T160/62.

¹³³ See Marcus, *Credibility, Confidence and Capital*, 82-83.

organise public subscription for the loans, and the investor confidence exist to ensure that people were interested in subscribing.¹³⁴

The two countries did not get involved in the Austrian scheme because they had suddenly become converts to a Wilsonian version of international cooperation, however, but because they wished to see Austria survive, as they regarded this to be in their interests. The French and British governments, foreign ministries and treasuries were motivated to assist because they saw Austria's continued survival as important in maintaining the new borders determined upon in the peace settlement, something that they regarded as critical. Neither France nor Britain (nor Italy) had been particularly helpful in achieving other solutions to Austrian problems, and indeed they had blocked other potential programmes or policies. However, whilst these European powers were careful to ensure that any settlement of the Austrian issue did not infringe upon what they perceived to be their interests (as, say, *Anschluss* might have), they also did not actually wish the state to fail, because they saw this as equally counter to their interests and as potentially destabilising for Europe.

It was widely felt at the time within Austria and by others elsewhere (as will be seen below), that an Austrian collapse would entail widespread disruption and chaos across Eastern Central Europe, and this was one reason that the French and British supported attempts to ensure the survival of Austria. It is unsurprising that Austrian officials and politicians, seeking international assistance to alleviate the plight of their country, should have emphasised the scale of the problems that their country faced. Chancellor Seipel, for example, stated that the conditions in Austria 'constituted a grave danger to the peace of the world', and the Austrian Minister in Paris suggested that the 'dangerous situation which threatens Austria' presented a threat to 'the peace and equilibrium of Europe'.¹³⁵ This was a viewpoint that the Austrian government advanced

¹³⁴ In the event, the loans were oversubscribed.

¹³⁵ Dr. Seipel and the Austrian Minister in Paris to the Reparations Commission May 23 1922, LNA S108, Sir Arthur Salter's papers, No.5 2/8.

frequently. In a memorandum to an inter-allied meeting in 1922, they expounded their case in dramatic terms, positing Austrian ‘civilisation’ as a vital force in the world,

Austria is today which she has been for centuries, the bulwark of Western Civilisation, an element of peace and order in Middle Europe, inhabited by a peaceable, industrious and skilled population. The Austrian Government is responsible for the maintenance in Austria and above all in Vienna, of an ancient seat of civilisation, irreplaceable for Europe and the whole world.¹³⁶

Writing in similar terms in a public appeal for western assistance to Austria in 1920, Austria businessman Julius Meinl stated that ‘Austria has for nearly a thousand years been the last bulwark of Western civilisation against the dangers of the East’.¹³⁷

This depiction of Austria as a final frontier against the wild and barbaric east was not, however, just an Austrian perspective. One motivation for the British in wishing to avoid Austrian collapse may have been a belief that the country was a bastion of civilisation. There are references in British documents to the civilised qualities of Austria, reflected in Lindley’s comment that it was ‘the most orderly and civilised society in central Europe’.¹³⁸ Francis Oppenheimer also had a positive view of the qualities of Austrian society and the characteristics of the Austrian people, writing that they were an ‘altogether lovable race’ and a ‘sober, hard-working, enterprising people.... As a people their character is entirely foreign to what is known now as the true ‘German’ character. They are a people not unlike the French in some details, gay, cultured, and chivalrous’.¹³⁹ In these sources we may perhaps see some support for Robert Boyce’s view that a factor influencing British foreign policy between the wars was stereotyped assumptions about the national or racial characteristics of various

¹³⁶ Memorandum to the British Prime Minister, David Lloyd George, President of the Inter-Allied Meeting from the Austrian Government, 7 August 1922, TNA T160/586, part 1.

¹³⁷ Julius Meinl, ‘The Reconstruction of Europe’, February 1920, PA LG/F/198/2.

¹³⁸ Mr Lindley to Earl Curzon, 3 November, 1920, TNA T160/57, 14/10/20 – 23/12/20.

¹³⁹ Memorandum by Sir Francis Oppenheimer relative to the situation in Austria, June 1919, PA, LG/F/197. Even Charles A. Gulick, author of a magisterial study of Austrian History in the modern era, *Austria From Habsburg to Hitler* (Berkeley and Los Angeles, 1948) expresses this kind of ‘racial’ stereotype, writing (volume II, 789) that ‘the temper of the Austrian is easily aroused. Slavic, Hungarian and Italian blood in German veins has produced a highly inflammable mixture’.

states.¹⁴⁰ And it was not just in Britain that such beliefs shaped diplomacy: as Liaquat Ahamed points out, at this time ‘racial and national stereotypes were taken for granted’.¹⁴¹ These are reflected in the dismaying observation of Frank Nixon, in a letter to John Maynard Keynes, (whom he was hoping to persuade to produce an article for the *Manchester Guardian* on the subject of the advantages of the League involvement in Austria) that Austria should be assisted by the international community as she was not a ‘Nigger country’.¹⁴² This kind of racism also perhaps underlay Nixon’s statement elsewhere that ‘the Turkification of Vienna is unthinkable’. Turkey, facing financial and budgetary problems, had found its budget subject to direct control by foreign bankers.¹⁴³ This fate was apparently an unacceptable one for Austria.

Regardless of whether notions of racial hierarchy and ‘civilisation’ directly motivated British (or others’) assistance, there certainly seems to have been no doubt in the minds of many politicians, officials and journalists that the failure of Austria as a state posed a grave risk to European stability: this was not just an Austrian opinion. Sir Arthur Salter said in 1923 that in August 1922 Austria had been ‘on the very verge of falling into the chaos of starvation, riot and revolution, - with the very great danger to the peace of Europe’.¹⁴⁴ The situation in Austria was perceived as having significance for the recovery of the continent as a whole, and British and French politicians, diplomats and officials were also interested for this reason. French Prime Minister and foreign secretary Raymond Poincaré worried that the situation presented ‘a danger for the Austrian regime and also for the tranquillity of central Europe’,¹⁴⁵ and in a message to

¹⁴⁰ See Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke, 2009).

¹⁴¹ Liaquat Ahamed, *Lords of Finance – The Bankers Who Broke the World* (London, 2007), 9

¹⁴² Letter from Frank Nixon to John Maynard Keynes, 6 April 1922, LNA S108, Sir Arthur Salter’s papers, No.5 2/8. Nixon drafted a letter for Jean Monnet to send to a member of J.P. Morgan which echoed these sentiments, but interestingly, it was never sent. A copy of this is in the same LNA file.

¹⁴³ Frank Nixon to Mr Cumming, 20 June 1922, LNA S107, Sir Arthur Salter’s papers, No. 4 Austria. Turkey had faced control of this nature between 1878 and 1881. See Comité du Conseil, Reconstruction Financière de l’Autriche, LNA C/S.C.A/2.

¹⁴⁴ Sir Arthur Salter, letter to Sir Herbert Ames, 16 March 1923, LNA S107, Sir Arthur Salter, No. 4 Austria. In a similar vein, The Chicago Daily News’s correspondent reported in the same year that Austrian collapse or failure ‘may have the power of dragging all Eastern Europe with them in their fall towards chaos’.

¹⁴⁵ M. Poincaré to M de Saint-Aulaire and M. Lefèvre-Pontailis, Paris, 1 March 1922, Ministère des Affaires Étrangères, *Documents-Diplomatiques Français*, 1922, Tome I, (Brussels, Bern, Berlin, Frankfurt am Main, New York, Oxford, Vienna, 2008), 113. There are other document expressing similar sentiments in this volume; Note du Department, 23 Janvier 1921, 29; Note du Department, 31 Juli 1922, 78.

the American government, the British government stated that the result of the failure of Austria for the region ‘would be inconceivably disastrous both politically and economically’.¹⁴⁶

Britain and France regarded Austrian stability as important for European post-war recovery in general. For Sir Basil Blackett of the British Treasury and Financial Committee of the League, for example, ‘the Austrian problem could not be considered by itself, and as detached from the problem of European reconstruction’.¹⁴⁷ Eric Drummond cited concern with the general position of Europe as an important factor motivating the British and the French at the time that the League was first awarded the project for Austrian reconstruction, and then when the Geneva Protocols were signed. He wrote that, ‘the preoccupations of the Guaranteeing Powers with the whole European situation (the chain in which Germany is very much the weakest link) caused them to come to the help of Austria... the League’s scheme for Austria offered the chief Powers an opportunity of general collaboration support of the European system as a whole’.¹⁴⁸

The British and French were primarily keen to ensure that Austria did not completely collapse because they wanted to guarantee that the post-war settlement they had designed for Europe succeeded, and thus the new borders and new states that had been determined upon in Eastern Central Europe must not fail.¹⁴⁹ Events in Austria were seen as hugely important at the time and critical for the establishment of the post-war order: as Lindley commented to British foreign secretary Lord Curzon, ‘the disappearance of Austria as a body politic would signify the definite failure of the Peace

¹⁴⁶ Telegram from the British to the American Government, 1 July 1922. The note was a request for the Americans to suspend their liens in Austria, TNA T160/63, USA.

¹⁴⁷ Sir Basil Blackett, letter to Sir Herbert Ames, 16 March 1923, LNA S107 Sir Arthur Salter, No.4 Austria.

¹⁴⁸ Eric Drummond to Wallenberg, 17 November 1922, LNA S107 Sir Arthur Salter, No.4 Austria. The letter appears to have been drafted by Frank Nixon.

¹⁴⁹ In the view of Herbert Hoover, whose American Relief Administration had worked extensively in Austria, the Austrian state as created by the ‘Governments that signed the Treaty of Saint-Germain... is incapable of staying alive’. Sir William Goode to Philip Kerr quoting Herbert Hoover in the New York Herald, 15 February 1921, PA LG/F/198/2.

Settlement'.¹⁵⁰ Blackett asked whether 'we afford to stand aside... and risk Austria's falling into complete anarchy and possibly dragging down some of the succession states with her?'.¹⁵¹ So for Britain and France, supporting a scheme to attempt to resuscitate Austria was a way of upholding European order, the new borders endorsed by the peace treaties and the wider post-war settlement: a European order which they perceived to be in their interests to maintain.

The sources show that in Britain, it was generally civil servants and officials and, as we shall see, the Bank of England and city interests, that urged League action on the Austrian question. Prime Minister David Lloyd George was somewhat more sceptical, although at the time of Seipel's speech to the General Assembly of the League on 6 September 1922, he threw his weight behind a League programme.¹⁵² French politicians were always more motivated to act. The French regarded the continued existence of independent Austria as particularly critical as they wished to prevent the formation of a stronger Germany and thus to ensure that *Anschluss*, union between Austria and Germany, did not occur. Paul Cambon had in 1919 identified the existence of an independent Austrian state as crucial to the French strategy of containment of German power and ambitions, whilst Poincaré, writing in connection with the scheme for Austrian reconstruction, wrote of the 'legitimacy of the rights of France with respect to Germany'.¹⁵³ A problem for France, however, was that the most commonly proposed solution in Austria to the issue of supposed unviability was forming some sort of union with Germany. Support for this idea came from across the political spectrum in Austria and not just from the Pan-Germans,¹⁵⁴ whose aim *Anschluss* clearly was.¹⁵⁵

¹⁵⁰ Note from Mr Lindley of the Austrian Section of the Reparations Commission to Earl Curzon, November 3, 1920, TNA T160/57, 14/10/20 – 23/12/20.

¹⁵¹ Sir Basil Blackett to H.E. Fass, 16 November 1920, TNA T160/57, 14/10/20 – 23/12/20.

¹⁵² See Marcus, *Credibility, Confidence and Capital*, 84.

¹⁵³ Paul Cambon, cited by Peter Jackson, *Beyond the Balance of Power – France and the Politics of National Security in the Era of the First World War* (Cambridge, 2013), 242; M. Poincaré à l'Ambassadeur d'Italie, 20 September 1922, *Documents-Diplomatiques Français, 1922 Tome I*, no. 188, 296. Poincaré was responding to an Italian request for a significant role in overseeing the programme in Austria. The French premier was sceptical about this, however, partly because of lack of Italian understanding of French 'rights' in relation to Germany.

¹⁵⁴ The Pan-Germans were the *Großdeutsche Volkspartei*.

¹⁵⁵ There was a wider *Anschluss* and German nationalist movement outside of the Pan-German Party.

In the early 1920s, one of the major political parties in Austria, the Social Democratic Workers' Party (SDAP), who mainly represented the urban working class, held the view that *Anschluss* was the best solution for Austria. This opinion was shared in some sections of the other main party, the conservative Christian Social Party, a Catholic party representing predominantly, although by no means exclusively, the rural areas. The Christian Social Party's national leadership were more sceptical as they had concerns about the possibility of Protestant or socialist domination of Austria, if the country were to join Germany.¹⁵⁶ As early as 1919, the Austrian Parliament, then Socialist-dominated, had voted in favour of *Anschluss* (this at a time when Germany had a Social Democrat-led government and President, Friedrich Ebert). The Austria Parliament, within which Pan-Germans were only a small minority, objected to the treaty of St Germain on the basis that it deprived Austria of its 'heartfelt desire, which also represents a vital economic, cultural, and political necessity: the union of German Austria with the mother country'.¹⁵⁷ There was support for merging with Germany at the highest levels of the SDAP: the response to the 1922 hyperinflation crisis of Austrian Socialist leader Otto Bauer was to propose a currency union between Germany and Austria, as a prelude to later *Anschluss*. Meanwhile, the Austro-German Popular League had a mass membership, and in the Christian Socialist dominated federal regions of Austria, various plebiscites proposing *Anschluss* were held at this time: one in Salzburg in 1921 saw a result of 99.3% in favour.¹⁵⁸

The issue for Austria was not only the apparent unviability that its post-war problems seemed to indicate, but also that the country lacked a sense of national identity. In

¹⁵⁶ According to Jerry W. Pyle, Seipel was anti-Anschluss but only converted to the idea of supporting new Austria when it became clear that there was no possibility of a Danubian Confederation (see page 57, footnote 172), Pyle, 'Austrian Patriotism – Alternative to *Anschluss*', in F. Parkinson (ed.), *Conquering the Past – Austrian Nazism Yesterday and Today* (Detroit, MI., 1989), 76.

¹⁵⁷ Peter Thaler, *The Ambivalence of Identity – The Austrian Experience of Nation-Building in a Modern Society* (West Lafayette, 2001), 69. The translation is Thaler's. The Resolution of the National Assembly, 6 September 1919 can be found in Österreichische Staatsarchiv (ÖStA), AdR, NPA, Karton 4, Deutschösterreich.

¹⁵⁸ Barbara Jelavich, *Modern Austria – Empire and Republic 1800-1980* (Cambridge, 1987), 169. Although the Pan-German party did not itself come near to being the dominant party: in the 1923 election, their support fell from 17 to less than 13%, see F. L. Carsten, *The First Austrian Republic*, 61.

Stefan Zweig's novella *Chess*, the protagonist, under arrest and enduring persecution by Nazis in Vienna, yearns for old Austria. He has a clear sense of an Austrian-ness that is distinct from German identity. But this identity, which may have reflected Zweig's own feelings, was formed later, after Nazi takeover and the discrediting of German nationalism as a reactionary and repressive force.¹⁵⁹ Certainly, as Peter Thaler argues, Austrian's national identity in the post-First World War period was primarily a German one: if the empire was gone, then most Austrians wished to unify with Germany and felt themselves to be Germans.¹⁶⁰ The hyperinflation crisis increased these sentiments as it exacerbated the sense of unviable Austria (in spite of the similar – perhaps greater – difficulties Germany was having at this time).¹⁶¹ So the call for *Anschluss* in Austria was strong in the early 1920s, and this was very worrying for France. *Anschluss* was considered by the French to be completely inimical to their interests, and the dissolution of Austria might lead to this, a contingency viewed by France with the 'utmost misgivings'.¹⁶² When the plebiscite on possible *Anschluss* was called in Salzburg in 1921, the French had signalled their complete hostility and willingness to take drastic action to prevent this eventuality by threatening to cut off aid supplies should the vote go ahead.¹⁶³ For the French it was vital that events in Austria did not serve to strengthen either Germany or Italy.¹⁶⁴

¹⁵⁹ Stefan Zweig, *Chess*, trans. Anthea Bell (London, 2011). As has been outlined before on page 7, footnote 2 Zweig's views about these matters are not necessarily typical of Austrian attitudes.

¹⁶⁰ Thaler, *The Ambivalence of Identity*. Oppenheimer doubted the depth of the pro-*Anschluss* sentiment in his 1920 report, writing that 'the majority of the people never desired the fusion with Germany provided there was any escape from utter collapse. The extremes in the Social Democratic Party supported and still support this fusion, because Socialists dream of a World Empire, and every gain in territory is deemed a step towards the ultimate goal. Some of the intelligent industrialists also support this policy of fusion with Germany because they regard Germany as their most natural market... the fanatics for fusion... continue their propaganda on the ground of blood relationship and national principles,' Memorandum by Sir Francis Oppenheimer relative to the situation in Austria, June 1919, PA LG/F/197.

¹⁶¹ Germany was also running high rates of inflation by this stage and faced a much greater challenge from political extremists than Austria. In Austria, whilst most political parties did not support the nation, they, for now, did support the state.

¹⁶² The French view summarised in 'The Condition of Austria – Cabinet Decision', 17 December 1920, TNA T160/57, 14/10/20 – 23/12/20.

¹⁶³ The French reaction to the possible plebiscite outlined by Sir William Goode in a letter to Basil Blackett on 21 April 1921, PA LG/F/197.

¹⁶⁴ For more on French foreign policy and security concerns at this time, see Jackson, *Beyond the Balance of Power*; Robert Boyce (ed.), *French Foreign and Defence Policy 1918-1940 – The Decline and Fall of a Great Power* (London, 1998) and Piotr S. Wandycz, *France and her Eastern Allies 1919-1925. French-Czechoslovak-Polish relations from the Paris Peace Conference to Locarno* (Minneapolis, 1962).

Peter Jackson argues that French foreign policy had more ‘internationalist’ currents in the post-First World War era than is commonly recognised. He also finds, however, that what he refers to as the ‘traditional’ approach – that is, a balance of power approach – prevailed in certain areas, and in particular, in policy towards Eastern Central Europe and with respect to *Anschluss*.¹⁶⁵ The Poincaré government, in power from January 1922, was more determined in this approach than the Briand government that preceded it. Securing the independence of Austria via the League of Nations programme thus became a crucial part of this strategy for France, and in the view of the French *Chargé d’Affaires* in Vienna the Geneva protocols were a triumph: ‘*La politique Français* has indeed succeeded even in its nuances’ he announced triumphantly to Poincaré in October 1922. A ‘solid base [had been] established to ensure the independent existence of Austria’.¹⁶⁶ Through the Geneva agreements the French had achieved what they thought was an extra guarantee against Austro-German union in the form the *Anschlussverbot* (Anschluss ban) clause, and they supported the Geneva protocols in general as measures that would help to ensure the durability of the independence of Austria, and that would thus protect the post-war borders of successor states and reduce the likelihood of connections deepening between Germany and Austria. The French feared that their security would be vulnerable and their economic interests damaged by an enhancement to the territory or status of Germany, and did not wish to see anything hinder the development of their Little Entente system of alliances. In fact, French government and diplomats even thought that Austria might join the Little Entente, which the French Plenipotentiary to Vienna, Pierre Lefèvre-Pontalis, thought ‘in more than one way, meets French interests in the Danube region’.¹⁶⁷

¹⁶⁵ See Jackson, *Beyond the Balance of Power*, 237-237.

¹⁶⁶ M. Maugras, *Chargé d’Affaires Français à Vienne*, à M. Poincaré, 30 October 1922, *Documents-Diplomatiques Français*, no. 287, 154.

¹⁶⁷ M. Lefèvre-Pontalis à M. Poincaré, 4 March 1922, *Les Archives diplomatiques du ministère des Affaires étrangères*, Courneuve, Paris (AD), CPC-Z-Europe, Europe 1918-29, 65 Autriche.

And it was not only a French view that German expansion was unconscionable. Sir William Goode, speaking in 1921, felt it ‘unthinkable that the Allies could permit Germany to extend her Empire to the borders of the Adriatic, with frontiers in the rear of Czechoslovakia and on the flanks of Hungary, Yugoslavia and Italy. If that happened, an astonished world might well ask who won the war’.¹⁶⁸ Austria must not be permitted to form alliances that would strengthen the position of Germany, and the Austrian reconstruction project became a means by which the Allied powers could attempt to achieve this.

In addition to the security concerns that motivated British and French support for the Austrian scheme, the League programme was also the commencement of an aspect of what Jackson identifies as the more ‘internationalist’ current in French security thinking: that is, their desire to ultimately enmesh Germany in a financial system of loans that would help restore the European economy and tie European states with America. Jackson does not focus on the issue of the Austrian guarantees and the Geneva programme, but they were clear precursors to a wider programme to stimulate capital flows in Europe, as will be explored in the Chapter Six.¹⁶⁹

In addition to British and French support, Czechoslovakian support was also important in the provision of the guarantees that underwrote the loans to Austria that were a central part of the League of Nation’s scheme.¹⁷⁰ The Czechoslovak government had a motivation to restore Austria in order to benefit their own trade, trade with Austria being an important component of the Czech economy, but were also motivated by similar concerns to those expressed by British and French officials and statesmen about the strategic alignment of Austria. An insight into this can be gained in the statement in

¹⁶⁸ Speech delivered by Sir William Goode at a luncheon given in Paris, 14 January 1921, PA LG/F/198/2, Austrian-Hungary April 1919-May 1921.

¹⁶⁹ See Jackson, *Beyond the Balance of Power*, 392, on France, internationalism and reparations in relation to Germany.

¹⁷⁰ More favourable relations had been established between Austria and Czechoslovakia after the signing of the Treaty of Lana in which the two countries agreed to respect their borders as established by the peace treaties. Eduard März, *Austrian Banking and Financial Policy – Creditanstalt at a Turning Point, 1913-1923*, trans. Charles Kessler (London, 1984), 506, originally published in German as *Österreichische Bankpolitik in der Zeit der großen Wende 1913-1923* (Vienna, 1981).

1925 to the Prague Press of Czechoslovak by foreign secretary and statesman, member of the League Council, former Czech Prime Minister and leader of the independence movement and later President, Edvard Beneš,¹⁷¹ that ‘in the Austria question two solutions must be categorically excluded, i.e. union with Germany and the Danube Confederation,¹⁷² which nobody desires. Austria must, therefore, receive economic aid to keep her independence.’¹⁷³ For Beneš and the Czech government too, the territorial integrity of independent Austria was of critical importance.

Britain and France were also keen to prevent the Bolsheviks, or other radical left-wing parties, gaining in strength in Central Europe. As early as 1919, when the potential for a revolutionary left-wing takeover in Austria was probably at its highest, Francis Oppenheimer felt that there was a connection between Allied support and the prevention of the rise of revolutionary left-wing ideas in Austria. He reported to David Lloyd George that in Austria ‘as long as there is hope that the Allies will save the country from utter ruin, Bolshevism has little chance of success.’¹⁷⁴ The desire to ensure that Bolshevik ideas did not gain traction in Austria, and fears about the threat that these posed there persisted into the 1920s. Despite the real danger of Bolshevik takeover in Austria having passed and the tiny size of the Communist Party in Austria, the Reparation Commission worried in 1921 about the activities of Bolshevik agents in Vienna.¹⁷⁵ British and French documents also reveal anxiety about Bolshevik support within Austria, and that the left-wing leanings of the army were a particular worry. Prime Minister Poincaré expressed his concern on this score in 1922, the year that the League scheme was determined upon, writing that the army’s ‘morale constitutes a danger for the Austrian regime and also for the tranquillity of central Europe. In particular, the Soldiers’ Soviets make the *Wehrmacht*, normally charged with

¹⁷¹ Edvard Beneš, 1884-1948.

¹⁷² The idea of a Danubian Confederation was that former Austro-Hungarian lands situation on the Danube such as Austria and Czechoslovakia could unite.

¹⁷³ Declaration by Dr. Benes to representatives of the ‘Prager Presse’, 9 May 1925, LNA S113, Austria – Sir Arthur Salter’s Papers.

¹⁷⁴ Memorandum by Sir Francis Oppenheimer relative to the situation in Austria, June 1919, printed for the War Cabinet July 1919, PA LG/F/197.

¹⁷⁵ Extract from a letter from Captain Thornely Gibson, Acting British Representative on the Austrian Section of the Reparation Commission, 6 January 1921, PA LG/ F/198/2, Austria-Hungary April 1919-May 1921.

maintaining order, a mere instrument in the hands of the Social Democrats and the Communists'.¹⁷⁶ Here we see the conflation between social democracy and communism so commonly made by inter-war conservative politicians, as in reality by this stage, the SDAP had long ago defeated the Bolshevik elements in the army.

Despite this, however, the British were concerned too. In March 1922, British foreign secretary Curzon wrote to the then British Ambassador in Vienna, A. Akers Douglas, that the British and French governments were worried about Bolshevism within the Austrian army. According to British civil servant Herbert Butterworth, the Supreme Council decision to refer the Austrian situation to the Financial Committee of the League of Nations was partly motivated by the fact that 'there were some apprehensions as to what might happen if a communist coup resulted from the fulfilment of the present Government's threat to abdicate'.¹⁷⁷ In the view of Sir William Goode, it was to prevent the eventuality of a revolutionary coup that France hoped for Austrian rehabilitation in order that Austria present 'some stabilised point in Central and Southern Europe'.¹⁷⁸ Supporting Austrian rehabilitation was, then, a way to support a further part of Britain and France's plan for the post-war settlement and the maintenance of their power: the prevention of the spread of Bolshevism.

So key allied states in post-war Europe wished to see Austria survive, albeit in a form that suited their interests, and the League eventually became the only way to pursue this goal, as other possibilities were either at this time impossible, or politically unpalatable. Britain, for example, would not countenance comprehensive economic support and assistance to Austria, partly because of the cost and the breach of the principles of sound finance that the Goode plan entailed. An additional obstacle to an alternative solution was that successor states were often obstructive in attempts to

¹⁷⁶ M. Poincaré to M. de Saint-Aulaire and M. Lefèvre-Pontailis, Paris, 1 March 1922, *Documents-Diplomatique Français 1922, Tome I*, 113.

¹⁷⁷ Earl Curzon to A. Akers Douglas, 9 March 1922, TNA FO 404/5, Further correspondence respecting Central Europe, Part V January – June 1922; Herbert Butterworth to Frank Nixon, 16 August 1922, LNA S107, Sir Arthur Salter's papers, No. 4 Austria.

¹⁷⁸ Sir William Goode to Mr Fass, 19 November 1920, TNA T160/57, 14/10/20 – 23/12/20.

improve trading relations with Austria whilst, as we have seen, *Anschluss* was politically unsupportable particularly for the French. Furthermore, the on-going crisis in Austria and the absence of any possible securities made obtaining further funds commercially all but impossible. As Benjamin Strong, the head of the Federal Reserve in the USA wrote to Sir Montagu Norman, his British counterpart at the Bank of England, ‘conditions in Austria are generally described... as so desperate that ... [a loan] would hardly attract our banks even at a high [interest] rate’.¹⁷⁹ Ultimately, then, the decision to use the League of Nations, and then to back the League in making the scheme a success, partly came down to the lack of other options, combined with the desire on the part of particularly France and Britain to keep trying to see if the country could be saved. In the event, the Geneva protocols obligated Britain, France, Italy and Czechoslovakia to uphold the ‘the political viability, the territorial integrity and the Sovereignty of Austria’.¹⁸⁰ Here, we find support for Mazower’s argument that a reason for great power involvement in international institutions after the First World War was that the League was seen as a means of supporting the peace settlement and new borders for Europe that they had designed.¹⁸¹ In this sense the League’s scheme could be seen as representing the new order for Europe that they had created following the First World War. But in the sense that Britain and France, the status quo powers before the war, were seeking to use the new order and the League to enhance their powers, the scheme for Austria also partly represented an attempt to create continuity with the pre-war era. Britain and France backed League action not because they had suddenly become governments of idealists, but because they saw it as potentially beneficial in strengthening their European position, and enhancing their status, and in France’s case, protecting their security. A novel element, however, was that these ‘great power’ ambitions were advanced partially through drawing Austria in to a complex sets of international financial arrangements which were, in an unprecedented move,

¹⁷⁹ Benjamin Strong to Sir Montagu Norman, received 9 June 1921, BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

¹⁸⁰ Die Protokolle im Bundesgesetzblatt für die Republik Österreich von 3 Dezember 1922, 842, cited by Rolf Steininger in ‘12 November 1918 bis 13. März 1938: Stationen auf dem Weg zum ‘Anschluss’, in Rolf Steininger and Michael Gehler (eds.), *Österreich im 20. Jahrhundert, Band 1 – Von der Monarchie bis zum Zweiten Weltkrieg* (Wien, Köln, Weimar, 1997), 111.

¹⁸¹ Mazower, *Governing the World*, xvi.

underwritten by the governments of certain states. This system, it was hoped, would strengthen the position of European finances and economies in general.

Why the League? The role and motivations of bankers and financiers

It was not just the involvement of some of the great powers of Europe that was essential for the successful launch of the League of Nations' scheme for Austrian financial reconstruction. The participation and cooperation of banks was also crucial, as the scheme entailed the raising, through private channels, of short- and long-term credits for Austria. The Austrian government had found it increasingly difficult to obtain any such funds: a direct appeal by Dr Rosenberg of the Austrian Finance Ministry to Morgans failed to produce a positive response.¹⁸² A consortium of British and American private banks were interested in the possibility of lending money to the country, but were wary of the instability of conditions there and so sent British banker and diplomat G.M. Young on a mission to Vienna to investigate the economic and financial position of Austria.¹⁸³ Young's report was not encouraging and the group regretted that they could not assist, writing to the Ambassador Franckenstein 'we and our associates unanimously came to the conclusion that the present financial conditions in Austria are so unstable that it is impossible for us to find a basis upon which a loan could be offered to the public'.¹⁸⁴ For Young, the key problem was the question of Austrian viability and stability. His conclusion was that 'Austria is a good investment area but a doubtful political entity', and thus, too risky to invest in or lend to.¹⁸⁵ Ultimately, however, a number of leading private banks did get involved in the League scheme to float short-term and long-term loans to Austria. It was the support of international bankers that was critical to the successful launch of the two foreign loans.¹⁸⁶ To

¹⁸² See letter from Harry P. Davison (of J.P. Morgan) to James P. Warburg, March 16, 1923, Rothschild Archive, London (RAL), 11/189, Special Correspondence re Austria (Loan).

¹⁸³ Young represented Rothschilds, Baring Bros and J. Henry Schroeder from London and J.P. Morgan of New York: see RAL, 111/189 Special Correspondence re Austria (Loan). He was also head of the Anglo-Austrian Bank.

¹⁸⁴ Morgan Grenfell and Co. to Georg Franckenstein, 8 July 1922, RAL 111/189 Special Correspondence re Austria (Loan).

¹⁸⁵ G.M. Young to Mr. Spencer Smith, 17 June 1922, BOE OV28/53, Austrian Rehabilitation, 3 April – 28 December 1922.

¹⁸⁶ Austrian bankers and financial institutions also supported the League project: they supported its ideological aims: see Chapter Three and Dieter Stiefel, 'The Bankers' View': Austria's Economic and Political Development

reframe Mazower's question about the interests of great powers in international institutions, it could also be asked why financial elites would participate in the work of these organisations, particularly when the risks were such that, as has been seen, bankers were reluctant to be involved in advancing further funds.

That banks did get involved can be accounted for in a number of ways. One factor was the promotion (despite some misgivings about League control and the guarantees offered by various countries) of the plan by the Governor of the Bank of England, Sir Montagu Norman, and the support he received in this from Benjamin Strong, Governor of the Federal Reserve in America.

Norman had very close links with the Financial Committee of the League of Nations and with leading members of various banks, such as Morgan Grenfell. In the case of the work of the Bank of England on the scheme, examination of the Bank's archives reveals the centrality of the Governor to the direction of the Bank's policy on this and many other matters. Norman was not only well-connected, with enormous powers (greater than those of his US equivalent), he was also personally very vigorous in pursuit of his aims.¹⁸⁷ Norman personally, and the Bank of England under his direction more generally, worked diligently to ensure the scheme was a success, and also arranged for the Bank of England to float the long-term loan to Austria in London along with Morgan Grenfell. An example of the Bank of England's work on the Austrian project can be found in a meeting convened in January 1923 by the Deputy Governor to investigate the League of Nations' plan for obtaining foreign financial aid for Austria. In attendance were senior representatives of Barings, Rothschilds, Schroders and Morgan Grenfell banks, along with Otto Niemeyer of the British Treasury, Sir Henry Strakosch of Financial Committee of the League of Nations, and a Director of the Anglo-Austrian

and the Role of the Banks', in Gerald D. Feldman and Peter Hertner (eds.), *Finance and Modernization – A Transnational and Transcontinental Perspective for the Nineteenth and Twentieth Centuries* (Farnham, Surrey, 2008), 10.

¹⁸⁷ See BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922. Recent historians confirm this point: see Ahamed, *Lords of Finance*, György Péteri, 'Central Bank Diplomacy: Montagu Norman and Central Europe's Monetary Reconstruction after World War I', *Contemporary European History*, 1/3 (November, 1992). See also H. Clay, *Lord Norman* (London, 1957).

Bank.¹⁸⁸ Sir Montagu Norman himself was in frequent communication with members of the Treasury, the League's Financial Committee and its Secretariat, banking representatives and Austrian representatives, such as Ambassador Franckenstein, and Benjamin Strong at the Federal Reserve, as well as, the head of the *Banque de France* and other bankers about the scheme for Austria.¹⁸⁹ Norman also helped with the project by organising the Treasury to offer discounted Austrian treasury bills in March 1923.¹⁹⁰

Norman's interest in the scheme was motivated by various factors. He regarded Austria as important to the prosperity of the entire region of Eastern Central Europe and wrote to ter Meulen on this subject, expressing a hope that Austria would 'remain the financial centre of Eastern Europe and the head for all economic purposes of the neighbouring countries'.¹⁹¹ Norman is, however, sometimes accused by historians, and by many at the time (particularly the French) of not being motivated by concern for the well-being of countries that the League assisted, but of using the Financial Committee and its reconstruction policies in central Europe as a means of furthering an agenda of what was labelled the 'Norman Conquest' –, that is, the creation, through financial and economic control, of British client states in central Europe.¹⁹² Norman was able to exercise influence through his contacts with banks and through his contacts on the Financial Committee, such as Otto Niemeyer and Emil Glückstadt of the Danish *Landsmansbank*. Indeed, for Stephen Schuker, during the Austrian and Hungarian projects of rehabilitation, the Bank of England 'found it expedient to operate under League cover'.¹⁹³ Norman's strategy, in this reading, could be regarded as part of a plan to attempt to shore up Britain's position as the dominant financial power in the world following the First World War. The decline in Britain's position during the war, when

¹⁸⁸ Cable from Morgan Grenfell to J.P. Morgan (copy sent to N.M. Rothschild), 16 January 1923, RAL 111/189 Special Correspondence re Austria (Loan).

¹⁸⁹ See BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

¹⁹⁰ This measure helped the Austrian government to obtain short term funds. Its promotion through the British helped to provide confidence to promote sales of the bills.

¹⁹¹ Sir Montagu Norman to Mr. ter Meulen, BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

¹⁹² See Zara Steiner, *The Lights that Failed: European International History 1919-1933* (Oxford, 2005), 281.

¹⁹³ Schuker, 'Money doctors between the wars', in Marc Flandreau (ed.), *Money Doctors*, 58. See also D.E. Moggridge, *British Monetary Policy 1924-1931 – the Norman Conquest of \$4.86*, (Cambridge, 1972).

the economy contracted by 5%, compared to the rise of the US, which finished the war with an economy that was more than 50% larger than that of Britain, France and Germany combined, concerned Norman greatly. He sought to use international financial policy in the 1920s to retain Sterling's position as the global currency of exchange.¹⁹⁴ According to Ahamed, Norman 'embodied a Britain stuck in the past and not yet reconciled to its newly diminished standing in the world', for the reality was that it was New York, not London, where the real money now was.¹⁹⁵ Norman was, however, still able to promote British financial interests because the Americans were not yet in the early 1920s fully exploiting the power that their financial strength gave them.¹⁹⁶ The failure of the US to project their potential power enabled the Governor of the Bank of England to continue to exercise great influence as he sought to restore Britain's in some ways diminished position, and he regarded Austrian restoration as a project that could help further this goal.

In seeking Austrian rehabilitation, Norman's aims related not just to an attempt to further British geo-strategic and financial interests, but also to his ideas for peace and prosperity. Norman saw in the Financial Committee of the League and the scheme for Austria an opportunity to further these aims. As György Péteri outlines, Norman was motivated to act partly by a fear of the possibility of revolution in Central Europe.¹⁹⁷ In addition to this, Norman had a vision in the 1920s for a world restored to the values of sound finance, fixed values of exchange, low inflation and free trade, with London at its heart. His mechanism for achieving this central bankers' utopia was the creation of independent and strong central banks, who, controlling money supply and setting interest rates around the world, would act in coordination with one another, and separately from (corrupting) 'political' influence.¹⁹⁸ Norman hoped to advance these

¹⁹⁴ Ahamed, *Lords of Finance*, 100.

¹⁹⁵ Ibid., 8. On the strengthened position of US economics and finance after the First World War, see also Priscilla Roberts, p.61.

¹⁹⁶ See Paul Kennedy, *The Rise and Fall of the Great Powers – Economic Change and Military Conflict from 1500-2000* (London, 1988), 16.

¹⁹⁷ György Péteri, 'Central Bank Diplomacy', 250.

¹⁹⁸ Miklós Lójkó, *Meddling in Middle Europe – Britain and the 'Lands Between', 1919-1925* (Budapest, 2006), 4: 'the Bank of England which developed an extraordinary new concept of using bankers either directly or through the channels of the League of Nations and the Reparations Committee to achieve ostensibly non-political aims'. See also Péteri, 'Central Bank Diplomacy', 233-258.

aims by creating a network of cooperation between central banks and specifically between central bankers themselves, and he used the League's financial committee in order to further his agenda, according to Miklós Lojkó.¹⁹⁹

Even if part of Norman's motivation for involvement in Austria was to do with attempting to secure Britain's position in the face of rising US economic and financial strength, he nevertheless worked closely with Benjamin Strong, who was a powerful US ally for Norman. Indeed, Strong too believed in the positive potential of central bank cooperation, and the two corresponded frequently on the subject of Austria, and discussed how to progress a programme to assist the country.²⁰⁰ The support of the US was critical to the League's Austrian programme, as the country needed to not only suspend its liens on Austrian assets, but also float the loans in the New York financial markets, and Strong worked closely with the New York banking community to ensure success for the placing of these in the US. Without the support of this community, the Austrian scheme would not have been viable.

Many New York-based bankers and banks, including J. P. Morgan, supported efforts to use American financial might to help rehabilitate Europe, and Strong was no exception. There was an 'internationalist' view amongst some circles in the US, even if there was also a strongly isolationist strain of thought in other quarters.²⁰¹ According to Melvyn Leffler, 'American officials hoped that through central bank cooperation, Strong would be able to use the nation's enormous gold reserves to rehabilitate foreign currencies and revive world commerce.'²⁰² As in the case of Norman, Strong held the

¹⁹⁹ Miklós Lojkó, *Meddling in Middle Europe*.

²⁰⁰ Silvano A. Wueschner, *Charting Twentieth-Century Monetary Policy – Herbert Hoover and Benjamin Strong, 1917-1927* (Westport, Connecticut, and London, 1999), 32, 35. On the US and the idea of central bank cooperation, see also, Melvyn P. Leffler, *The Elusive Quest – America's Pursuit of European Stability and French Security, 1919-1933* (Chapel Hill, North Carolina) 1979 and Lester V. Chandler, *Benjamin Strong – Central Banker* (Washington, 1958).

²⁰¹ Priscilla Roberts explores Benjamin Strong's 'internationalism' in 'Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism', *Federal Reserve Bank of Richmond Quarterly Review*, 86/2 (2000), 61-98.

²⁰² Leffler, *Elusive Quest*, 58. President Harding said to Congress, who had previously been reluctant to lift the liens on Austrian assets, in December 1922, that the US government 'would rejoice to help rehabilitate currency systems', Leffler, 57.

reestablishment of the gold standard in Europe, and the restoration of orthodox economic policies, to be critical to the future health of European economies, and the Austrian scheme advanced these goals. Like Norman, Strong regarded his internationalism as being in his own country's best interests, but he also was motivated, as, according to Priscilla Roberts, were many in his milieu, by an Anglophilic sensibility, which left him keen to support Norman's attempts at European rehabilitation.²⁰³ With many of the bankers of New York, such as crucially J.P. Morgan and Benjamin Strong, Norman found common cause to advance the Austrian scheme and moves to restore Europe to gold.

In the Austrian case, Norman sought to work with not only Benjamin Strong and bankers in Austria and the US, but also the governor of the Bank of France, M. M. Robineau. Robineau and Norman frequently corresponded over the Austrian loans, and Norman wrote to Robineau regarding the Austrian case, thanking him for his assistance with respect to the Austrian loans and expressing his vision:

the cooperation of the Central Banks of participating countries has contributed largely to the issue in London and has created an atmosphere throughout Europe which is distinctly favourable to the prospects of the contemplated long-term loan. I am very hopeful that the success of this co-operation with regard to the Austrian loan may prove a happy augury for the establishment of close and exclusive relations not only between our respective Banks, but also between Central Banks as a whole, which I am convinced are essential in the interests of the world's prosperity and trade.²⁰⁴

Norman's view was that, by means of cooperation, central banks could prevent currency shocks, and act within their own countries to resist clamours for excessive credit or money supply. Norman sought a world tied to Sterling, which would return, sooner rather than later, to gold. Gold for Norman was the guarantor of stability and

²⁰³ Roberts, 'Benjamin Strong'.

²⁰⁴ Sir Montagu Norman à Monsieur M. Robineau, 1 March 1923, Archives de la Banque de France, Paris (BdF), Versement 1060200110, Boîte 44. This file also shows that Robineau wrote to Norman about the discount rate of the Austrian loans on the 7, 9, 19 February 1923.

harmony, and the Austrian scheme, which entailed the establishment of a Bank of Issue that would control the money supply, was a step towards a return to gold, and an erosion of undesirable political influence over financial matters.²⁰⁵ Norman had his own idealistic and internationalist vision in the post-war world, but it was an internationalism that was designed to protect British interests, and banking interests more generally.

A further motivation for Norman was that failure to restore Austria could have proved detrimental to London-based financial economic interests. As Harry P. Davison of J.P. Morgan observed, ‘the London banks almost all have long-standing and valuable connections in Vienna and in Austria generally which it is wise for them to conserve and protect.’²⁰⁶ Julius Meinl observed that London bankers had an interest in the restoration of Austria ‘as they still have great sums owing’.²⁰⁷ And it was not just banks but also British businesses that had a stake in the fortunes of Austria, and the Bank of England itself had an interest in the Anglo-Austrian Bank, which was based in Vienna. The Bank of England had accepted liability for this bank’s commitments, and according to Kathleen Burk, the Anglo-Austrian ‘helped to restore Britain’s financial position on the continent, at the same time stimulating British interest in Austrian reconstruction’.²⁰⁸ On this score, banker G.M. Young wrote to Spencer Smith of the Bank of England in June 1922 that any loan guarantee and rehabilitation scheme for Austria would have the advantage of giving ‘us the opportunity we have always wanted of putting Austria under some great obligation to the Anglo Bank and incidentally would give us a large, if not predominant, share in the control of the future state

²⁰⁵ For more on the significance of the gold standard to the scheme for Austrian financial reconstruction, see the next chapter. The British return to gold in 1925, which occurred against the instincts of the Chancellor, Winston Churchill, and at the insistence of Norman, was not quite the panacea that Norman had hoped for. In 1931, in the midst of financial and economic crisis (during which Britain came off gold), Winston Churchill wrote that ‘something terrible is going to happen financially. I hope we shall hang Montagu Norman if it does. I will certainly turn King’s evidence against him’, cited in Robert Blake and William Roger Louis (eds.), *Churchill – A Major New Assessment of his Life in Peace and War* (Oxford, 1993).

²⁰⁶ Letter from Harry P. Davison to James P. Warburg, March 16 1923, RAL 111/189 Special Correspondence re Austria (Loan).

²⁰⁷ Julius Meinl to Nicholas Bosanquet, 23 February 1922, BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

²⁰⁸ Kathleen Burk, *Morgan Grenfell 1830-1988: The Biography of a Merchant Bank* (Oxford, 1989), 139.

bank'.²⁰⁹ A wider community of business interests in the City of London was concerned to see Austrian financial rehabilitation, as a document in the Bank of England archive that was produced around the same time as Young's letter reveals. In this, the 'London Clearing Banks; the Accepting Houses and the Stock Exchange' expressed their dismay at the continued failure to reach a settlement with respect to Austrian debt which 'is seriously impeding the resumption of both mercantile and banking business with Austria'.²¹⁰ The interests of these groups and the pressure which they applied may have also motivated Sir Montagu Norman. Overall, Norman was interested in promoting British power and interests, and in promoting his vision of a financial world order (aims that were not in any way mutually exclusive for Norman) and regarded the Austrian scheme as a means of achieving these goals.

There is, however, also the question of why, other than by means of Norman's lobbying, certain banks came to support the scheme and undertook to float it. According to Anthony de Rothschild, writing in 1922, there was on the part of bankers 'goodwill... if in any way it should be found to be possible' to restore Austria – they were keen to see the old banking centre of Vienna resurrected.²¹¹ Partly, bankers must also have decided that they could make some money. As Flandreau writes, foreign money flows in even to desperate countries because loans and investment could be profitable.²¹² Once appropriate controls and guarantee were in place to reduce the risks of involvement to the banks and to ensure that the domestic policies that they considered appropriate were in place, the banks were prepared to get involved. There was also another motivation, as the banks also seem to have believed that Austria was of wider significance than just to itself, and to have become involved in order to assist with the restoration of the global financial system. They were keen to see the rehabilitation of German finances, and the case of Austria was perceived as having the potential to act as a prelude for a scheme of German reconstruction. This can be seen

²⁰⁹ G.M. Young to Spencer Smith, Vienna, 17 June 1922, BOE OV28/53 - Austrian Rehabilitation, 3 April – 28 December 1922.

²¹⁰ Document signed by the London Clearing Banks; the Accepting Houses and the Stock Exchange, 20 June 1922, BOE OV28/53, Austrian Rehabilitation, 3 April – 28 December 1922.

²¹¹ A. de Rothschild to Paul Warburg, 18 May, 1922, RAL 111/218, Paul M. Warburg.

²¹² Flandreau, 'Introduction – Money and Doctors' in *Money Doctors*, 3.

in a telegram sent from J. P. Morgan to Morgan Grenfell: 'We ourselves continue to be deeply interested in the Austrian situation regarding it as a crucial one. We feel too that if some Austrian plan were to be successfully carried out it might possibly show the way to a similar operation in Germany'.²¹³ G.M. Young had concerns about the damaging repercussions failure in Austria might have for the European political scene.²¹⁴ The bankers were, then, partly motivated to get involved in the launch of the League of Nations' scheme because they wished to stabilise the international financial system and hoped to see a scheme for Austria herald a scheme for German reconstruction, something that was considered important for general European rehabilitation. Here, the plan for Austrian financial reconstruction was at least in part a means of reconstructing pre-war financial structures, even if organising this through an international institution was an innovative move.

The role of the League

Whilst the successful adoption of the scheme for Austrian financial reconstruction was to a large degree the result of the actions and attitudes of Britain, France and certain banks and bankers, the actions and nature of the League did also play a part. The use of an international institution had certain advantages in expediting an effective scheme and overcoming obstacles. The benefit of a League-orchestrated scheme was that it gave at least an appearance of neutrality that made the successful adoption of the scheme by Austria and others more likely. The collective involvement and responsibility that the League represented was a way of overcoming the problems associated with having one country or group linked too closely and publicly to the programme. The difficulty of having schemes associated with one particular power are illustrated not just by the failed French Loucheur plan of 1921, but also by the reception in Austria to the work of G.M. Young, who in attempting to ensure that the British would get a return on an 1922 loan was seen, in his role as head of the Anglo-Austrian bank in Vienna, to be interfering in Austrian politics in a manner that was widely resented within the country, after Young insisted that Dr. Johann Schober remain in office as

²¹³ J.P Morgan to Morgan Grenfell, 18 January, 1923, RAL 111/189, Special Correspondence re Austria (Loan).

²¹⁴ G.M. Young to Charles Whigham, 23 June, 1922, RAL 111/189, Special Correspondence re Austria (Loan).

Chancellor. A technocratic figure, Dr. Schober was regarded favourably by the Allies but less so within Austria. In the view of *The Economist* at the time, it was ‘thoroughly bad in principle that the representative of a single country [that is, Young] should be placed in this position’. League official J. van Walré de Bordes expressed concern to Frank Nixon on 17 May 1922 writing that ‘Mr. Young, who some time ago was extolled everywhere as the saviour of Austria is now severely criticised’ and that ‘the press asks what he is really for and calls him the “Viceroy” and the “Dictator”’.²¹⁵

In a separate incident that illustrates a similar problem, British Ambassador A. Akers Douglas identified the difficulties that British involvement in Austrian politics entailed, and also commented to the British foreign secretary in May 1922, in relation to an occasion of perceived Italian interference, that it was ‘of great importance that Austria should be left free and undisturbed by any outside political pressure of such a nature’.²¹⁶ Using the League to organise the collection of loan repayments and having a League-appointed and accountable commissioner in charge in Vienna was a way of doing this. Mediating via the League allowed Austria to accept the temporary loss of its economic sovereignty, and enabled the allied powers to get involved as guarantors, which in turn caused bankers to feel enthusiastic about the scheme. One factor was that countries were keen that no other state should act independently. As Jean Monnet described in relation to the Austrian scheme, one of the benefits of ‘collective assistance’ was that it dealt with the problem that countries considering autonomous action were at least ‘anxious that no other country should attempt it’.²¹⁷ Frank Nixon felt the League also provided a buffer against the excessive influence and control of not just of powerful countries, but also of bankers, writing that:

private bankers cannot ‘enslave’ Austria... Granted this you are thrown back on the League of Nations as the only available body... you cannot hand over the States of Eastern Europe to the tender mercies of Western capitalists. You must,

²¹⁵ *The Economist*, 6 May 1922 and J Van Walré de Bordes to Frank Nixon, 17 May 1922, LNA S106, Sir Arthur Salter’s papers, No. 3 Austria. There is further evidence of the level of concern in Austria regarding Young’s actions in this file.

²¹⁶ A. Akers Douglas to Earl Curzon, 6 March 1922, TNA T160/63.

²¹⁷ Recounted by Sir Arthur Salter in *Memoirs of a Public Servant* (London, 1961), 176.

therefore, have some device, some intermediary between the capitalists who grant the credits and the Government which is being coerced into financial rectitude.²¹⁸

However, the use of the League as an intermediary did not necessarily provide a meaningful reduction of the influence of private bankers in Austria. Some of the members of the League's Financial Committee who designed and oversaw the Scheme, such as Glückstadt and Strakosch, were private bankers, and all members of the Committee had connections with the bankers who would help to facilitate the scheme. The League's Financial Committee was not separate from powerful states, their treasuries and central banks, and global financial interests, but rather composed of members of these groups, and represented their interests. Indeed, that was in some ways the point, as the Committee assisted with coordination between these parties. In the case of Austria, the advantage that using the League provided that it appeared to put these interests at one remove, whilst also assisting with coordination between the various groups.

A further factor in the League's adoption of the scheme for Austria was that certain League officials positively wanted the scheme. Members of the EFO wished to pursue the project in order to establish the importance of financial and economic work to the League, and the benefits of using the League in these areas. The idealistic spirit that seems to have motivated Salter and Jean Monnet (at least by their own accounts) may have been part of the reason why some members of the League, at least within the Secretariat, wanted to get involved. Unlike in the Committees of the League, the members of the Secretariat, whilst retaining strong links with their home countries, governments and civil services, were not actually part of institutions other than the League. As Clavin and Wessels suggest, if there was a 'League spirit' at the time, it was within the Secretariat that it was to be found.²¹⁹ Certain members of the League's

²¹⁸ Frank Nixon to Mr Cumming, 20 June 1922, LNA S107, Sir Arthur Salter's papers, No.4 Austria, and Frank Nixon to Jean Monnet, 7 January, 1922, LNA S116, General correspondence (outgoing), Mr. Nixon (1922), Sir Arthur Salter (1923, 1927).

²¹⁹ Patricia Clavin and Jens-Wilhelm Wessels, 'Transnationalism and the League of Nations – Understanding the Work of its Economic and Financial Organisation', in *Contemporary European History* 14/4 (2005), 465-492.

Secretariat, such as Salter and Monnet, did play an influential role in advocating for the successful launch of the scheme, and so did Sir Basil Blackett of the Finance Committee. Salter, Monnet and Blackett were all convinced that a League scheme could work, and Salter enthusiastically publicised it.²²⁰ The League's archives also reveal that (contrary to Salter's account) his predecessor Frank Nixon was also engaged in advocating for this option. In a message to Monnet 1922 Nixon urged that 'the case for League action' be made, and reported that he had persuaded a number of influential individuals of the value of League involvement.²²¹

Whilst certain people involved in the EFO advocated for League to organise the scheme for Austria, and some of them may have been motivated by an idealistic desire to work for the international common good, these forces were only a limited part of the story. In Austria, use of an international institution provided the appearance of neutrality but, as League officials were very conscious of, equally a means for ensuring that national and financial interests could actually operate, in a veiled manner, behind the scenes. The support of certain powers and elites, as has been seen, was critical for the League's scheme to be launched. Indeed, it is doubtful whether Italian support for the programme, which was vital, would have been secured without the opportunity that the League's mediation provided for them to have an input into events in Austria.²²² As Frank Nixon recognised, the benefit of the League scheme was that control over Austria that represented interested parties could be established: 'this secures the legitimate political claims of France and Italy. France would certainly accept this arrangement and Italy very probably'.²²³ Thus, the League's mediation simultaneously provided a mechanism to make outside interference in the country more palatable, whilst allowing this interference to occur.

²²⁰ See LNA S113, Austria – Sir Arthur Salter's papers, for example.

²²¹ Telegram from Frank Nixon to Jean Monnet, 31 January 1922, LNA S107, Sir Arthur Salter's papers, No. 4, Austria. See also Nixon's letter to Monnet from 7 January 1922 in he explained the advantages of League involvement in Austria, S116 Sir A. Salter.

²²² It was crucial that Italy carried through on its promise to suspend its claims and liens on Austrian finances.

²²³ Frank Nixon, note on the Commission of Control, July 7 1921, LNA S108, Sir Arthur Salter's papers, No.5, Austria, 2/8. It is typical of the outlook of British officials (even those working at the League) that British interests are not mentioned, the implication being that Britain was a disinterested party.

Austrian rehabilitation, then, was adopted and successfully launched by the League partly because other options were impractical or were blocked, and the League provided a means by which the scheme could be made acceptable to the powers and interests critical for its success. The powers and interests did want Austria to survive, for reason of diplomacy, strategy or economic and financial interest, and because a workable plan for the country was seen as providing support for the peace settlement and the reconstruction of international finance, and because certain members of the EFO wanted the project. However, for the scheme for Austrian financial reconstruction to be organised and successfully launched by the League of Nations also required Austrian agreement and cooperation. It could not be assured that this would be obtained, and there were, as will be seen in later chapters, many in Austria who entertained doubts, or were actively hostile to the capitalistic nature of the League's programme, and objected to the extent to which it eroded Austrian sovereignty. Despite all this, ultimately, sufficient cooperation was obtained in Austria for the plan to get off the ground.

The role of Austria

For the Austrian government, support for the scheme came partly because they were very constrained in their options, and had exhausted other possibilities. As we have seen, attempts to raise loans entirely privately or to reach trade agreements were either impractical or politically unacceptable to others. The limitations imposed by the Treaty of St. Germain made attempting customs unions or *Anschluss* all but impossible at this stage. The League's scheme offered an opportunity for the possibility of financing at a reasonable cost, and provided the advantage that politically difficult reforms, such as the reduction in the number of civil servants, could be at least in part be seen to be the responsibility of outside forces, such as foreign governments or financiers, or their proxies in the League. Here, the League's role as mediator reduced the sense that any individual outside interest had excessive influence.²²⁴ In a

²²⁴ See Peter Berger, 'The League of Nations'.

conversation with the British Ambassador in 1921, shortly after the visit of the first Financial Committee delegation, the then Christian Social Chancellor of Austria, Michael Mayr, revealed a further motivation of the government to seek League assistance. Whilst some Christian Social supporters were strongly pro-*Anschluss*, as the overwhelming votes in favour of union in Christian-Social supporting Salzburg and Styria reveal, most of the leadership of the party was not. They feared for the position of Catholics within protestant majority Germany – the *Kulturkampf*²²⁵ had not been entirely forgotten – and were concerned about the strength of socialism and ‘Bolshevism’ in that country. Mayr thus expressed the view to Ambassador Lindley that ‘the prospect of financial assistance by means of the League of Nations was the only effective weapon he had to combat the “Anschluss” agitation and he was convinced that if it was forthcoming the movement would die out’.²²⁶ ‘Anschluss’ agitation was shortly to drive Mayr out of power: his government resigned after a vote in the region of Styria in favour of *Anschluss*.²²⁷ Furthermore, there was support in some quarters in Austria for the programme the League wanted to enact. Banking circles within the country felt, according to Dieter Stiefel, that the social legislation that had been enacted in the Republic was very onerous: their hope was the League scheme would reduce the role of the state in Austria.²²⁸ For Seipel, it was perhaps easier to enact these measures when the pressure for them came from external forces, as Financial Committee representative M. Maggiorino Ferraris pointed out.²²⁹ A further motive, according to John Deak, was that the Geneva protocols were part of on-going attempts during this period by Seipel to ensure the viability of new Austria. Seipel, unlike many of his compatriots, was a supporter of an independent Austria, and pursuing League assistance was ultimately the best way for him to obtain finance for his country,

²²⁵ Bismarck’s anti-Catholic, anti-Polish secularisation campaign of the 1870s.

²²⁶ Lindley had been asked to speak to Mayr by foreign secretary Curzon and reported their conversation in Lindley No. 257, 25 May 1921, T160/57, 2073/5.

²²⁷ Mayr died a year later.

²²⁸ See Dieter Stiefel, ‘The Bankers’ View’, 9-10.

²²⁹ Extraordinary Session of the Council Devoted to the Question of the Financial Reconstruction of Austria, Provisional minutes of the Second meeting of the Sub-Committee of the Council, 8 September 1922, LNA C/S.C.A/D.V.2. M. Maggiorino Ferraris said ‘reforms were necessary and it was known in Austria that these reforms were not possible without external pressure’.

stabilise the currency, and reform the state apparatus.²³⁰ It was Seipel personally who acted in August and September 1922 to draw attention to Austria's plight,²³¹ and his dramatic speech to the General Assembly of the League on 6 September led to the establishment of the Council's Austria Committee.²³²

Furthermore, such was the depth of the crisis in Austria and the apparent lack of other alternatives, that it was possible to prevail upon the political opposition to support the League's measures, at least to the extent of allowing the necessary legislation to pass through Parliament. By this stage, the supporters of Seipel and the Christian Socials outnumbered Socialists in the Austrian parliament, but the League felt that it was important that the Socialists be seen to back the plan, however, because of the scale of the project and severity of some of the reforms required.²³³ As *The Times'* correspondent wrote in October 1922, 'if the League's scheme is to go through, it must have the assent of the Socialists'.²³⁴ In addition to the need for some sort of political consensus to be achieved, the support of SDAP was specifically required to pass the parts of the League programme which gave decree power to the government on certain matters – the *Ermächtigungsgesetz*, or Enabling Law. As this was a constitutional measure, it needed the assent of two thirds of the National Assembly. The League may have also been persuaded of the necessity of gaining assent from SDAP by the intercession of certain individuals from Austria, such as Emmy Freundlich, who was an SDAP member of Parliament, activist in the Austrian cooperative movement (where she

²³⁰ John Deak, 'Dismantling Empire: Chancellor Ignaz Seipel and Austria's Financial Crisis, 1922-1925', in Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *Contemporary Austrian Studies 19, From Empire to Republic: Post-World War I Austria*, (New Orleans, 2010) 123-141.

²³¹ By visiting Prague, Berlin and Rome to discuss option for the future of Austria and then appealing to the Council of the League. For more on Seipel's 'Great Trip' see Klemens von Klemperer, *Ignaz Seipel – Christian Statesman in a Time of Crisis* (Princeton, NJ, 1972), 186-197.

²³² Seipel spoke to the Assembly in his black cassock, which added to the sense of a moral imperative for the League to act, according to John Deak, in 'Ignaz Seipel (1876-1932) Founding Father of the Austrian Republic', in Gunter Bischof, Fritz Plasser and Eva Maltschnig (eds.), *Austrian Lives – Contemporary Austrian Studies 21* (New Orleans, 2012), 49.

²³³ The SDAP was overwhelmingly the dominant force within Austrian left-wing politics. The Austrian Communist Party, the KPÖ, were a weak organisation at this time. James Joll writes that SDAP checked communist agitation April – June 1919 without difficulty in *Europe Since 1870 – An International History* (Harmondsworth, 1983), 250.

²³⁴ Article by the Vienna correspondence of *The Times*, 30 October 1922, copy in LNA S97, Mr Nixon's papers, 79/14/1.

insisted upon female representation at every level), President of the International Cooperative Women's Committee, and the only women on the League 1929 Economic Advisory Committee. Freundlich lobbied Sir Arthur Salter via the British government urging that League negotiations involved the SDAP. According to Freundlich, 85% of the Austrian army and all Austrian railwaymen were Socialists.²³⁵ Whilst support for the Socialists had declined from its post-war peak, the SDAP was still a very powerful political force that dominated in urban areas and in particular in Vienna, where the city council was SDAP-led and embarking upon its famous period of political and social experimentation: it was the era of Red Vienna.²³⁶

The kind of difficulties faced by the League and Seipel in gaining Socialist support can be seen in an appeal 'to workers in all countries' by the executive Committees of the International Union of Socialists that was placed in the left-wing newspaper *Neue Wiener Sonn- und Montags- Zeitung*, 23 October 1922, shortly after the League's programme was announced:

the executive Committee of the International Union of Socialists draw the attention of the proletariat in all countries to the manoeuvres of international capitalists, who, under the pretext of coming to Austria's assistance, are really endeavouring to establish a Protectorate over the country such as that which the great capitalist Powers have established over Morocco and Mesopotamia.²³⁷

Despite the in some respects radical nature of SDAP political stance, however, they ultimately did not oppose the measures required by the League's scheme in parliament, and assent for these was finally obtained on 28 November 1922. According to G.M. Young, the Socialists did not block the scheme because they were 'alarmed at the prospect of disorder'.²³⁸ The Socialists were also worried that their failure to support the Enabling Law would lead Seipel to repeal aspects of socialist legislation that

²³⁵ Mr. Wise to Sir Arthur Salter, 13 November 1922, LNA S106, Sir Arthur Salter's papers, No. 3 Austria.

²³⁶ For more information on this, see Chapter Five.

²³⁷ *Neue Wiener Sonn- und Montags- Zeitung*, 23 October 1922, translated in an intelligence report, 2 November 1922, TNA FO 371, Political Central Austria.

²³⁸ G.M. Young to Charles Whigham of Morgan Grenfell, 15 June 1922, RAL 111/189, Special Correspondence re Austria (Loan).

were a legacy of their time in power straight after the war.²³⁹ A further factor that helped to reduce Socialist opposition was that the League delegation and other interested parties worked to persuade the SDAP that these measures were the only option for Austria. A British attaché met with SDAP leader Karl Renner in November 1922, for example, and helped to convince him of the necessity of the programme.²⁴⁰ The League delegation helped to orchestrate a compromise between Seipel and the SDAP, and, after a secret meeting with Seipel, the SDAP agreed to abstain from voting on the parts of the scheme that they were opposed to, in return for a larger proportion of tax revenues being allocated to the Vienna city authorities. The bill that would enable the necessary measures to launch the scheme in Austria finally gained assent.²⁴¹ The SDAP were, after all, the party most closely associated with, and most supportive of, the Austrian Republic, and they did not want to be its 'gravediggers'.²⁴²

Conclusions

Ultimately, the League of Nations was handed the scheme to design and implement a programme for Austrian financial reconstruction because other options had been exhausted or were politically or practically impossible. Forming trading or currency unions or agreements with other nations was not acceptable to the victorious powers, who were keen to ensure that the situation in Austria did not harm their interests. Obtaining finance directly through private channels proved difficult because of the depth of the problems that the country faced. The scheme got off the ground because of the active support of certain states and non-League economic elites, and because it was considered within Austria perhaps the only remaining option to prevent complete collapse. The role of the League of Nations cannot be entirely (or even substantially) separated from the operation and interests of other diplomatic, national, political and financial groups, and indeed the League officials and experts who worked on the scheme had national connections, as well as strong connections with, or indeed active involvement in, the financial community. In this sense the story of the League's

²³⁹ See Marcus, *Credibility, Confidence and Capital*, 111-112.

²⁴⁰ Ibid.

²⁴¹ Ibid, 118-119.

²⁴² Peter Berger, *Im Schatten der Diktatur*, 20.

involvement in Austria 1922-1926 is very much a transnational one. Officials, politicians and bankers formed networks of influence and communication across national borders to facilitate the successful launch of the scheme.

However, this was not a transnationalism that *transcended* other interests: it was a transnationalism that was rooted in national concerns and priorities, and in the interests of financial elites. The role of, in particular, France and Britain in supporting the scheme, along with that of various banks, was critical to its success, and the handing of the scheme to the League was not a triumph for idealistic conceptions of transnational internationalism. Even if some League officials were somewhat idealistically motivated, the League's involvement was not primarily about the pursuit of these goals, but was rather a pragmatic means to sidestep issues around national rivalries and sovereignty, whilst also allowing the interests of Britain, France and Italy to be accommodated and represented, and financiers the opportunity to contribute to the start of the reconstruction of the international financial system. These powers and elites were critical in ensuring that the League was handed the scheme and that it was successfully launched, and outside of the Secretariat of the League, key figures in the scheme were embedded in these interests, and cannot be separated from them.

Despite their sometimes obstructive approaches, allied powers, central bankers and financiers did wish to see the country continue to exist, and this related to their perceptions of Austria's significance for the wider-post-war order and reconstruction. For France and Britain, ensuring that the post-war settlement could be sustained was important, and for banking interests, it was the first stage of an attempt to reconstruct the international financial system around the principles of orthodox economics.

Using the League did also convey certain distinct transnational advantages, however, in allowing the creation of an impression of neutrality. This provided a means of overcoming Austrian objections to the level of interference, disruption and loss of sovereign control that was necessary in order for the scheme to win the backing of crucial foreign political and financial groups. In reality, the scheme, as will be seen in the next chapter, was far from neutral. Ultimately, the League was able to act to

facilitate the wishes of the great powers, most notably Britain and France, and the wishes of those financial groups who were interested in acting in Austria, such as the Bank of England, the US Federal Reserve, and certain private banks like the House of Morgan. These various overlapping groups and interests were concerned with Austria either because of their geo-strategic or financial interests, and not really, it is unsurprising to learn, because of a sense of idealistic internationalism, or at least, if this was a relevant factor, the form that internationalist idealism tended to take was that of a belief in financial globalisation. The League's scheme, then, to a large extent, represented the interests of these political and economic powers and elites, and thus was less of an innovation in international affairs than is sometimes depicted. Using the mechanism of an international institution may have represented something new, but the motivations behind the scheme were primarily to do restoring the pre-war financial order and values, such as balanced budgets and the gold standard, and enhancing the power of France and Britain.

The title of this chapter is 'why the League', but an answer to this question also provides an answer to the question of 'why Austria?' Why did certain governments, banking interests and the League decide to attempt the financial reconstruction of Austria? Obviously, international attention focussed upon the country because of the depth of its problems, but other factors can also be discerned. Attention had been drawn to this country because of a perception that Austria was worth saving. This may have been partly because of racial or hierarchical notions regarding supposed Austrian civilisation, and was also to do with perceptions that countries and financial elites had about their interests in Austria, political, diplomatic, strategic and financial. The potential collapse of Austria was widely seen as being a significant risk to the stability of the entire region of Eastern Central Europe, and the survival of the country was regarded as important for post-war recovery of Europe as a whole, and for the maintenance of the post-war settlement as a whole.

Chapter Three

The nature of the scheme

'the most stringent measures'

The prescription for the Austrian budget insisted upon by the Provisional Financial Committee of the League of Nations

'our bank chairmen... have nothing better to cry than "back to 1914"'

J. M. Keynes

This chapter investigates the nature of the scheme designed for Austrian financial reconstruction, and examines who was responsible for its design, and what ideas and interests the programme represented. It explores the process by which the scheme was drawn up, and examines what the features of the scheme signify in terms of post-First World War ideas and realities in finance, economics, sovereignty and international relations. There is a considerable literature around the operation and condition of the interwar economy and the interwar gold standard and the links between the two, but little detailed consideration of the case of Austria – which was the first country subjected to such a rigorous programme of budgetary and the first to return to the gold standard.²⁴³

In exploring the nature of the League's work in Austria in the early 1920s, this chapter illuminates the issue of whether the EFO's work represented a break with, or a reinforcement of, the liberal economic and financial orthodoxy that Robert Boyce argues was the predominant mind-set in the 1920s, that is, support for the gold standard and balanced budgets.²⁴⁴ The orthodox, classical or liberal economic and financial view, sometimes referred to at the time as 'sound finance', comprised a belief in a limited role for the state and the elimination of budget deficits, and the necessity

²⁴³ See particularly the work of Barry Eichengreen: for example, *Golden Fetters – The Gold Standard and the Great Depression* (Oxford, 1992), and *Elusive Stability – Essays in International Finance 1919 – 1939*, (Cambridge, 1990), and also Patricia Clavin, *The Great Depression in Europe* (Basingstoke, 2000).

²⁴⁴ Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke, 2009).

of countries possessing currencies fixed in value in relation to gold²⁴⁵ and backed up by sufficient gold reserves or reserves of currencies that were fixed directly to gold. In this world view, the state should adopt so far as possible a minimal *laissez-faire* position. These values were most often associated with contemporary (and perhaps not entirely vanished) British treasury doctrines, the key elements of which Adrian Ham summarises as ‘gold fever’. These entailed a commitment to the gold standard, balanced budgets and minimum government action. It reflected the belief that the ‘only acceptable objective of economic policy is the elimination of inflation’: an assumption that ‘once prices were brought down everything else automatically would come right’.²⁴⁶ The gold-standard system had been suspended during the war, and, as seen in the previous chapter, restoring it was something that was seen as crucial by certain key actors involved in the Austrian programme, such as Montagu Norman. In this way, Austrian financial reconstruction was an attempt to return to pre-war orthodox values, and, in the context of the 1920s, it could be said to represent conventional thinking in relation to economics and finance. I mean by ‘innovation’ in these matters thinking or policies which were a breach from these orthodox assumptions. So, for example, moves away from the gold standard regime, or less focus on budget deficits as the source of problems might be innovative, as might raising taxes but not reducing spending to end a deficit. Government spending in areas such as job creation is also a breach of *laissez-faire* principles, and could be regarded as an innovative move in the 1920s. In Austria in the 1920s, as will be seen in Chapter Five, alternative economic and financial models were advanced by the SDAP. However, a break with orthodoxy did not necessarily have to reflect socialist values.

Some historians have argued that in the early 1920s, a move away from past orthodox economic and financial values can be detected, and that this was reflected in the work

²⁴⁵ A currency could be fixed directly to gold or tied to another currency that was fixed to gold and thus indirectly fixed in value to gold.

²⁴⁶ Adrian Ham, *Treasury Rules – Recurrent Themes in British Economic Policy* (London, 1981), 44. Much of the Conservative Party and those who supported Lord Rothermere’s ‘anti-waste’ campaign in the early 1920s held similar views. See Ross McKibbin, ‘Class and Conventional Wisdom – The Conservative Party and the ‘Public’ in Inter-war Britain’, in idem., *The Ideologies of Class – Social Relations in Britain 1880-1950* (Oxford, 1990), 259-293.

of the EFO. Decorzant suggests that, at least with respect to the organisation of international finance and economics, the First World War marked a break. He writes that ‘the completely disorganised state of the world economy at the end of the war encouraged governments to question the traditional management of the [sic] international economic affairs’.²⁴⁷ In the sense that orchestrating economic or financial policies through an international organisation and via international officials in the EFO represented an intervention against the purely *laissez-faire* operation of the world economy, this is true. However, I argue here that the values that were promoted by the EFO in relation to the Austrian programme were very strongly reflective of the orthodox economic and financial world view, even if, in the unprecedented and chaotic situation of the post-First World War era, the use of international conferences and international organisations to coordinate such moves was something new.

Economists Anthony Endres and Grant Fleming suggest that the prevalent orthodox view was not always shared by the League’s economists.²⁴⁸ They regard the economic thought of the EFO as sometimes innovative and as representing something of a breach from the prevailing orthodox, liberal economic prescriptions. Endres and Fleming argue, for example, that ‘early EFO personnel were not completely wedded to *laissez-faire* as they have been portrayed’.²⁴⁹ Clavin suggests that the EFO sometimes challenged conventional economic prescriptions, but her argument is different from that of Endres and Fleming, as she contends that innovative thinking mainly occurred after the Depression hit.²⁵⁰ Dubin’s view is similar.²⁵¹ In Berger’s view, there were breaches of

²⁴⁷ Yann Decorzant, ‘Internationalism in the Economic and Financial Organisation of the League’, in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 115-133.

²⁴⁸ Anthony Endres and Grant Fleming, *International Organizations and the Analysis of Economic Policy 1919-1950* (Cambridge, 2002), particularly Chapter 1. However, this view is not shared of all (or even most) of those who have researched the League, see, for example, F.S. Northedge, *The League of Nations: Its Life and Times 1920-1946* (New York, 1986).

²⁴⁹ Endres and Fleming, *ibid.*, 57.

²⁵⁰ Patricia Clavin, *Securing the World Economy – The Reinvention of the League of Nations, 1920-1946* (Oxford, 2013). Clavin and Jens Wilhelm Wessels also find some less orthodox thinking in the minority report of the League of Nations’ Gold Delegation in 1932, in ‘Another Golden Idol – The League of Nations’ Gold Delegation and the Great Depression, 1929-1932’, *The International History Review* 26/4 (December, 2004), 765-795. On this, see also Clavin, *Securing the World Economy*, 69-71.

²⁵¹ Mark David Dubin, ‘Transgovernmental Processes in the League of Nations’, in *International Organization* 37/3 (1983), 469-493.

the principles of ‘sound finance’ during the League’s work in Austria, but these occurred primarily in the operation of the League’s second programme after 1932, and were not part of the design of either programme.²⁵²

This chapter reveals that with respect to the values and ideologies that underlay the League’s programme in Austria, a very early example of the EFO’s work, innovative thinking was not yet much in evidence, even if the means by which these orthodox values were promoted was new – an international institution. The Financial Committee of the EFO regarded budgetary discipline and control of the issue of money as critical to the programme in Austria. Innovative thinking in the EFO generally came after these prescriptions had been challenged by the problems of the early 1930s, and where it originated earlier, from a rather different source than the ‘experts’ who designed the Austrian reconstruction scheme. The Financial Committee were financiers and bankers and not permanent League employees. Their position and prestige within the League left them able to promote their prescriptions for prosperity. It was amongst the members of the EFO’s secretariat, such as J. van Waldré de Bordes, as will be seen in this chapter and also in Chapter Four, that sometimes a more critical approach can be discerned in the 1920s.²⁵³ In this sense, Endres and Fleming may be correct. However, both the EFO’s secretariat and the members of the Financial Committee who worked with them on the Austrian programme’s design and implementation were in agreement upon its basic precepts, and, as will be seen in Chapter Six, very similar principles were adopted in the other League reconstruction programmes that followed in the 1920s. This chapter shows how, in the example of the EFO’s plan for Austria, the notion of expertise allowed the representatives of finance in the League’s Finance Committee to design the programme according to their own perceptions and beliefs about the correct operation of economics and finance.

²⁵² Peter Berger, ‘The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction’, in Günter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss-Schuschnigg Era in Austria: A Reassessment, Contemporary Austrian Studies 11* (New Brunswick and London, 2003), 73–93. See also Berger’s, *Im Schatten der Diktatur – Die Finanzdiplomatie der Vertreter des Völkerbundes in Österreich, Meinord Marinus Rost van Tonningen, 1931–1936* (Vienna, 2000).

²⁵³ Some of the members of the Financial Committee did demonstrate more innovative thinking in the early 1930s, see Clavin and Wessels, ‘Another Golden Idol?’

The chapter first describes the process by which the scheme was designed, before outlining and then examining in detail the key components of the programme. There is then an exploration of the ideas and ideologies that the scheme's design reflected, and consideration of who drew up the scheme, and whose interests they represented.

The process of designing the scheme for Austrian reconstruction

At the time that the League's programme for Austrian reconstruction was designed, the institutions of the League included the Council, its committees (including the Austria Committee), and the Assembly, all of which were comprised of politicians from member states. There were, in addition, the expert committees such as the Provisional Economic and Financial Committees, backed up by a secretariat, who did not always just act as administrative assistance but sometimes actually shaped League policy.²⁵⁴ In the design of the programme for Austrian reconstruction, the most critical input came from the Financial Committee. Politicians deferred to the Financial Committee as the 'experts' when it came to drawing up the scheme. Whilst the key members of the secretariat were in full agreement with the Financial Committee's ideas, the main figures designing the programme were the members of the Committee.²⁵⁵ The Financial Committee's members were appointed by member states but were able, theoretically at least, to act as independent experts whilst carrying out League business. The Committee was primarily composed of private bankers, although there was one central bank representative, and a number of treasury officials.²⁵⁶ British and French treasury officials, in conjunction with some of the private bankers, would prove to be amongst

²⁵⁴ On the role of the secretariat see Patricia Clavin and Jens-Wilhelm Wessels, 'Transnationalism and the League of Nations: understanding the work of its Economic and Financial Organisation', in *Contemporary European History* 14/4 (2005), 465-492. The Economic and Financial Committee combined with their secretariats composed the Economic and Financial Organisation (EFO) of the League.

²⁵⁵ Members of the secretariat such as Frank Nixon and Arthur Salter were fully supportive of the Committee's plans. See, for example, Nixon to Jean Monnet, 7 January 1922, the League of Nations Archive, Geneva, LNA S116, Sir A. Salter. The file is Nixon's outgoing correspondence even though it is labelled 'Sir A. Salter'.

²⁵⁶ The minutes of the Committee reveal that it was a sub-set of members who were involved in the deliberations about the Austrian scheme. This group generally consisted of Joseph Avenol, Sir Basil Blackett, Dr. Pospíšil and Sir Henry Strakosch, with others sometimes also in attendance.

the most influential members of the Financial Committee with respect to the design of the plan for Austrian reconstruction.²⁵⁷

In the early 1920s, the institutions established by victorious powers to deal with issues arising from the War and the peace settlements operated alongside the new international mechanisms of the League. It was actually to the Supreme Allied Council that the Austrians initially appealed in March 1921, and not directly the League. The Supreme Council referred the matter straight to the League, however,²⁵⁸ and on 17 March 1921, they requested that the Financial Committee investigate the possibility of applying their international credits scheme, the Ter Meulen scheme, to Austria.²⁵⁹ The Committee met between 28 and 31 March and agreed to take the project on, subject to agreement upon certain key principles, such as Austrian acceptance of budgetary discipline. This achieved, the Committee swiftly despatched a small delegation to Vienna in April 1921 to investigate conditions there and assess the likelihood of success of any putative programme. The Delegation consisted of British banker Sir Drummond Drummond Fraser, who had already been involved in promoting the Ter Meulen Scheme, Emil Glückstadt of the Danish Landsmansbank and the Financial Committee, and French treasury official, member of the Financial Committee and from 1933 to 1940, Secretary General of the League, Joseph Avenol.²⁶⁰ The Delegation's ideas about the nature of Austria's problems, and the possible solutions that there might be formed the basis of the League programme that eventually emerged, and also established the

²⁵⁷ It is interesting to note the difference in the composition of the Finance Committee in comparison with that of the Economic Committee. The Economic Committee was completely dominated by civil servants. Yann Decozant suggests that this is because of national sensitivities around trade policy at the time. In the case of the Financial Committee's work in Austria, however, the civil servants on the Committee did play an important but not the determining role. Decozant, 'Internationalism in the Economic and Financial Organisation of the League of Nations', in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 115-133.

²⁵⁸ A previous scheme consisting of increased Allied assistance for Austria proposed by the Austrian section of the Reparations Commission had already been rejected at this stage, as had the plan from French Treasury official M. Loucheur. See the previous chapter.

²⁵⁹ The Supreme Allied Council was not a League body but it was the body, consisting of the leading statesmen of the major victorious powers, that designed the peace settlement.

²⁶⁰ Avenol's 'main object' Lord Halifax said, in relation to Avenol's work as Secretary General, 'appeared to be to protect the League of Nations from having to decide any difficult questions of principle'. See James Barros's biography of Avenol, *Betrayal from Within – Joseph Avenol, Secretary-General of the League of Nations, 1933-1940* (New Haven and London, 1969). In the late 1930s, M. Avenol degraded the capacity of the League and cooperated with the Axis.

pattern of transnational coordination between treasury officials, like Avenol, and private bankers, such as Drummond Fraser and Glückstadt, that was to characterise the League's work in Austria.

The Financial Committee Delegation visited Austria and determined that a programme of internal reform was required if there was to be a chance of Austria receiving international credits. The report of the Delegation was used as the basis for a Financial Committee plan for Austrian financial and economic reconstruction.²⁶¹ This in turn was the basis for a report submitted by the Austria Committee – a subcommittee of the League's Council – to the Supreme Allied Council on 31 May 1921 and accepted by them and the Council in June 1921. The Austria Committee comprised representatives of the countries who were to guarantee the loans Austria, and, as such, the committee was there to represent their interests.²⁶² As we have seen in the previous chapter, matters did not advance much further at this stage, largely because of the time it took to obtain the agreement of all countries to release their existing claims upon Austrian finances. When Chancellor Seipel made a renewed appeal directly to the Supreme Allied Council in August 1922, work finally began in earnest to launch the scheme. The programme remained very similar to the one originally designed by the Financial Committee, at least with regards to the measures to be taken in Austria.

Following Seipel's August 1922 appeal, the Financial Committee were asked to look again at their scheme, and the Committee worked out a revised plan, which was submitted to the Austria Committee, who then sent it to the Council of the League in September 1922. As the Austria Committee made clear, they and the Council accepted the recommendations of the Financial Committee in full.²⁶³ The new design was similar

²⁶¹ The Report of the Finance Committee, 31 May 1921, League of Nations, *Financial Reconstruction of Austria – Report of the Financial Committee (with relevant papers)* (London, 1921), 7-9.

²⁶² See League of Nations Secretariat, *Principles and Methods of Financial Reconstruction Work Undertaken Under the Auspices of the League of Nations* (Geneva, 1930), 55.

²⁶³ Minutes to the Extraordinary Session of the Council Devoted to the Question of the Financial Reconstruction of Austria, First Meeting of the Sub-Committee of the Council, 8 September 1922, LNA S111, Sir Arthur Salter, No. 8. Also see League Secretariat, *Principles and Methods of the League of Nations* (Geneva, 1930), 32, which states that the recommendations of the Financial Committee were never altered.

in many respects to the original, in that it featured the idea of budget cuts, a balanced budget, raised taxes and the establishment of a bank of issue, but now it had the extra element that Britain, France, Italy and Czechoslovakia would underwrite the foreign loans raised for Austria. The plan was finally ratified by these 'guaranteeing powers' the Geneva Convention of 4 October 1922.

The central role of the Financial Committee in designing the programme is clear, but the Austria Committee also asserted that in the design of the programme, Austrian economic and financial experts had been extensively consulted with.²⁶⁴ There is no real evidence of this in the 1922 discussions, however. The Financial Committee Delegation that visited in 1921 certainly took submissions and questioned various eminences who were predominately from the world of Austrian finance, and also spoke to Austrian politicians and representatives from industry.²⁶⁵ These are presumably the 'experts' to whom the Austria Committee refer, and delegation members Avenol and Drummond Fraser were reportedly 'favourably impressed by the capacity of the Vienna financial experts whom they consulted' at this time.²⁶⁶ There was a preponderance of figures from the world of banking and finance amongst those consulted by the 1921 delegation (four of them were from industry, and fourteen from banking, finance and the treasury).²⁶⁷ This reveals the assumptions that these representatives of the Financial Committee had about their remit and about who was most qualified to comment upon the condition of Austria and the action that should be taken. As will be seen in Chapter Five, the failure to give sufficient attention to potential effects of the programme outside of a fairly narrowly conceived financial and economic framework would have consequences for the impact and effects of the programme, but it was not surprising

²⁶⁴ Note on the Work and Constitution of the Sub-Committee of the Council of the League of Nations, undated, LNA S107, Sir A Salter, No. 4 Austria.

²⁶⁵ See League of Nations, *Financial Reconstruction of Austria – Report of the Committee of the Council (with relevant papers)* (London, 1921).

²⁶⁶ Lindley to Curzon, 29 April 1921, the National Archive, Kew (TNA), T160/57, 2073/4.

²⁶⁷ See League of Nations, *Financial Reconstruction of Austria*, 27, for a 'List of the personalities heard by the Commission of Enquiry'. The Delegation heard from 29 people in total including 12 bankers; 2 Treasury officials; 1 Foreign Office official; 4 representatives from industry; 4 SDAP representatives; 2 Christian Socials; 1 Pan-German representative.

that the *Financial Committee* of the League, having been handed the project for Austrian reconstruction, should have viewed matters in this way.

By 1922, Austria's desperation for financing meant the country was not in a position to significantly influence the nature of the programme, but that is not to say that there was no support for its key elements in some quarters in Austria nor that the country was completely powerless when it came to the implementation of the programme.²⁶⁸ The reforms already commenced by the government involved attempts to rationalise the obligations of the Austrian state, through, for example, ending certain subsidies,²⁶⁹ and the June 1922 budget fitted with some of the precepts of the 1921 Financial Delegation report.²⁷⁰ Furthermore, in some areas of the programme, Austria did exercise a degree of control, most notably when the Austrian government insisted upon appointing their own (Austrian) head of the new Bank of Issue, contrary to the wishes of many foreigners involved in designing or promoting the scheme, such as members of Financial Committee and Sir Montagu Norman.²⁷¹ The main features and the key principles that underlay the scheme were, however, designed by the Financial Committee and its associates. The programme for Austrian Financial Reconstruction was thus primarily a product of this transnational group of bankers, financiers and treasury officials, albeit one that was supported by key figures in Austria, such as Viktor Kienböck, Finance Minister from 1922, and Austrian banking and finance interests.²⁷²

The scheme that the Finance Committee designed required Austrian support to succeed, however, and following ratification of the Geneva Convention, key elements

²⁶⁸ See Chapter Five for further details.

²⁶⁹ See report from M. Lefèvre-Pontalis, Ministre de la République Française en Autriche, to Raymond Poincaré, 10 Juillet 1922, Les Archives diplomatiques du ministère des Affaires étrangères, Courneuve, Paris (AD), CPC-Z-Europe, Europe 1918-29, 117 Autriche – Finances.

²⁷⁰ John Deak, 'Dismantling Empire: Ignaz Seipel and Austria's Financial Crisis, 1922-1925, Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *From Empire to Republic: Post-World War I Austria, Contemporary Austrian Studies* 19 (New Orleans, 2010), 133.

²⁷¹ See Otto Niemeyer to Sir Arthur Salter, 27 December 1922, LNA S107, Sir A Salter, No. 4 Austria.

²⁷² See Dieter Stiefel, 'The Bankers' View': Austria's Economic and Political Development and the Role of the Banks', in Gerald D. Feldman and Peter Hertner (eds.), *Finance and Modernization – A Transnational and Transcontinental Perspective for the Nineteenth and Twentieth Centuries* (Farnham, Surrey, 2008), 3-28, and Victor Kienböck's own account of the programme, *Das österreichische Sanierungswerk* (Stuttgart, 1925).

of the programme were agreed upon by the Austrian Parliament in November 1922. At this time, an Enabling Law was passed which gave the Austrian government the powers that were thought to be necessary to implement the programme. The final part of the plan was worked out in the first half of 1923, when the details of the short- and long-term international loans to be provided to Austria were settled by the Austrian government and the League, in conjunction with the private financiers and central bankers who were required to launch the loans, and the governments who undertook to guarantee it.

The key features of the scheme

The programme included measures to be taken in Austria to attempt to restore currency and confidence; actions to be undertaken by foreign banks and governments to finance Austria, including the raising of a short- and long-term loans by public subscription, and the provision of guarantees by Britain, France, Italy, Czechoslovakia and Japan to underwrite the scheme. The whole project was overseen and implemented by the League of Nations, firstly²⁷³ by a Financial Committee delegation, who were then succeeded by a Commissioner-General, Mayor of Rotterdam Dr Alfred Zimmerman (who moved to live in Vienna), who, it was reported to the Bank of England was a ‘very clever and able man, somewhat hard and not a jovial figure’.²⁷⁴ Zimmerman was supported by an international Committee of Control, and both he and the Committee reported to the League. It was hoped by the League that the country would be stable, able to meet its obligations, with its budget balanced, within two years – by 1925.

The steps to be undertaken in Austria included the end of government control over the money supply and thus the establishment of an independent bank of issue (with a view to the eventual establishment of the *Krone* (crown) on gold standard basis) and drastic

²⁷³ Alfred Zimmerman, 1869-1939. Charles A. Gulick wrote that for Zimmerman, ‘the virtue of Austrian *Gemütlichkeit* was foreign’, in *Austria – From Habsburg to Hitler* (Berkeley, 1948), 700.

²⁷⁴ The source also reported that ‘the wife is nice but not a Society women. She does not dress particularly well’, Opinion for Hd. B, 15 October 1922, BOE OV28/53, Austria (Rehabilitation).

cuts in government expenditure, including a reduction by 100,000 of the number of state employees, and cuts to railway, postal and telegraph services. The expenditure of revenue generated by the loans required the agreement of the Commissioner-General, and was not supposed to be used for investment purposes, but just for the meeting of immediate requirements.²⁷⁵ In order to obtain the confidence of foreign markets and governments, Austria had to undertake measures to rapidly achieve a stable currency and balanced budget, and accept international control. All elements of the scheme were thus interconnected and designed to create the kind of confidence that would allow Austria to borrow again, and the guarantors to feel that their undertakings were not too large a risk.

All aspects of the scheme reflected certain economic and financial orthodoxies, the central aspects of which had been outlined by a group of economists at the 1920 Brussels International Financial Conference. They had urged governments to establish fixed currency values tied to gold and to slash public spending, and called for international lending and free trade to resume.²⁷⁶ The experience of countries such as Austria in the early 1920s off the gold standard – i.e. uncontrolled inflation – reinforced the belief that the dangers of inflation and financial instability could only be avoided via the use of the gold standard.²⁷⁷ In April and May 1922 at the Genoa Economic and Financial Conference – an international conference called by David Lloyd George to attempt resolution of issues around post-war debt – proposals drawn up by the British delegation were ultimately adopted with minor modifications. These built on the Brussels principles in calling for a return to gold, which required balanced budgets, independent central banks and reduced national debt.²⁷⁸ The proposals at Genoa did contain more flexibility than those espoused at Brussels, but the elements that

²⁷⁵ As the loans were regarded as a short term measure to allow Austria to survive during the period of adjustment to a balanced budget.

²⁷⁶ See Patricia Clavin, *Securing the World Economy*, 18; and W.M. Hill, *The Economic and Financial Organisation of the League of Nations. A Study of Twenty-Five Years' Experience* (Washington, 1946), 15 and 25. Hill says that the Brussels principles were applied in the case of Austria, and that balanced budgets were central to these principles.

²⁷⁷ See D.E. Moggridge, *British Monetary Policy 1924-1931 – the Norman Conquest of \$4.86* (Cambridge, 1972), 86.

²⁷⁸ See Eichengreen, *Elusive Stability*, 127-128.

represented a slightly less orthodox approach were not ever acted upon. According to Robert Boyce, the hostility of Montagu Norman prevented any deviation from the values of Brussels.²⁷⁹

The principles articulated at Brussels and Genoa originated in work that had been completed in the British treasury²⁸⁰, but even the French government and French banking and treasury officials, although not in agreement with all of the British proposals on how to restore the gold standard system, were committed to eventually returning to gold and happy to see the principles of budget discipline applied to the defeated powers.²⁸¹ The values of fixed currencies and budget equilibrium were not just those of the British, but also those of the transnational group of financiers some of whom had attended the Genoa Conference, who now made up the Financial Committee of the League that designed the programme: Austrian reconstruction reflected transnational and international cooperation in support of values of financial elites. However, in most circumstances, Kenneth Mouré points out, the supporters of these values could not force their adoption: ‘recommendations by outside experts could be proffered, and could be made a condition for foreign credits if the country sought such aid, but could not be imposed except in unusual circumstances’.²⁸² The situation in Austria provided a perfect opportunity for the ‘experts’ to attempt to implement their programme.

We turn now to examine the individual features of the scheme. Although all part of a unified package, certain strands of the plan can be separated out into different, albeit overlapping, aspects. The requirement for budgetary equilibrium was a particularly central feature.

²⁷⁹ See Robert Boyce, *British Capitalism at the Crossroads 1919-1932 – A study in politics, economics, and international relations* (Cambridge, 1987), 40.

²⁸⁰ For example, in the Cunliffe Committee reports 1918-1919 – see Moggridge, *British Monetary Policy*, 17-21.

²⁸¹ See Kenneth Mouré, *The Gold Standard Illusion – France, the Bank of France, and the International Gold Standard, 1914-1939* (Oxford, 2002).

²⁸² Ibid., 263.

Budgets, deficits and ‘sound’ finance

From the very start of their involvement in Austria, the Financial Committee made very apparent their view of the reforms that would be critical were the country to be able to obtain any international assistance. Before commencing upon their investigation into conditions in Austria, and right at the start of their negotiations with the Finance Ministry in Vienna, the 1921 Financial Committee Delegation described their position, and informed the Austrian government on 25 April that Austria must concentrate ‘all her forces in a firm and tenacious desire to attain equilibrium in her public finances’.²⁸³ On 28 April 1921 this was reiterated as the Delegation explained the central importance of a balanced budget to any hope of gaining assistance or recovery, writing to the Austrian government of the need to ‘equate the expenditure and the income of the governments and, thereby, to prevent further deficits’.²⁸⁴ They also urged the ending of index-linked government salaries. The Delegation was clear that the measures that they were proposing would ‘impose [upon the people of Austria] CONSIDERABLE PRIVATIONS’.²⁸⁵

When the League’s Council once again approached the Financial Committee in 1922, the Committee went so far as to stipulate that they would only work on an Austrian reconstruction project subject to ‘the most stringent measures [being] adopted in Austria’, by which they meant large government cuts – austerity measures.²⁸⁶ ‘Austerity’ was not often used as the short-hand term for government retrenchment and reductions in expenditure in the 1920s, but these kinds of measures were implied in the language deployed by the Financial Committee delegation in talking of the need to be ‘firm and tenacious’ and of ‘stringent measures’. In Austria the term used for what was later referred to in Anglophone countries as austerity was often ‘Abbau’. This

²⁸³ The Second Memorandum of the Delegation to the Austrian Government, 25 April 1921, in League of Nations, *Financial Reconstruction of Austria* (London, 1921), 52.

²⁸⁴ Memo to the Austrian Minister by the Delegates of the Financial Committee of the League of Nations, 28 April 1921, TNA T160/57, 2073/4.

²⁸⁵ Document signed by Glückstadt, Drummond-Fraser and Avenol, Vienna, 28 April 1921, Bank of England archive (BOE), OV/382. Emphasis in the original.

²⁸⁶ Reply of the Financial Committee to the six questions reported by the Austrian Committee of the Council, 8 September 1922, Reconstruction de l’Autriche, LNA C/S/C.A./4, Comité de Conseil Reconstruction Financière de l’Autriche.

translates as ‘reduction’ or ‘degradation’ and in this context conveys sometimes similar connotations to the term austerity, as can be seen in its use by the *Arbeiter-Zeitung* in March 1924.²⁸⁷ The term was also used on occasion in League documents.²⁸⁸ In the case of the League’s plan for Austria, *Abbau* entailed substantial reductions in the numbers of government personnel, as well the end of food and other government subsidies and cuts to other aspects of government expenditure, such as healthcare. Such measures were a central aspect of the scheme, and from its inception, and before they had conducted a full investigation into the situation in the country, the Financial Committee established a fundamental principle which would guide the nature of the project: the requirement that a balanced budget and ‘sound finance’ be core and essential parts of the programme.

In the report submitted by the Committee to the Supreme Allied Council and the Council of the League, and later in their programme of September 1922, the need for an end to the budget deficit was reiterated. In the Geneva Convention of 4 October, budgetary rectitude was made a binding commitment. Protocol III of the Convention stated that ‘the Austrian government accepts the obligation to draw up a programme of reforms and financial improvements designed to enable Austria to re-establish a permanent equilibrium in her budget within a period of two years’. The Convention emphasised that ‘measures of this description are necessarily drastic and must be energetically carried out’.²⁸⁹ Throughout their involvement in the design of the scheme for Austrian reconstruction, the Financial Committee ensured that orthodox budgetary measures were at the heart of their proposals for Austrian financial reconstruction.

The comments of members of the Financial Committee reveal how central they regarded the reduction of the budget deficit and government spending to be. In order to reduce the deficit, the Committee did envisage some tax rises, but these were to be

²⁸⁷ *Arbeiter-Zeitung* (AZ), 14 März 1924, 1.

²⁸⁸ See, for example, Memorandum on the policy to be followed by the Council of the League of Nations at its next meeting, June 1924, LNA S110, 2/19/2, Austria.

²⁸⁹ The League of Nations, *The Geneva Convention, 4 October 1922* (Geneva, 1922).

much more modest than the spending cuts that they sought.²⁹⁰ Financial Committee member Otto Niemeyer²⁹¹ wrote of the need for (his emphasis), 'drastic economies in budget expenditure', and expressed scepticism about the possibility of increased taxation being used as a tool to reduce the deficit.²⁹² Niemeyer was a key advocate for Britain's disastrous return to gold in 1925, as his testy exchanges on the topic with Chancellor Winston Churchill show.²⁹³ He was also a strong supporter of balanced government budgets.²⁹⁴ Financial Committee member Sir Henry Strakosch, a South African and British banker of Austrian origin, also talked of the requirement for 'drastic and comprehensive' cuts.²⁹⁵ In a response to six questions asked of the Financial Committee by the Austria Committee in September 1922 about the Austrian scheme, the Financial Committee emphasized the critical importance of budgetary rectitude once again, telling the government representatives on the Council that, in relation to the proposed new Bank of Issue 'the Committee desires to emphasise the fact that the Bank can only be of use in re-establishing Austria's credit... [if] drastic reforms required to establish budget equilibrium are also taken'.²⁹⁶ On the issue of privatisation and government subsidies, Sir Basil Blackett revealed his view in discussions in the Committee on state-subsidised enterprises: he opined that 'no railway had the right to exist if it showed a deficit', and described approvingly the suppression of certain deficit causing government services in Britain as a 'draconian decision that had an immediate salutatory effect'.²⁹⁷ Right from the start of League involvement in the scheme, then,

²⁹⁰ In November 1922, the Provisional Delegation to Austria proposed that 30% of the deficit should be met through tax rises, and 70% through cuts: *The Fourteenth Report of the Commissioner-General*, 15 January – 15 February 1923 (Geneva, 1923) cites the November 1922 Delegation, 2-3.

²⁹¹ Otto Niemeyer, 1883-1971, also of the treasury. For brief biographical portraits of the members of the Financial Committee, see Nicole Piétri, 'L'oeuvre d'un organisme technique de la Société des Nations – Le Comité Financier et la Reconstruction de l'Autriche' in Graduate Institute of International Studies (ed.), *The League of Nations in Retrospect – Proceedings of the Symposium Organised by the United Nations Library and the Graduate Institute of International Studies* (Berlin, New York, 1983), 324-328.

²⁹² Niemeyer Note, 26 October 1922, LNA S106, Sir Arthur Salter's Files, No. 3 Austria.

²⁹³ See Ham, *Treasury Rules*, 47-53.

²⁹⁴ See also Moggridge, *British Monetary Policy*. Niemeyer undertook a controversial visit to Australia in 1930, strongly urging these British treasury orthodoxies on the Australians: See Otto Niemeyer's entry in the Oxford Dictionary of National Biography by Susan Howson, <http://dx.doi.org/10.1093/ref:odnb/31501>.

²⁹⁵ Provisional Economic and Financial Committee Report, September 1921, LNA R348.

²⁹⁶ Reply of the Financial Committee to the six questions reported by the Austrian Committee of the Council, 8 September 1922, Reconstruction de l'Autriche, Comité de Conseil Reconstruction Financière de l'Autriche, LNA C/S.C.A./4.

²⁹⁷ Minutes of the Financial Committee, Ninth Session, Geneva, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria. The minutes of the Financial Committee from 1922 are also contained in LNA Comité Financier, P.V./1-21. Victor Kienböck seems to have supported Blackett's view, see *Sanierungswerk*, 25.

the criticality of lower government expenditure, and the necessity of an end to the deficit were established as key principles by the Financial Committee. The emphasis upon these features was continued in the Committee's investigations into the Austrian situation, in their discussions of the design of the plan, and in the final programme that emerged: these elements were axiomatic to them.

For Committee members, the belief in budgetary balance was not just a practical or pragmatic one, but had a moral dimension, as is revealed by the tone with which they spoke of government spending, the deficit and the need for cuts – a rather Calvinist rhetoric expressed in the language of 'sacrifice' and 'privations'.²⁹⁸ The delegation talked of Austria requiring the 'moral strength' to carry out the reforms, and this reflected the discourse that surrounded government deficits and budget equilibrium at the time, a discourse that saw government spending as generally profligate, weak and immoral, and regarded governmental financial rectitude as tough but virtuous.²⁹⁹ These attitudes were reflected in the chiding tone of a Financial Committee report that stated that 'the large sums advanced [to Austria that] should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption'.³⁰⁰ Here, the Austrian government were reproved for their lack of sound financial values, although, as we have seen in the preceding chapter, the difficulties faced by Austria at this time were immense. The 'current consumption' that sounds so indulgent was primarily food subsidies and the salaries of public officials, such as civil servants, teachers and railway workers. The moralising rhetoric around profligacy and the necessity for hardship helped to rationalise the project and also had the benefit of increasing the pressure on the Austrian government to take the measures that the Committee regarded as essential. Concern was rarely expressed for the impact that such policies would have, although the Delegation was well aware that the measures proposed might cause hardship. During their April 1921 visit they realised

²⁹⁸ Memo to the Austrian Minister by the Delegates of the Financial Committee of the League of Nations, 28 April 1921, TNA T160/57, 2073/4.

²⁹⁹ See Adrian Ham, *Treasury Rules*, 44. This discourse in some ways returned after the Greek bailout from 2010.

³⁰⁰ Financial Committee report 30 January 1923, Financial Reconstruction of Austria Draft Resolution, LNA C/S/C.A./23.

that a balanced budget would ‘exact considerable sacrifices from the Austrian people’.³⁰¹ The Delegation’s worries on this point are rather more evident here than in the deliberations of the Committee itself when it met in Paris, London or Geneva. As in the case of Sir William Goode, physical proximity to the problems of Austria did appear to produce somewhat greater consideration for the impact policies would have.³⁰² A rare expression of concern from the Committee was the observation by Italian invitee S. Maggiorino Ferraris that the ‘social question’ should not be overlooked in the Austrian scheme.³⁰³ Other Committee members did not take up this suggestion and budgetary discipline remained at the heart of the programme.

Control, confidence and sovereignty

The ideological assumptions held by the members of the Finance Committee and its Delegation to Austria did not just reflect the beliefs of this narrow group, but also the beliefs (or at least, the Financial Committee’s perceptions of the beliefs) of the wider financial community whose backing for the scheme was critical if financing were to be obtained. These were the same banks and bankers, such as J.P. Morgan and Co. and Rothschilds, who had felt unable to assist Austria earlier in 1922. Now the governmental guarantees, international control and use of the structure of the League encouraged them to work to support the scheme. The Finance Committee contained members of this wider transnational financial and banking community. Indeed, that was part of the point: these individuals could mediate between stricken Austria and the financiers whose support they desperately needed, and the budgetary equilibrium pursued primarily through government spending cuts was regarded as necessary to obtain the confidence of this transnational elite, as well as the foreign countries whose guarantees were essential for the scheme to be a success.

³⁰¹ Memo to the Austrian Minister by the Delegates of the Finance Committee of the League of Nations, 28 April 1921, TNA T160/57, 2074/4.

³⁰² See the previous chapter for the role of Sir William Goode.

³⁰³ Minutes of the Financial Committee, Ninth Session, Geneva, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria. See Chapter Four for information on the social impact of the programme.

The Financial Committee delegation to Austria in April 1921 saw this clearly, writing that orthodox reforms were necessary not just for Austrian revival but also because ‘foreign assistance [would be] unobtainable’ until there was confidence ‘that Austria means to utilize all its resources to justify foreign help’.³⁰⁴ A note by the EFO’s Secretariat similarly explained that ‘control must be organised... which will afford new lenders a guarantee that their advances will be used wisely’.³⁰⁵ There was a lack of confidence within the Austrian government and within the League in the ability of Austria to enact the reforms considered necessary without the existence of control. In the Committee’s view there was ‘no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms’.³⁰⁶ The austerity and control measures were thus partly taken to increase the likelihood that the foreign powers and the international financial community, whose support was vital, endorsed the scheme. It was important to ensure that the programme seemed credible to them. As Wessels argues, in this sense, it was necessary that the programme contained these elements.³⁰⁷ Chancellor Seipel himself recognised, in a letter to Franz Rehrl, a provincial leader and fellow Christian Social politician, the importance that the loans produced a manifestation of the ‘renewed confidence of foreign countries [in the] creditworthiness of our community and the vitality of the local economy’ – he recognised that international confidence would help boost Austrian confidence and vice-versa.³⁰⁸

The idea of international control of Austria’s budget and expenditure of loans had first surfaced in M. Loucheur’s report to Paris Peace Conference in 26 Jan 1921. He envisaged the creation of an international commission to control the budget and ‘rehabilitate public finances... and supervise public revenue’.³⁰⁹ Loucheur’s scheme did

³⁰⁴ Memo to the Austrian Minister by the Delegates of the Finance Committee of the League of Nations, 28 April 1921, TNA T160/57, 2074/4.

³⁰⁵ Sub-Committee of the Council for the Austrian Question. The Various Systems for the Control of Public Finance. Note by the Secretariat, Comité du Conseil, Reconstruction Financière de l’Autriche, LNA C/S.C.A./2.

³⁰⁶ Included as part of The Geneva Convention, 4 October 1922.

³⁰⁷ See Jens-Wilhelm Wessels, *Economic Policy and Microeconomic Performance in Inter-War Europe – The Case of Austria 1918–1938* (Stuttgart, 2007).

³⁰⁸ Ignaz Seipel to Dr Franz Rehrl, Landeshauptmann von Salzburgerland, probably 9 June 1923, Salzburger Landesarchiv (SLA), Rehrl-Brief, 1923/0360.

³⁰⁹ Loucheur’s Scheme –report to the Paris Conference, 26 January 1921, LNA C/S.C.A./2.A. Loucheur envisaged his control as similar to that of the International Debt Commission in Greece in 1895.

not gain acceptance at this stage as, without the mediation of the League, it appeared to Austria to award to foreign financiers, bankers and businessmen an excessive level of control over Austrian affairs. There is evidence that the British were sceptical of the idea of international control of Austria, the government view being that control was ‘quite unjustifiable for a country like Austria’, an opinion that reflected the notions of national hierarchy in relation to sovereignty that existed at this time.³¹⁰ However, some influential British figures did support the idea of international control, such as Sir Montagu Norman, who wanted from early on some kind of ‘neutral’ controller (by which he meant a financier of neither French nor Italian origin) who would be able to assist in protecting financial matters in Austria from what he regarded as damaging ‘political’ influence.³¹¹ At the League, Frank Nixon was in favour of a powerful controller, writing to Jean Monnet on 2 Feb 1922 that ‘there is a great deal to be said for seizing this opportunity and appointing a single Controller... [with] not only power to control the expenditure of the loan by England and others, but also for powers to reorganise the Austrian budget’.³¹² French foreign minister M. Poincaré was also keen on the idea of control, and in early 1922 asked his Ambassador to London, A. M. de Saint-Aulaire, to discuss the idea with Avenol and the British government.³¹³

The initial Financial Committee delegation to Austria in April 1921 had envisaged some form of international control, but also claimed that the Austrian government would have a ‘free hand’ to take whatever measures they considered would fit with the general precepts of the scheme. The Committee stated that they were not concerned about ‘the exact methods by which their result should be obtained’.³¹⁴ Over time, the necessity for strong control if the scheme were to get off the ground became clearer, and by the time the Financial Committee report of 1922 was produced, it was stated

³¹⁰ Response to a French Proposal, NA T160/57, 2073/2.

³¹¹ See, for example, telegram from Norman to Strong, 4 June 1921, BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

³¹² Frank Nixon to Jean Monnet, 2 February 1922, LNA S107 Sir Arthur Salter No. 4 Austria.

³¹³ M. Poincaré to A. M. de Saint-Aulaire, a.s. avances a l’Autriche, Ambassadeur de France à Londres, Paris, 3 Februar 1922, Ministère des Affaires Étrangères, *Documents-Diplomatiques Français 1922*, Tome I (Brussels, Bern, Berlin, Frankfurt am Main, New York, Oxford, Vienna, 2008), 113.

³¹⁴ Work of the Provisional Delegation of the League in Vienna, note by the Secretary-General, 20 November 1922, Reconstruction de l’Autriche, Comité de Contrôle, LNA C.G.A.1.

that 'all measures must be taken in cooperation with the Commission of Control', a rather stronger formulation. By the time of the final scheme of September 1922, the veto power of Commissioner-General was established.³¹⁵ At this stage, renewed Austrian difficulties and the country's increasing desperation meant that everyone, including the Austrians, had accepted the centrality of international control to the scheme. In October 1922, Arthur Salter was still averring that the 'real economic programme' was to be designed by the Austrians, but, whilst the Austrian government was free to determine precise details of what cuts would be made, or which state employees laid-off, the general parameters of the scheme were not determined by them.³¹⁶ Ultimately, Austria had to cede control over budgets and loan money to the Commissioner-General, and of control of the use of Austria's assets to the Financial Committee itself.

On earlier occasions where international control had been employed to ensure certain economic or financial policies, or extract repayment for lenders, force was used to back-up the control. As Niall Ferguson describes, gunboats were deployed by European powers to support the efforts of bondholders in obtaining their returns.³¹⁷ The Financial Committee were aware of these precedents as they considered the Austrian plan, as a discussion on the case of the international control of the finances of Egypt after 1878 reveals. The minutes of a Financial Committee meeting in 1922 record that Sir Basil Blackett (who had previously rather grandly told those present that he had already joined the Treasury at the time of the loan to Greece of 1898), was asked by M. Maggiorino Ferraris 'whether [he] or the Secretariat could inform the Committee of the powers of the former controller in Egypt'. Blackett answered that 'this was very simple. The powers of Lord Cromer were purely advisory, but he was supported by a strong

³¹⁵ Protocol II, Article 4, and Protocol III, paragraph 4. See League of Nations, 'Protocols Containing the Scheme for the Financial Reconstruction of Austria, Elaborated by the Council of the League of Nations and Signed at Geneva on October 4th 1922', *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926), 139 and 147. The Commissioner-General had a veto over use of the loans and was in control of the loan accounts, and had to approve government budgets.

³¹⁶ Sir Arthur Salter to Professor Shotwell, 19 October 1922, LNA S107, Sir A Salter, No. 4 Austria.

³¹⁷ Niall Ferguson, *The Ascent of Money- A Financial History of the World* (London, 2006), 99.

“gendarmerie”.³¹⁸ In the case of the powers of the Controller in Vienna, however, there was no military and police back-up, but just Austrian desperation and a linguistic fudge that sought to save Austria’s embarrassment by concealing the extent to which the country was ceding sovereignty over fiscal and financial matters.

Rhetoric in the Geneva Convention and from other the Finance Committee sources and the League Council emphasised that the programme would respect Austrian sovereignty, but in reality this was not the case. The point was, crucially, that the Commissioner-General was in charge of the allocation of the loans, and that budgets had to be approved by him. All of this gave Commissioner-General Zimmerman considerable leverage.³¹⁹ It was an essential element of the scheme that Austria agree to the currency and fiscal reforms laid out in the League’s plan. Without this moves to negotiate the loans could not progress.

The extent of the loss of Austrian sovereignty was often obscured, however. A typical formulation can be found from the Finance Committee, who having themselves worked out the details of the programme that they wanted with very little Austrian input, all then agreed that ‘the scheme should be a scheme of the Austrian government, which should be approved by the League of Nations.’³²⁰ Similarly, in the Geneva Convention, a polite method was found for expressing the limitations under which the Austrians would operate: it was stated that ‘when drawing up a programme of Financial Reform, the Federal Government should not disregard the views which are expressed [in the]

³¹⁸ Minutes of the Financial Committee of the League of Nations, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria. Lord Cromer was Controller-General in Egypt 1878-1879 and later Consul-General 1883-1907. The late 1870s and 1880s were a period when Egypt was in theory still part of the Ottoman Empire, but in fact substantially controlled by other European countries, particularly Britain and France, Egypt having opened itself up to foreign control because of the extent of its debts. Britain was the de-facto ruler by the mid-1880s. See Al-Sayyid Marsot and Afaf Lufti, *A History of Egypt* (Cambridge, 2007) and Vladimir Lutsky, *Modern History of the Arab Countries*, (Moscow, 1969). In relation to British involvement in Egypt, Niall Ferguson says that ‘it is hard to believe that Gladstone would have ordered the invasion of Egypt in 1882 if the Egyptian government had not threatened to renege on its obligations to European bondholders, himself among them’, *Ascent*, 99.

³¹⁹ See Sir Arthur Salter to Professor Shotwell 19 October 1922, LNA S106, Sir Arthur Salter’s Files, No. 3 Austria. See also Berger, ‘The League of Nations’, 79. The actions of Zimmerman in practice are explored in later chapters.

³²⁰ Minutes of the Financial Committee of the League of Nations, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria.

Report of the Financial Committee... on which the Council of the League of Nations laid special emphasis when it approved the scheme for the reconstruction of Austria.³²¹ In reality, the scheme would not progress without Austria adhering to the measures expressed in the ‘views... of the Financial Committee’, as is revealed in the discussions within the Financial Committee, and by the later actions of both the League Delegation overseeing the initial phases of the programme in Autumn 1922 as well as the Commissioner-General’s actions from the start of 1923.³²² There was some discussion within the Committee on the extent of control, but the only voice who spoke out against the Commissioner-General holding a veto in all matters of government spending was Sir Henry Strakosch, who, with his connections to Viennese banking circles, may have felt more sympathetic towards the notion of preserving a degree of Austrian sovereignty. Strakosch was of the view that the limitations placed upon the new Bank of Issue had the effect of restricting government spending, and that, thus, a veto power for the Commissioner-General was not required.³²³ No one else on Committee agreed, however. As Dr. Pospíšil, a Czechoslovak delegate suggested, strong powers for the Control were necessary for the requisite confidence to be established in the scheme.³²⁴

The insistence on foreign control had the advantage that it helped to overcome the political instability and difficulties within Austria that made it problematic for the government to enact reforms autonomously. In Committee deliberations, both M. Maggiorino Ferraris and M. Avenol pointed to the way in which foreign control would be required to get certain policies, such as some of the austerity measures, implemented. Maggiorino Ferraris commented that ‘a number of excellent measures could not be taken in Austria for political reasons unless foreign pressure was brought to bear’, whilst for Avenol, control ‘would indeed have to reinforce the authority of the

³²¹ League of Nations, ‘Protocols Containing the Scheme for the Financial Reconstruction of Austria, Elaborated by the Council of the League of Nations and Signed at Geneva on October 4th 1922’, *The Financial Reconstruction of Austria*, 137-150.

³²² See the following chapter for more details.

³²³ The statutes of the Bank of Issue restricted its ability to increase the money supply at the request of the government.

³²⁴ Minutes of the Financial Committee of the League of Nations, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria.

Austrian government'.³²⁵ Avenol envisaged that the government would gain a measure of independence from parliamentary scrutiny and would then work with the Commissioner-General on the reforms to be implemented and the spending to be authorised: the Enabling Law that was passed in November 1922 was the step that gave them this independence.

The level of the control established in some respects removed much sense of Austrian agency in the design for the programme, something that is borne out in the fact that (despite the Austria Committee's claims to the contrary), the 'consultation' of Austrians for the design of the 1922 plan was generally limited to supply of factual information, on for example, the State budget, or to submission to interrogation from the Financial Committee as to why greater economies had not yet been enacted.³²⁶ The Delegation in April 1921 had consulted with Austrians, however, and the strength of the control did not mean that the programme was forced upon an unwilling and completely helpless Austria against its will, nor that the Austrians had no influence. According to Dieter Stiefel, the Austrian 'bankers' view' was not only that the policies of the reconstruction programme were correct (as bankers in Austria wished to see currency stability, a balanced budget, lower taxes, the role of the state reduced, and the repeal of post-war social legislation which was 'now felt to be extremely burdensome'), but also that external control in the shape of Zimmerman was desirable. This was because Zimmerman 'was subordinate to the League of Nations' Financial Committee, whose members were bankers and in which the Bank of England played a leading role'. Thus, they 'knew Austrian economic policy to be in the right hands'.³²⁷ Here, we see once again the way bankers and financiers often had shared values, regardless of their nationality: many bankers, partly because of the nature of their work, had transnational connections, and transnational values. These values were also shared, at least to some

³²⁵ Minutes of the Financial Committee, September 1922, LNA S107, Sir A Salter, No. 4 Austria. No specific date is recorded on these minutes.

³²⁶ As the Minutes of Financial Committee meetings show, LNA S107, Sir A Salter, No. 4 Austria and LNA Comité Financier, P.V./1-21.

³²⁷ Dieter Stiefel, 'The Bankers' View', 9-10. See also Eduard März, *Austrian Banking and Financial Policy – Creditanstalt at a Turning Point, 1913-1923*, trans. Charles Kessler (London, 1984), 488-499. Originally published in German as *Österreichische Bankpolitik in der Zeit der großen Wende 1913-1923* (Vienna, 1981).

extent, by many in the governing coalition in Austria, and the government made some reforms entirely voluntarily, such as to the bread subsidy in early 1922. They wished to conform with the League's prescriptions, and, in any case, the Christian Social-dominated government wished to enact a similar agenda to that of the League. Whilst Peter Berger may be overstating it to say that the reform programme was predominantly representative of a 'conservative national government's strategy',³²⁸ the government did broadly share the some of the same aims as the League, as will be explained in Chapter Four.³²⁹

The Austrian government did demonstrate that it was not just the passive recipient of the League's strictures on certain matters, such as the occasion when they insisted upon the appointment of their own head of the Bank of Issue. He was, contrary to the wishes of, in particular, Niemeyer and Norman, an Austrian, something which they feared would lead to dreaded 'political' interference in the running of the Bank. Both were outraged by this action, as their correspondence at this time makes clear. Niemeyer, for example, wrote to Sir Arthur Salter that the Austria's Bank of Issue appointment was 'not merely exasperating but folly... idiocy'.³³⁰ Norman's objections were widely known by politicians in Austria, but none were willing to compromise on this point. Seipel apparently felt that the difficulties that this would present with parliament and with public made adhering to Norman's wish here impossible.³³¹

³²⁸ Berger, 'The League of Nations', 77. Gulick provides some support for this view from a slightly different perspective: 'prelate Seipel regarded it as his holiest and most patriotic duty largely to undo what Austrian labor had gained by the revolution, to destroy the powerful position of the anticlerical "godless" party, and to eliminate the Socialists' influence from affairs of state. The Treaty of Geneva was the first, and a very important, step on the way to this goal', *From Habsburg to Hitler*, 170-171.

³²⁹ Although their proposed budget in November 1922 did not find favour with the League's delegation. See Nathan Marcus, *Credibility, Confidence and Capital: Austrian Reconstruction and the Collapse of Global Finance, 1921-1931*. (unpublished thesis, New York University, 2012), 107-108. The government proposed to increase taxes by a much greater extent, and decrease spending by a lesser extent than the delegation proposed.

³³⁰ Otto Niemeyer to Sir Arthur Salter, 27 December 1922, LNA S107, Sir A Salter, No. 4 Austria.

³³¹ See account of the meeting of the Parliamentary Committee for Foreign Affairs: Klubsitzung der Sozialdemokratischen Arbeiterpartei, Bericht über die Sitzung des Ausschusses für Äusseres, 18 January 1923, AdR, Parteiaarchiv SDAP, Klaus Koch, Walter Rauscher and Arnold Suppan, *Aussenpolitische Dokumente der Republik Österreich (ADÖ)*, Band 5 – Unter der Finanzkontrolle des Völkerbundes, doc. 731, 65-70.

Overall, most parts of the programme were designed elsewhere, however, by a narrow group in the Financial Committee, and Austria had little choice but to accept its diktats.

Money and gold

A further central aspect of the League's programme, and one that was regarded by Financial Committee members and others as being closely tied to the issue of budgetary equilibrium, was the idea that it was critical to establish the Austrian currency at a fixed value. The importance of a stable currency was highlighted by the 1921 Financial Committee delegation to Austria early on, when they stated that this was 'the most important step towards the reconstruction of Austria'.³³² They outlined the benefits of a fixed-value for the currency, claiming that, 'it alone will be able to prevent the continued rise in prices, and to lead to an actual stabilisation of the cost of living': it would 'do away with the diseased speculation prevalent today and threatening to infect all classes of the population,... support and stimulate all forms of productive activity, and restore internal and foreign credit'.³³³ In the minds of those involved in designing the scheme for Austria, budget deficits and the value of the currency were intrinsically linked to one another: the stabilisation of the currency was only possible, 'if safeguarded against a relapse into budgetary deficits'.³³⁴

The Bank of England and the British treasury were very clear on the problems that an absence of a fixed currency value created. A Treasury document from late 1921, for example, explained that foreign capitalists would be deterred from investment in Austria for as long as they would struggle to convert *Krone* into sterling (there being no buyers for *Krone*), but, 'as soon as convertibility was a reality, the circulation would expand again, and the capital of the bank would be liberated for investment'.³³⁵ The specific form of fixed currency value envisaged was the creation of a gold standard. As is discussed later in this chapter, the restoration of this system, which had seemed to

³³² Memo to the Austrian Minister by the Delegates of the Finance Committee of the League of Nations, 28 April 1921, TNA T160/57, 2073/4.

³³³ Ibid.

³³⁴ Ibid.

³³⁵ 'Austrian Reconstruction and Currency', undated but around late 1921, TNA T160/57, 2073.

deliver stability and prosperity before the war, was an urgent priority for influential financial figures such as Sir Montagu Norman. Austria-Hungary had been on a de-facto gold standard before the First World War operated by the Austro-Hungarian Bank.³³⁶ Its requirement to hold a ratio of 40% gold-to-currency had been suspended during the war, and the bank had assisted with war financing by issuing bonds and loans. To return to limited cash issues of notes backed up at a certain ratio by gold or currencies convertible into gold was for many politicians and financiers in the post-war world a financial and economic necessity – a measure of a country's maturity and stature.³³⁷

In order to ensure that the government did not control the money supply nor have the means to pressurise the Austrian central bank to increase the money supply, it was regarded as necessary to establish a Bank of Issue with full independence from the government of Austria. As with ending the deficit and lowering government spending, the establishment of a currency backed up by gold was also seen as partly a matter of confidence. It is interesting that unlike in budgetary matters, the close supervision of the establishment of the currency was not regarded as necessary, so long as the statutes of the Bank of Issue clearly specified the role and remit of the Bank. This perhaps reveals a faith in the intrinsic responsibility of bankers, in comparison with politicians, a perhaps unsurprising bias given the background of so many members of the Committee who tended to regard themselves as technical, impartial and above politics. The launch of an independent bank of issue was an absolutely key part of the reforms, so far as the Financial Committee were concerned. It was, thus, the first priority of the Delegation overseeing the initial implementation of the programme in the autumn of 1922 to ensure the prompt establishment of the Bank of Issue. This occurred by November 1922, at which point, in a move designed to reassure the international community that a currency fixed to gold was on the horizon, the Bank was compelled to urgently issue a statement that it 'intended at the earliest possible date

³³⁶ See Richard Roberts, 'A Stable Currency in Search of a Stable Empire? – The Austro-Hungarian Experience of Monetary Union', *History and Policy*, (October 2011), <http://www.historyandpolicy.org/policy-papers/papers/a-stable-currency-in-search-of-a-stable-empire-the-austro-hungarian-experie>, accessed 25 June 2016.

³³⁷ See Barry Eichengreen and Peter Temin, 'The Gold Standard and the Great Depression', *Contemporary European History* 9/2 (July 2000), 183-207.

to substitute for the existing discredited notes a completely new currency with a definite value.³³⁸ When the bank commenced operations on 2 January 1923, they announced that their aim was a *Krone* at a value of 71.060 to the dollar, a relatively low level, at which value it was hoped the currency would not be too much of a hindrance to exporters, although, as we will see in the next chapter, this value still had a deflationary effect.³³⁹ Austria thus became the first currency to be established post-war on a gold-standard basis in 1923, as the *Krone* was replaced by the *Schilling*.³⁴⁰ This currency was not restored to the pre-war de-facto parity in relation to gold, that is, its value in relation to gold was lower than pre-war, and in this sense was not an entirely rigid implementation of the ‘return to 1914’ values.³⁴¹ The apparent success of Austrian stabilisation (even though it predated the actual fixing of the value of the currency and the establishment on gold)³⁴², reinforced the belief in the efficacy of ‘gold values’, as will be discussed in the final chapter.

The loans and the guarantees

One of the purposes of budgetary discipline, international control, and the reestablishment of the Austria currency was that these measures would engender the international confidence to give Austria access to the funds that she desperately required. The requirement for foreign financing was at the heart of Austria’s appeal to the international community, as seen in the previous chapter. The Finance Committee initially wished to see an internal Austrian loan go some way to meeting Austria’s needs, but this was not possible in the absence of international support in obtaining foreign finance, as the Delegation to Austria quickly realised.³⁴³ The fact that these loans would only be possible if guarantees were provided to underwrite them was not realised at the time of the original, stalled Financial Committee plan of 1921. It was

³³⁸ Financial Committee Report, 31 May 1921, TNA T160/57, 2073/5.

³³⁹ See Peter Berger, ‘The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction’, in Günter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss-Schuschnigg Era in Austria: A Reassessment*, *Contemporary Austrian Studies*, 11 (New Brunswick and London, 2003), 80.

³⁴⁰ See *ibid.*, 79. Also, Nathan Lewis, *Gold – the Once and Future Money* (Hoboken, New Jersey, 2007), 40.

³⁴¹ See Chapter Four.

³⁴² For more information on this, see the next chapter.

³⁴³ See Mr. Lindley to Lord Curzon, 29 April 1921, NA T160/57, 2073/4.

hoped at this stage that the suspension of the liens would be sufficient, as, with Austrian assets free of these obligations for twenty years, as Austrian Finance Minister Alfred Gürtler³⁴⁴ pointed out, the assets of Austria were more than sufficient to provide security for the loans.³⁴⁵

As Austrian difficulties continued for another eighteen months, however, and as liens were slow to be released, it gradually became clear that some sort of foreign guarantee would be necessary if there were to be any hope of Austria obtaining the funds that it required in the short term. This was despite the fact that the Reparations Commission had withdrawn from Austria, signalling that it would not attempt to collect reparations from the country, at least for the time being.³⁴⁶ The decision of the transnational consortium of banking interests that investigated the possibility of lending to Austria in spring 1922 that they could *not* lend, indicated the scale of the difficulties that the country faced. The issue was once again one of confidence in the future viability and existence of Austria as a state: it was very difficult for foreign lenders to consider becoming involved in a state which might not exist at a later date. British banker G.M. Young, who had investigated conditions in Austria on behalf of the consortium in the spring of 1922, outlined the problem to a British treasury official and raised the possibility of a guarantee in June 1922:

I have come to the conclusion that a guarantee is required for any foreign credit, simply because we cannot say whether in two years there will be an Austria or not, and the successor State whoever it may be will have to take over the obligation. The material security is I believe quite adequate, but clearly if you take the Austrian customs you must make provision for the case of their becoming German or Danubian customs in five years. This is not the kind of business that Morgans would look kindly on. There is too much politics in it.³⁴⁷

³⁴⁴ Alfred Gürtler, economist, statistician and Austrian Finance Minister between 1921 and 1922 in Chancellor (and INTERPOL pioneer) Johann Schober's first Christian Social administration.

³⁴⁵ Dr Gürtler's speech in the National Council 13 October 1921, reported in *Neue Freie Presse*, 14 October 1921, translation from TNA T160/58, 2073/7.

³⁴⁶ The Commission had already released their control over Austrian assets, but their actual physical withdrawal from the country was a move designed to engender confidence that reparations would not be collected for the foreseeable future.

³⁴⁷ G.M. Young to Spencer Smith, 17 June 1922, BOE OV28/53, Austria (Rehabilitation).

Thus, the apparently dim prospects for Austria's survival as an independent country left the possibility of foreign lending to Austria very remote, but, as Chapter Two revealed, the very same fact acted as a motivation for the French and British governments to become involved to attempt to assist Austria, and by the time that the Financial Committee met to examine the Austrian situation again in September 1922, the idea of the guarantees was firmly established. Sir Basil Blackett was clear at this stage on the necessity of a guarantee, as he indicated in a note sent to Eric Drummond, Jean Monnet and Sir Arthur Salter just before the Committee convened.³⁴⁸ In the event, the Committee agreed upon a mechanism for the guarantees, designed by Sir Henry Strakosch, that proposed separate guarantees be issued simultaneously.³⁴⁹ The governments involved agreed, and the stage was finally set for Austria to be able to access the funds that would help to keep the country, and the government, afloat.

Whilst the League's project in Austria in many ways represented an attempt to restore pre-war economic and financial values, and, as such, it was not an innovative move, the attempt to implement these was pursued via co-ordination orchestrated by international institutions, which was novel. And in some respects, the guarantees represented a new form of international financial and diplomatic cooperation via an international institution in pursuit of what might be regarded as the greater good – in this case, financial stability in Austria which enhanced the chances of the country's independent survival. As we saw in the previous chapter, however, the motivations for the powers to offer these guarantees were to do with their perception of their interests, and their desire to uphold the peace settlement and prevent chaos in Europe. Furthermore, the guarantee mechanism was not as novel as it at first appeared, in that guarantees had been given by foreign governments before to secure international finance for a country, as in the case of the international loan to Greece of 1898.³⁵⁰ The Austrian case is thus only partially the dawning of a new era of international financial

³⁴⁸ Sir Basil Blackett to Drummond, Monnet, Salter, 'Austria', undated but around late August 1922, LNA S107, Sir A Salter, No. 4 Austria.

³⁴⁹ Minutes of the Financial Committee, Ninth Session, Geneva, 9 September 1922, LNA S107, Sir A Salter, No. 4 Austria.

³⁵⁰ See Michael Waibel, 'Echoes of History – the International Finance Commission in Greece', Christoph G. Paulus, *A Debt Restructuring Mechanism for Sovereigns – Do We Need a Legal Procedure?* (Oxford, 2014), 3-20.

cooperation (albeit one that broke down during the depression years). It was also the continuance of long established mechanisms, via a new and official international organisation, the League.

Assumptions, interpretations and ideologies

In considering why the scheme for Austria took the form that it did, and whose interests and ideologies it reflected, the Finance Committee, who were for the most part unified on these matters, advanced a certain set of prescriptions for the Austrian budget that reflected their assumptions and ideologies, which in turn reflected the opinions and interests of a wider transnational elite. Their views represented a desire to return to the conditions that had produced prosperity for certain groups before the First World War. Whilst these assumptions were widely held in certain circles at the time, they were not universally held, and the solutions that they offered were not the only possible options. A focus upon budgetary rectitude and fixed currency values tied to gold as key features of the programme reflected a set of assumptions and beliefs that the Financial Committee had about the causes of Austrian woes. Underpinning this interpretation was an orthodox economic world view. This world view tended towards a particular assessment of the causes of hyperinflation in post-First World War Europe, which in turn influenced the proposed solutions. The view of the Financial Committee was that the cause of the problem was firmly rooted in government overspending and deficits, and in the absence of a fixed value for the *Krone*. Their interpretation about the causes of inflation and hyperinflation were not necessarily correct, as some at the time and since have realised.

The debate about the causes of hyperinflation in post-First World War Europe, and most particularly Germany, is not conclusively finished, partly because historians' and economists' interpretations often reflect their political ideologies and cannot be entirely reconciled, although, in the case of German hyperinflation, Charles

Kindleberger and Niall Ferguson have to some extent attempted some reconciliation.³⁵¹ Nikolaus Wolf identifies the two polarised interpretations of the causes of inflation as the ‘fiscal view’ and the ‘balance of payments view’.³⁵² The first blames inflation on excessive government spending, which eventually reduces the confidence of lenders and investors to the government, leading the government to increase the money supply and thus inflation so as to meet its expenditure obligations. In this view, government deficits are the key cause of inflation. This belief was widely held at the time of the Austrian difficulties, and was reflected in statements produced by the League on the situation. For League official J. van Waldré de Bordes, who was part of the Secretariat supporting the Financial Committee, the Austrian problem was a ‘vicious circle: drawing up a balanced budget, inflation to cover the deficit, depreciation, another budget unbalanced. It is like a cat chasing its tail’.³⁵³ According to a Bank of England source, the idea that the inflation in Austria was caused by excessive government expenditure was a ‘cardinal point’ for the Financial Committee.³⁵⁴ A major contemporary proponent of this account in a more nuanced form was leading economist Gustav Cassels, and later this ‘fiscal’ interpretation was reflected in the monetarist account of the causes of inflation produced by Milton Friedman.³⁵⁵ As Niall Ferguson points out, however, a strictly monetarist interpretation does not really account for ‘why in one country the inflationary process proceeds so much further or faster than in another. Nor can it explain why the consequences of inflation vary so much from case to case’. He makes the point that British public expenditure during the First World War exceeded that of Germany, and that French expenditure exceeded that

³⁵¹ Charles P. Kindleberger, *A Financial History of Western Europe* (London, 1984), 289–300; Niall Ferguson, *The Ascent of Money*. In this work Ferguson’s interpretation appears less monetarist than in his earlier ‘Constraints and Room for Manoeuvre in the German Inflation of the Early 1920s’, *Economic History Review*, 49/4 (1996), 635–66. Liking to be contrary, he is perhaps reacting against a different intellectual climate in 1996, compared with 2008.

³⁵² Nikolaus Wolf, *Europe’s Great Depression – coordination failure after the First World War* (London, 2010).

³⁵³ J. Van Walré de Bordes note 3 August 1922, LNA S101, Mr Nixon, 5. De Bordes later changed his view, after undertaking detailed research of Austrian hyperinflation.

³⁵⁴ ‘Outline of the General Scheme for the Rehabilitation of Austria with special reference to the part played by the Bank of England’, 2, in the BOE OV28/52 – Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

³⁵⁵ Gustav Cassel, *The World’s Monetary Problems* (London, 1921), and Milton Friedman, *Inflation – causes and consequences* (London, 1963). See Kindleberger, *Financial History*, 302.

of Russia, and yet it was Germany and Russia that had the particularly difficult inflationary problems.³⁵⁶

According to gold standard adherents and some later monetarists, balance of trade problems are resolved by tight monetary policy.³⁵⁷ For these economists, the key issue is the value of money. In their view, a stable exchange currency value, controlled money supply and low inflation will produce a positive balance of trade.³⁵⁸ The original theory relating to this is David Hume's notion of a price-specie flow mechanism (specie refers to gold), which theorised an automatic mechanism whereby international transactions were conducted in gold between countries whose currencies were fully convertible to gold. Those in trade surplus would see an in-flow of gold, leading to an increase in money supply, leading to an increase in inflation, leading to an increase in prices, leading to a reduction of exports, leading to a reduction in their quantities of gold holdings and thus a trade-neutral position. The reverse mechanism applied for those in trade deficit. However, for some economic theorists, the causation of inflation flows the other way, in that a dependence on imports leaves a country short of foreign currency, which then makes it harder for that country to pay for the very goods and services it requires from abroad, which in turn leads to currency difficulties, depreciation and inflation.³⁵⁹

In the context of the post-First World War world, a complex interaction of both factors contributed to the problems faced by countries suffering from hyperinflation, but other factors were also crucial.³⁶⁰ Economists acknowledge the role of psychological factors in

³⁵⁶ Ferguson, *Ascent*, 102.

³⁵⁷ See David Hume, *Political Discourses* (Edinburgh, 1752).

³⁵⁸ Not all monetarists would hold with this, and not all monetarists are in favour of tight monetary policy. In some senses Barry Eichengreen is a monetarist, in that his explanation for economic difficulties focusses primarily on decisions made over monetary policy. For a discussion of this and the difference between 'saltwater' monetarists, like Eichengreen and 'coldwater' 'neo-liberal' monetarists see Adam Tooze, 'How to Mishandle a Crisis', *New Left Review* 92, March-April 2015, 135-143.

³⁵⁹ See Kindleberger, *Financial History*, 289.

³⁶⁰ See Kindleberger, *ibid*, for the interplay between factors.

producing hyperinflation.³⁶¹ As early as 1937, Constantino Bresciani-Turroni wrote in relation to the case of German hyperinflation that 'many times I have pointed out... psychological causes of the fall of the mark'.³⁶² In Austria, a central issue was also the lack of confidence in the viability of the country. This made foreign speculators unlikely to buy up the *Krone*, and caused those in Austria with cash to seek to turn their *Krone* into foreign currency, as foreign currency held its value better, and was, critically, more likely to survive. As an Austrian commentator realised at the time, and later authors have pointed out, the problem was not just the money supply or the deficit, it was once again the lack of confidence in the future survival of the state,

the economic illness, from which Austria is suffering, is at bottom due to the fact that at the moment of the collapse... everyone lost all belief in the permanent existence of the country. And in consequence there is in Austria a perfectly genuine and effective hunger for foreign currency for saving purposes, in which hunger there is nothing forced. It is based on the psychology of the population. The country is sucking up foreign currency against its exports in commodities and capital investments, because there is here a perpetually increasing demand for foreign currency.³⁶³

As the British Embassy noted in 1921, in Austria at this time there was 'an abnormal demand for foreign money'.³⁶⁴ The worthlessness of the Austrian currency was fuelled by expectations of the country's oblivion, which promoted enormous demand in Austria for foreign currency, and widespread attempts to liquidate all holdings of *Krone*. The government then struggled to use its depreciating currency to pay for its requirements, such as food and fuel imports, and the repayment of foreign debt, and resorted to the printing press to meet the ever-inflating food subsidies and salaries of officials. The index-linking of many salaries to inflation further added to the inflationary spiral. The inflationary problems seem to have been worsened by rapid increases in the

³⁶¹ See, for example, N. Schukler and E. Marcus (eds.), *Inflation through the Ages – Economic, Social, Psychological and Historical Aspects* (New York, 1983).

³⁶² Constantino Bresciani-Turroni, *The Economics of Inflation – A Study of Currency Depreciation in Post-War Germany*, trans. by Millicent E. Sayers (London, 2003), 402: originally published in 1937.

³⁶³ Report enclosed by Sir William Goode to Sir Basil Blackett, 28 November 1921, TNA T160/57, 2073/7. The report came from in Sir William Goode's words an 'exceptionally able Austrian with unequalled facilities for judging the trend of financial and political events'.

³⁶⁴ Enclosure to Mr Lindley's despatch to Lord Curzon, 11 May 1921, TNA T160/57, 2073/5.

money supply and upward movements in wages. These were really but symptoms of the underlying problems, as the government desperately struggled to keep up with the diminishing *Krone* and tried to prevent severe reductions in living standards, as these might have increased social and political tensions and unrest. Whilst there was a correlation in Austria between the money supply and the rate of inflation, the amount of *Krone* in circulation actually continued to rise substantially even after the point of stabilisation and as inflation dramatically reduced.³⁶⁵ Thus, it is difficult in the case of the Austrian example to conclude that the underlying problem can have been the expansion in the size of the money supply, although it may have exacerbated the difficulties.

In 1924, League official de Bordes, who had previously regarded the Austrian problem as one of budget deficits, undertook a study into the causes of Austrian hyperinflation and concluded that the root of the problem had not been deficits but had been, rather, speculation on the exchanges and capital flight, and that these movements were propelled to a significant extent by psychological factors.³⁶⁶ In the view of Karl Bachinger and Herbert Matis, 'capital flight and currency speculation were decisive elements in post-war inflation in Austria', although they argue that the origins of the original inflationary problem lay in difficulties in financing the war economy.³⁶⁷ In Finance Minister Alfred Gürtler's view, it was not so much the deficit that was the problem as the uncertainty and insecurity produced by St-Germain and reparations, and certainly, whilst no attempt was actually made to collect reparations, their theoretical existence, and the presence until 1922 of the Reparation Commission in Austria added to the insecurity and uncertainty that surrounded the question of the future of Austria.³⁶⁸ The perception of instability and unviability left confidence in the

³⁶⁵ Bresciano-Turroni recognises that the money supply continued to expand in Austria after stabilisation, but nevertheless holds that in Germany it was the money supply that was the problem. See Bresciano-Turroni, *The Economics of Inflation*, 398.

³⁶⁶ De Bordes' report (1924). See Nathan Marcus, *Credibility, Confidence and Capital*, 36-37.

³⁶⁷ Karl Bachinger and Herbert Matis, 'Inflation in Austria after World War I (1918-1922)', in Herbert Matis (ed.), *The Economic Development of Austria since 1870* (Vienna, 1994), 326. Originally published as 'Die österreichische Nachkriegsinflation, 1918-1922', *Beiträge zur historischen Sozialkunde* 3, Die Inflation der 20er Jahre, 83-91.

³⁶⁸ See Dr Gürtler's speech in the National Council 13 October 1921, reported in *Neue Freie Presse*, 14 October 1921, translation from TNA T160/58, 2073/7.

Krone at rock bottom, the value of the currency low and falling, inflation rising, and the government little option but to produce more cash to meet requirements, which added further to the collapsing value of the currency.

Another problem hampered the Austrian government, which is that the income tax system was dysfunctional. A mixture of Austrians' reluctance to pay tax on principle, combined with a sense that it was not worth contributing to the exchequer of a perhaps failing state, increased the difficulties with collection. The Austrians in 1921 were still collecting income tax for 1918 (an unintended bonus of the reconstruction was that it reversed this problem in 1923, as we will see in the next chapter), although other taxes were easier to collect.³⁶⁹ In Austria during the inflationary era an alternative way of viewing the country's inflationary difficulties, even if the budget deficit is accepted as a major factor in driving the problem (which it need not be), is to view the level of taxation as insufficient. In the context of post-war Europe, with large labour movements, newly enfranchised working classes, veterans to reintegrate and in some cases care for, economies to reconstruct, and in the case of Austria, a nation and a state to create and legitimise, a sufficient level of taxation to pay for services and reconstruction would have prevented large budget deficits. The problem of the legitimacy of the state did not make collecting taxation easy, as we have seen. Nevertheless, there was also a resistance to raising the level of taxation in some quarters, as evinced by the ferocious reaction when the City of Vienna municipal authority did just this from 1922.³⁷⁰ In the view of Barry Eichengreen, Peter Temin and Eduard März, the situation in Austria could be regarded as a 'distributional conflict': that is, the problem in post-war Austria was insufficient willingness to share and redistribute resources to pay for what was needed to stabilise the country.³⁷¹

³⁶⁹ B. Crewdson to Mr. Gorvin, 4 June 1921, NA T160/57, 2073/5.

³⁷⁰ See Chapter Five for more details on this.

³⁷¹ See Barry Eichengreen *Golden Fetters – The Gold Standard and the Great Depression, 1919-1939*, 126 and März, *Austrian Banking*, 504 – 'the unbalanced budget was simply a manifestation of the struggle over the distribution of a badly shrunk national income'. See also on the German example Niall Ferguson, *Paper and Iron – Hamburg Business and German Politics in the Era of Inflation, 1897-1927* (Cambridge, 1995), 22-24.

For their part, the Financial Committee of the League had a broadly monetarist or fiscal view of the causes of Austrian hyperinflation, and their suggested solutions reflected a certain set of assumptions about the proper operation of finance and economics. These assumptions influenced interpretations about the causes of Austria's problems, which then affected the nature of the remedies they proposed. Whilst the beliefs held by members of the Financial Committee were widely shared within their circles, other interpretations of the problems and other possible solutions were advanced.

Early on, for example, the key problem in Austria was regarded as being one of trade. A report of the Austria Committee to the Allied Conference in Paris in January 1921 focussed to a large extent on trade problems as critical in Austria.³⁷² Recognising the centrality of this issue, certain countries, such as Italy and to some extent Czechoslovakia, along with individuals such as Sir William Goode, attempted (and failed) to gain support for a conference in Pressburg (Bratislava) to attempt to resolve issues in former Austro-Hungarian lands around trade and trade barriers. These attempts did not receive much support elsewhere. By September 1922, the trade situation, whilst far from ideal, had improved somewhat.³⁷³ Beneš and various Austrian leaders had made some efforts to improve trading relations between Czechoslovakia and Austria, and a very low-value currency gave benefits to Austrian exporters. Indeed, the increased and fixed value of the currency post-1923 was not necessarily in the interests of exporters, a little remarked upon side-effect of the scheme. Some of the supporters of the League programme in Austria, such as Czechoslovakia, were likely to benefit from a stronger *Krone* relative to their currency.

Another problem faced by Austria was the lack of economic investment that there had been post-war in the country's industries and enterprises. Sir William Goode's previously mentioned plan envisaged that the finance raised for Austria could be used

³⁷² The Report of the Committee of Austria, Approved in principle by the Allied Conference in Paris 29 January 1921, TNA T160/57, 2073/2, emphasis in original.

³⁷³ Partly as a result of currency depreciation making Austria's exports comparatively cheaper.

for investment in economic development.³⁷⁴ This was definitely not a part of the League's programme, however, and indeed, when in 1924 the Austrian government sought to use loans in this way, their attempts were blocked by the Commissioner-General and the League.³⁷⁵ Direct government investment in the economy in this form was, after all, contrary to the precepts of 'sound finance'. Another scheme proposed by an associate of Sir William Goode's in Vienna suggested that the value of the Austrian currency be maintained by restoring confidence in it via the means of the concerted purchase by a foreign group of the 'far too low price crown'.³⁷⁶ This scheme made sense if the root of the problem was the lack of demand for the crown and excessive demand for foreign currency for saving purposes within Austria, but as long as the issue of the lack of confidence about Austria's future survival remained, it would seem unlikely that such a group would have felt the confidence to speculate. Perhaps a guarantee, similar to the one issued for the loans, could have been arranged, however. Whatever the feasibility of such a scheme, it was anyway not investigated by the Financial Committee.

A further proposal for Austrian financial reconstruction issued at the time was that of the Social Democratic Party, who suggested fewer cuts, measures to deploy the large private holdings of foreign currency that there were in Austria for investment purposes in the economy, restrictions on future purchases of such currency (in order to stabilise the currency value) and some extra taxes on business and the wealthy.³⁷⁷ That this programme was not regarded as completely impractical nor revolutionary can be seen by the support which it received, not just from Sir William Goode, but also from the

³⁷⁴ Statement by Sir William Goode to the Austrian Press, *Neue Freie Presse* (NFP), 29 April 1921, translation from TNA T160/57, 2073/4.

³⁷⁵ See Österreichisches Staatsarchiv (ÖSA), AdR, NPA 235. See later chapters for more on this: ultimately, the League relented.

³⁷⁶ Report enclosed by Sir William Goode to Sir Basil Blackett, 28 November 1921, TNA T160/57, 2073/7.

³⁷⁷ For the SDAP plan, see *Arbeiter-Zeitung*, 1 October 1921. See also the SDAP's finance chief in Vienna Hugo Breitner's condemnation of the League / Seipel's programme, at the a meeting of the local parliament: Gemeinderat der Stadt Wien als Landtag, Landtag, Stenographischer Bericht 1922, Protokoll der öffentlichen Sitzung vom 14 November 1922, Wien Staats-und Landes Archiv, Vienna (WStLA), Landtag, B3/2. Ex-wörtliches Protokoll.

British diplomat Edward Keeling, and from the Christian Social Party.³⁷⁸ SDAP's proposals were not considered or even mentioned by the Financial Committee, who presumably would have not been likely to entertain the possibility that socialist economic ideas could have relevance.

The focus of the Financial Committee was not on the idea that one of the main sources of Austria's problems was huge demand for foreign currency, nor upon the issues that the viability question caused, despite the knowledge of some in Austria and elsewhere of these factors. And whilst the Committee was aware of the significance of the issue of trade and investment, these factors were not at the heart of their assessment of what was wrong in Austria. Their view, from the start of their involvement in the project, was a conventional one: these kinds of problems were caused by government deficits and the absence of a gold standard. In this, they reflected the standard assumptions of financiers and bankers, and British treasury assumptions. It is interesting to note how little discussion there was in Committee meetings about the possible causes of the inflation. The Committee did not conduct a serious examination of the problem at this stage. As far as they were concerned, the problems were evident and obvious, and in that sense easily fixed, although they did realise that the measures that they were proposing would not be likely to deal with the entirety of Austria's difficulties.³⁷⁹ But the membership of the Committee did reflect the views of the transnational financial class that they represented, and in this, they were probably correct to think that conventional economic and financial measures would be required to create the requisite confidence.

The role of the Financial Committee and the role of nation-states

The views of the Financial Committee were central in shaping the Austrian scheme and when examining the programme, the lack of input from politicians and the reliance upon the judgements of the bankers and treasury officials identified as the financial

³⁷⁸ See TNA T160/57, 2073/6. On 23 September 1921, Keeling wrote in positive terms about this plan to Lord Curzon.

³⁷⁹ See LNA Comité Financier, P.V./1-21.

'experts' is striking. The Austria Committee and the Council of the League did not discuss the provisions of the scheme in much detail, nor seek to alter the prescriptions of the Financial Committee. Council member and British foreign secretary Austen Chamberlain, until recently British Chancellor of the Exchequer and thus presumably versed in financial and economic matters, highlighted the reliance that the Council placed upon the experts' reports.³⁸⁰ The Committee did not act in complete isolation in their work, and those corresponding with members of the Committee about the scheme included Sir Montagu Norman, head of the Bank of England and central part of the wider transnational banking community from which the members of the Financial Committee were drawn.³⁸¹ In contrast, politicians and even treasury ministers did not communicate directly with the Committee except through formal channels, such as the Austria Committee.³⁸²

The politicians very much deferred to the Committee as the 'experts' and thus did not challenge their interpretations of events nor question the solutions they proposed. As Arthur Balfour, chair of the Austria Committee expressed it, 'the Committee must reserve for its own consideration the political questions and refer to experts the financial and economic questions'.³⁸³ Later, when the Financial Committee produced its report and programme, the Austria Committee and Council adopted it without alteration.³⁸⁴ As contemporary commentator Maurice Fanshawe put it, the prevailing view was that the experts 'were fully qualified to reflect current and highly informed opinion'.³⁸⁵ What Balfour referred to as 'political' elements were more to do with gaining the various parties' acquiescence to the scheme, and it is noteworthy that there

³⁸⁰ Extract from British Secretary's verbatim notes of a meeting of financial experts, held in the boardroom of the Treasury, on Thursday, 17th March, 1921, at 11.15am, TNA T160/57, 2073/4.

³⁸¹ Norman was particularly interested in matters pertaining to the Bank of Issue, see BOE OV28/52, Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

³⁸² With both Sir Basil Blackett and Otto Niemeyer of the British treasury on the Committee and Joseph Avenol on the Delegation to Austria and the Finance Committee, the Chancellor of the Exchequer and French Finance Minister may have felt that their views were well-represented, however.

³⁸³ Minutes to the Extraordinary Session of the Council Devoted to the Question of the Financial Reconstruction of Austria, First Meeting of the Sub-Committee of the Council, 8 September 1922, LNA S111, Sir Arthur Salter.

³⁸⁴ From *ibid.*

³⁸⁵ Maurice Fanshawe, *Reconstruction: Five Years of Work by the League of Nations* (London, 1925), 126.

was little focus in the Austria Committee on what they regarded as ‘technical’ questions for the ‘experts’.³⁸⁶

This feature of the early stage of international financial diplomacy is in striking contrast to the direct involvement that politicians had at the Paris Peace Conference around issue of borders, empire and security.³⁸⁷ This reflected the politicians’ perception that territorial and defence matters were of greater significance for their countries and for future peace and the post-war settlement, but as John Maynard Keynes famously pointed out, by overlooking the centrality of economic and financial matters to the future of Europe, politicians were failing to engage in one of the most critical issues for the future of the continent.³⁸⁸ The distinction that was often made between ‘political’ matters and supposedly technical economic and financial matters reveals widespread assumptions amongst politicians, civil servants, financiers and bankers about the supposedly objective and technical status of advice, and there are repeated references in the archives to the ‘impartial’ nature of the Committee.³⁸⁹ Matters of financial and economic policy are, however, intrinsically political, and represent choices that reflect ideologies that often benefit certain groups, and the effect of leaving policy-making of this kind to supposedly objective and scientific technicians can be to obscure the very political nature of what they are engaged in. As shown earlier in this chapter, the scheme for Austria represented certain ideologies and assumptions that were not the only possible interpretations of, nor the only possible solutions to, the situation in Austria. Certain governments and politicians were interested in seeing Austria survive, and thus became involved in advocating for the scheme and ensuring its viability

³⁸⁶ An example of this can be seen in a British account of the issue of Italian acquiescence to the suspension of liens in which it was reported that the French anxious to get Italy to agree: ‘this is really a political and not a financial question and is not primarily suitable for study by an expert Committee’, MacFadyean to Fass, TNA T160/57, 2073/5.

³⁸⁷ See Margaret McMillan, *Peacemakers – the Paris Peace Conference on 1919 and its Attempt to End War* (London, 2001).

³⁸⁸ John Maynard Keynes, *Economic Consequences of the Peace* (London, 1919), 134: ‘to what a different future Europe might have looked forward if either Mr. Lloyd George or Mr. Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial, but financial and economic, and that the perils of the future lay not in frontiers or sovereignties, but in food, coal and transport.’

³⁸⁹ For example, note by Frank Nixon outlining the 1921 process, Annex A. Extract from British Secretary’s verbatim notes of a meeting of financial experts, 17 March 1921, TNA T160/57, 2073/5.

(through, for example, urging for the lifting of liens), but when it came to the political details, they did not feel that it was their proper role to be involved. In the ‘technical’ areas, experts were able to wield a huge amount of power, by dint of their supposed special and privileged knowledge. The example of the case of Austrian financial reconstruction reveals the role of the ‘experts’ in designing the scheme for Austrian financial reconstruction and demonstrates the power that such figures had in financial policy making, even at this early stage of institutionalised internationalist financial work. It bears out the contentions of those, such as Flandreau and Pauly, who point to the central importance of the work of transnational experts in shaping financial policy.³⁹⁰ The experts in Austria were part of the development of the process of what Mitchell calls ‘the production and export of technocratic knowledge’, which he identifies as having its origins in the development of parts of particularly the British Empire, for example, in Egypt in the late nineteenth century.³⁹¹ The links between various facets of the situation in Austria and that in Egypt were clear to the members of the Committee, and in the Austrian case, we see the continuation and greater extension of technocratic power in the post-First World War era.

Whilst the members of the Financial Committee can be regarded as forming part of a transnational group or class, they were appointed by and originated from specific member states of the League, and, as such, may have sought advanced the national interest of their home nations through the League’s scheme.³⁹² It is necessary to very cautious about the extent to which these individuals might have reflected the interests of their country or the viewpoints of their government, as the members of the Finance Committee participated as independent experts. Nevertheless, they often had important roles within the countries from which they came, and some, such as Blackett,

³⁹⁰ See Louis W. Pauly, ‘The League of Nations and the Foreshadowing of the International Monetary Fund’ in *Essays in International Finance No. 201* (Princeton, 1996); Marc Flandreau (ed.), *Money Doctors: History, Theory, Policy – The Experience of International Financial Advising, 1850-2000* (London, 2003).

³⁹¹ Timothy Mitchell, *Rule of Experts – Egypt, Techno-Politics, Modernity* (Berkeley, Los Angeles and London, 2002).

³⁹² Later on in the inter-war period, the supposedly non-political stance of members of the secretariat of the League was undermined by the growing entrenchment of fascism in Italy. See Egon Ranshofen-Wertheimer, *The International Secretariat – A Great Experiment in International Administration* (Washington, 1945).

worked for the state, and thus some tentative ideas about the role of national agendas in the Financial Committee can be advanced.

It is interesting to note that the individuals who were most consistently present at Committee meetings about Austria were Avenol, Blackett, Pospíšil and Strakosch – perhaps demonstrating the greater interest in the project that their home countries had, compared to, say, Japan, whose delegate was rarely present.³⁹³ Economic and fiscal orthodoxy was in the 1920s a British concern, with the French following a less austere line, as can be seen in Robert Boyce's comparative study of the British and French economic policies of the era.³⁹⁴ The Financial Committee of the League at this time has often been viewed as being essentially an extension of British policy, controlled by Sir Montagu Norman. Montagu's activities in central Europe, conducted via the work of the Financial Committee, have been characterised as an attempt to advance British power via the means of extending British economic interests and ties in central and Eastern Europe, as we have seen.³⁹⁵ Similarly, the French *Petite Entente* strategy also contained an economic element that progressed in tandem with their political goals.³⁹⁶ French and British policy is often regarded as being in tension and conflict over this area at this time, but in the case of the Financial Committee, there is little evidence of French representatives deviating from the British line, even if British representatives like Blackett and Niemeyer were perhaps more forceful in their advocacy of a strongly orthodox stance on budgets. Key French Committee member Joseph Avenol appears to have agreed on the orthodox policy, and here, as elsewhere in relation to the Austrian scheme, there was harmony between the British perspective and the French perspective, despite the British desire expressed elsewhere to prevent 'French protectionist economics' having an influence.³⁹⁷ The French and the British also

³⁹³ Japanese delegate Kenjo Mori was generally based in London so his absence is not likely to be due to the distance from Japan.

³⁹⁴ Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke, 2009).

³⁹⁵ See Zara Steiner, *The Lights that Failed – European International History 1919-1933* (Oxford, 2005), 281.

³⁹⁶ See Peter Jackson, *Beyond the Balance of Power – France and the Politics and National Security in the Era of the First World War* (Cambridge, 2013).

³⁹⁷ See, for example, the report from M. Lefèvre-Pontalis, Ministre de la République Français en Autriche à Raymond Poincaré, 10 Juillet 1922, AD, CPC-Z-Europe, Europe 1918-29, 117 Autriche, and Frank Nixon to Sir Basil Blackett, July 1921, LNA S107, Sir A Salter, No. 4 Austria. The British were, however, suspicious of the Loucheur scheme as it seemed a too blatant attempt to advance French economic interests.

cooperated on the issue of the suspension of liens and discussed the possibility of League action on Austrian in February 1922.³⁹⁸

Scrutiny of the deliberations of the Financial Committee reveal the dominance of particularly British and somewhat British delegates (Sir Henry Strakosch being a South African, of Viennese origin, residing in London, with substantial business interests there), along with Joseph Avenol and Glückstadt, who had been members of the original delegation to Vienna.³⁹⁹ The dominance of these figures is particularly noticeable when it comes to the perhaps more ideological elements of the scheme, such as the budgetary and currency issues. Others members, such Dr. Pospíšil of Czechoslovakia, and S. Maggiorino Ferraris of Italy were heavily involved in the discussions of the form and powers of international control. There is also no real evidence of disagreements between nationals on the Committee, with the exception of Strakosch's desire for the Controller in Vienna to have fewer powers. In general, the Italian representative did not become very involved in the discussions on the more ideological elements of the scheme, and this may reflect an Italian stance on the scheme that differed from that of the British and French. For the Italian government, their big decision had been whether to lift their liens against Austria, as these were substantial, and they were keen to be involved in the programme. The government's lack of concern for the actual details of the scheme, as indicated by the fact that there is a scarcity of Italian treasury documents relating to the project,⁴⁰⁰ suggests perhaps that the Italians did not regard the financial elements as key to their interests, but more their involvement in general as important in reflecting their status as a victorious power and an influential power in Europe. The lack of Italian treasury interest in the scheme is in sharp contrast to the level of engagement from the British treasury, reflected in the substantial quantity of treasury documents on this subject held in the British national

³⁹⁸ See document, 'Instructions to be given by British and French Treasuries to British and French Foreign Offices', 3 June 1921, copy in LNA S107, Sir Arthur Salter, No. 4 Austria, 2/11 and in the same location, a copy of a foreign office document (from FO 2073/4) from M.G. Ramsay of the Treasury to the Under Secretary of State at the Foreign Office (undated).

³⁹⁹ Along with yet another British banker, Sir Drummond Drummond Fraser.

⁴⁰⁰ Archivio centrale dello Stato, Rome.

archives.⁴⁰¹ The British archives show a substantial amount of communication between the Treasury, the Bank of England and the Foreign Office on the subject of Austrian financial reconstruction between 1921 and 1923, and this demonstrates the way that British officials and the Bank of England saw a connection between their strategic interests and the financial and economic position of Austria, and indeed saw their strategic interests as being advanced *through* the development of the economic and financial position of Austria.⁴⁰²

Overall, despite the perhaps somewhat different emphases of different nationals on the Finance Committee, there were not substantial disagreements as to its form. This lack of disagreement between the different nationals indicates that in the case of the Financial Committee, we are dealing with a transnational group, who in general shared a common understanding in the main on the principles of finance and economics. Of course, these nationals, as is evident in the case of Otto Niemeyer, did not see a contradiction between their own beliefs and that of their national interest, quite the contrary.

Conclusions – what did the scheme represent?

As the first major financial and economic scheme designed by a new international organisation – that is, the League and its incipient economic and financial arm the EFO, the scheme for Austria often appears innovative in its nature and form. Indeed, in many ways the programme for Austria was the beginning of a continuous line in international financial diplomacy reflected in the post-Second World War work of the International Monetary Fund and the World Bank and their stabilisation packages, and ‘bailouts’, such as that in Greece from 2010.⁴⁰³ As a precedent for international involvement in a state’s economy and finances, the scheme certainly was in many ways novel, and it contained many of the elements found in later stabilisation programmes, such as the

⁴⁰¹ TNA. The British treasury records held in the archives also include foreign office documents relating to Austria reconstruction, which have been placed in the treasury archives. Nevertheless, there are a substantial number of documents that were originally treasury documents.

⁴⁰² See TNA T160/57, op. cit.

⁴⁰³ See Pauly, ‘The League of Nations’.

involvement of international institutions and their ‘experts’, attempts to present schemes as neutral and non-political, and the loss of elements of national sovereignty from the recipient state. Study of the case of Austrian financial reconstruction reveals the absolutely central importance of supposedly impartial experts to the programme, the power that they wielded by dint of their expert status, and the politicians’ lack of desire to get involved in detailed deliberations about the scheme. In this, the programme reflected the acceleration in the use of ‘experts’ to solve international issues that historians have identified as a feature of the post-First World War world, emerging from experiences of expert cooperation during the war, and because of the scale of the problems that faced Europe following the war.⁴⁰⁴

However, excessive focus on the innovative elements of the programme can serve to obscure the ways in which Austria financial reconstruction was very much rooted in the past. As discussed in the previous chapter, the scheme was not in fact the first international intervention in a state’s economy.⁴⁰⁵ The Austrian project was, after all, named a *reconstruction* and this language was significant: it was a programme for *restoring* the economic and financial values of the pre-war. It reflected the values of financial elites who had prospered in this earlier era, who now came together to attempt to resurrect some of what had been lost, albeit in a novel manner, via a formally constituted international organisation, and with some apparently innovative features, such as the guarantees provided by Britain, France, Italy and Czechoslovakia.⁴⁰⁶ The experts, despite their innovative role on the Financial Committee of the League of Nations were representatives of the pre-war economic and financial world, originating from banks and treasuries (particularly the British) that wished to, as Keynes put it ‘get back to 1914’.⁴⁰⁷ Despite some innovative elements, the programme for Austria was primarily indicative of a desire to recreate pre-war financial and economic norms and values, and its main features reflected the orthodox

⁴⁰⁴ See Flandreau, *Money Doctors*.

⁴⁰⁵ I refer to the previously cited examples of Greece, Egypt.

⁴⁰⁶ In fact, even the guarantees were not innovative but had been a feature of previous international loans.

⁴⁰⁷ J.M. Keynes cited in Adrian Ham, *Treasury Rules*, 51.

economic ideas that were widely, although not universally, held amongst economic and financial decision makers and elites.

The scheme represented a commitment to a certain ideology, despite efforts at the time to present it as ‘technical’ or ‘neutral’, and this ideology was reflected in features such as budgetary equilibrium, the establishment of a fixed value currency and a Bank of Issue. These aspects were present as crucial elements of the programme from the start or very early on in the Financial Committee’s involvement. Other features (such as the form of the control, the requirement of an Enabling Act, and the international guarantees) came later and could perhaps be viewed as more the practical mechanisms by which the financing could be obtained that enabled the programme to be enacted and Austrian finance to be re-established and stabilised. The less ideological elements in some respects appear the more innovative, as this was the first occasion on which an international reconstruction programme of this nature was carried out, and the mediating role of an international institution was a new feature. However, even here we see continuity with the pre-War world: foreign government guarantees had underwritten loans in the past, such as in the case of Greece in 1898, and with respect to control, it was long established that provision of international loans might be accompanied by a loss of sovereignty.

In the past, this control had been backed up gunboats, and the innovative element now was that it was supported by the authority of the League and here the League provided an element of apparent neutrality that helped to give the Austrian reconstruction scheme the credibility that it required. Whilst the implementation of measures to assure the interconnected orthodox doctrines of stable money, sound finance and low inflation were central to the scheme, they were not of themselves sufficient to restore Austria: it was critical that a measure of confidence in the scheme was established, and for this the support of the international community was necessary. A crucial requirement for Austria was that she obtained short-term foreign financing, and the confidence of both potential domestic and foreign investors to lend to the Austrian government had completely evaporated. In order get the help she required, Austria

needed foreign governments to underwrite the loans, but the guarantors, along with the financial institutions who would float the Austrian loans, wanted to ensure that Austria carried out the orthodox economic and financial reforms considered necessary to future stability. Thus, in order to get the guarantees and loans, Austria had to substantially cede economic and financial sovereignty to the control of a representative of the international community who had the power to enforce the economic and financial doctrines of the plan, and the Austrian government needed to get the powers it required, in the form of an Enabling Act, to enact the specifics of the reforms. The fact that the scheme was a League one facilitated action in Austria because the League lent an impression of neutrality to the League programme, and provided a buffer between the Austria, financial interests and other states.

Chapter Four

***Sanierung und Abbau:*⁴⁰⁸ the financial, economic and administrative impacts of the scheme on Austria 1922-1926**

'Although we Austrians are small and insignificant in the global economy, we see many eyes upon us'

Victor Kienböck, Austria's Finance Minister 1922-1924⁴⁰⁹

'The Austria reconstruction scheme was a milestone in the post-war process of economic recovery and political consolidation in Europe'

W. M. Hill, 1946

This chapter is the first section of a two-part exploration of the impact of the scheme for Austrian financial reconstruction. The previous two chapters have examined how the programme came into being and was launched, and what its attributes were. The next two chapters seek to explore the consequences of all of this for Austria. They focus upon the time from when the scheme began in September 1922, until it was adjudged to have been completed and Commissioner-General Zimmerman's control removed in June 1926. The ramifications of the scheme were multifarious and complex. It had effects on the political situation in Austria, as will be explored in the following chapter. It also impacted upon the financial position of the country in relation to its currency and budget, and its economic situation with respect to growth rates, trade and unemployment. Furthermore, the programme saw changes to the administrative structure of the Austrian state, and its level of service provision. These different aspects of the effects of the programme cannot be entirely separated out, as a development in one area often had an effect elsewhere. So, for example, high levels of unemployment provoked political responses. The various effects of the programme are explored over

⁴⁰⁸ 'Reconstruction and reduction': the terms often given to the measures that comprised the Austrian financial reconstruction scheme. For more on the term 'Abbau' see Chapter Three, page 92.

⁴⁰⁹ From Victor Kienböck, *Das österreichische Sanierungs werk* (Stuttgart, 1925), 3. 'Wenn wir Österreicher auch ein kleines, in der Weltwirtschaft unbeutendes Volk sind, sehen wir doch viele Augen auf uns'.

these two chapters in order to illuminate the extent to which the League's programme was a success.

The scheme for Austrian reconstruction was portrayed as a resounding success by contemporary commentators on the League. W. M. Hill wrote in his account of the work of the EFO in 1946 (which gave a positive account of the prospects for international financial and economic cooperation in the context of the immediate post-Second World War era) that, 'the success of the scheme is well known' and stated 'conditions of relative prosperity were restored by 1926'.⁴¹⁰ For Maurice Fanshawe, writing before the programme was terminated, the scheme had seen 'real international cooperation providing for complete comprehensive reconstruction and assistance'.⁴¹¹ Partisans for the scheme in the 1920s were also unsurprisingly positive, at least in public. On the occasion of his return to Vienna in June 1924,⁴¹² Sir Arthur Salter, for example, revelled in the 'the amazing contrast between present-day Austria and the Austria of twenty months ago' and in the improvement 'visibly in a year and a half' in Vienna in 'the comfort, the health and the welfare of its people', all of which he attributed to the work of League. It was, said Salter, for 'both Austria and the League of Nations a tremendous result'.⁴¹³ The Financial Committee's assessment of their own programme, contained in joint report produced by the Committee and the League's Commissioner-General in Vienna, assessed the situation similarly: 'the invention of the League... [has] made it possible to convert Austria... into a reorganised state'.⁴¹⁴

The question of success has occupied significant sections of the historiography. Some League historians and economic historians have followed the assessment of these original League figures and supported the idea that the League's scheme for Austria

⁴¹⁰ W.M. Hill, *The Economic and Financial Organisation of the League of Nations. A Study of Twenty-Five Years' Experience* (Washington, 1946), 28.

⁴¹¹ Maurice Fanshawe, *Reconstruction: Five Years of Work by the League of Nations* (London, 1925), 136, 124.

⁴¹² Salter had been in Vienna at Christmas 1922, and had returned in the intervening period for only one day. Interview with the Neue Freie Presse (NFP), 22 June 1924, 'Die Ergebnisse der Sanierung in Österreich', 2.

⁴¹³ Interview with NFP, 22 June 1924, 'Die Ergebnisse der Sanierung in Österreich', 2.

⁴¹⁴ Joint Report by the Financial Committee and Commissioner-General, 15 September 1924, the League of Nations Archive, Geneva (LNA), S110.

produced positive results. Piétri was an early example, writing in 1970 that Austrian financial reconstruction ‘constitutes a good example of the activities of a technical organisation which performed its pioneering task with competence and lucidity’.⁴¹⁵ More recently, Beyersdorf’s view that the programme was ‘a great success’⁴¹⁶ is also reflected in the work of Flores and Decozant.⁴¹⁷ The issue of whether the scheme succeeded beyond its narrow remit – whether it actually created a basis for long term Austrian stability and reconstruction – has often been overlooked. Nathan Marcus does make this a major focus of his investigation and concedes that, given the extent of Austrian financial and economic difficulties in the early 1930s, long term stability was not assured. However, Marcus attributes this to the lack of thorough and continued application of the programme’s prescriptions. In his view, the end of the League programme and the termination of Commissioner-General Zimmerman’s control came much too soon, and the application of its orthodox principles was insufficiently rigorous. Thus, for Marcus, the scheme per se was not a cause of Austria’s problems in the early 1930s, it was the *absence* of the scheme that was.⁴¹⁸ The issue of the connection between the events of 1922-1926 and the difficulties Austria faced from 1931 after the collapse of the *Creditanstalt* bank (a crisis which was instrumental in exacerbating the Great Depression – and not just in Austria), is explored in more depth in Chapter Six, but this chapter will highlight the contributions and the diminutions that the League’s work made to the economic and financial position of Austria up to 1926, when League control was largely withdrawn, and I question Marcus’ view: continuance of the League’s control was not feasible politically, and some of the developments

⁴¹⁵ Nicole Piétri, *La Société des Nations et la reconstruction financière de l’Autriche 1921-1926*, (Geneva, 1970), 200. Piétri does not regard the programme as an unqualified success for Austria, however.

⁴¹⁶ Frank Beyersdorf, ‘Credit or Chaos?’ The Austrian Stabilisation Programme of 1923 and the League of Nations’, in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 148.

⁴¹⁷ Although their focus is very specific, as they investigate the impact that various League loans had on the rate of interest that beneficiary countries could obtain through these schemes. Yann Decozant and Juan H. Flores, ‘Public borrowing in harsh times: the League of Nations Loans revisited’, *Working Papers in Economic History*, Universidad Carlos III de Madrid (Madrid, September 2012). See also Yann Decozant, ‘Internationalism in the Economic and Financial Organisation of the League’, in Laqua, *Internationalism Reconfigured*.

⁴¹⁸ Nathan Marcus, *Credibility, Confidence and Capital: Austrian reconstruction and the collapse of global finance, 1921-1931* (Unpublished thesis, New York University, 2012).

occasioned by the scheme were far from helpful for future stability. A more rigorous application of the scheme might have deepened these difficulties.

Other historians have taken a more negative view of the effects of the programme. Zara Steiner argues that it was enacted for the benefit of Austria's new creditors, and did not have positive impacts for Austrian politics, society or economy. Hers is not an in-depth or archival account, however.⁴¹⁹ Stephen Schuker, who examines the League loans from the perspective of an interest in the work of financial experts, also does not view the scheme as a success. He focuses upon the instability that remained in areas such as trade and unemployment, and the fact that Austria remained vulnerable to external shocks.⁴²⁰

The assessments of historians of Austria have tended to be mostly negative with respect to the scheme, but they have also focussed more upon the League's work in the 1930s, because the end of democracy, the period of the 'Austro-fascist'⁴²¹ regime and the rise of the Nazis are subjects of continued interest.⁴²² Siegfried Mattl examines the League Loans of the 1930s, and provocatively describes League control at this time as '*Finanzdiktatur*'. He also criticises the deflationary tendencies of both the 1920s and the 1930s programmes.⁴²³ For Bachinger, Matis, Berger and Ausch, the 1920s programme was excessively orthodox, although Berger does not regard the scheme as merely an imposition from Geneva.⁴²⁴ For März, the programme 'did not deal with the

⁴¹⁹ Patricia Clavin, *Securing the World Economy – The Reinvention of the League of Nations 1920-1946* (Oxford, 2013); Zara Steiner, *The Lights that Failed – European International History 1919-1933* (Oxford, 2007).

⁴²⁰ Stephen A. Schuker, 'Money doctors between the wars – the competition between central banks, private finance advisors, and multi-lateral agencies, 1919-39', 58, in Marc Flandreau (ed.), *Money Doctors: History, Theory, Policy - The Experience of International Financial Advising, 1850-2000* (London, 2003).

⁴²¹ 'Austrofascism' is the term applied to the period of authoritarian, repressive, corporatist and undemocratic rule in Austria of the *Vaterländische Front* from 1934-1938. The Chancellors of Austria during this time were Engelbert Dollfuss and (after Dollfuss was assassinated by Nazis in 1934), Kurt Schuschnigg. The Christian Social Party was absorbed into the *Vaterländische Front*.

⁴²² See, for example, Peter Berger, *Im Schatten der Diktatur – die Finanzdiplomatie des Vertreters des Völkerbunds im Österreich* (Vienna, 2000).

⁴²³ Siegfried Mattl, 'Die Finanzdiktatur, Wirtschaftspolitik in Österreich 1933-1938', in Emmerich Talos and Wolfgang Neugebauer (eds.), *Austrofaschismus – Beiträge über Politik, Ökonomie und Kultur 1934-1938* (Vienna, 1984), 133-159.

⁴²⁴ Karl Bachinger and Herbert Matis, *Der österreichische Schilling – Geschichte einer Währung* (Graz, Styria, 1974); Karl Ausch, *Als die Banken fielen: Zur Soziologie der politischen corruption* (Vienna, 1968); Peter Berger,

deeper causes of the Austrian economic malaise'.⁴²⁵ Jelavich mentions the 'high social cost' of the programme, as does F.L. Carsten, but they do not explore this in much detail.⁴²⁶ Jens Wilhelm Wessels is more positive, but his account just focusses on the impact on one set of companies. He also downplays the extent to which programmes such as this impact at all on the macro-economic picture.⁴²⁷

Austrian historians may have assessed the League's scheme for Austria in more negative terms than the historians of the League partly because examination of the record in Austria raises more questions about the efficacy about the League's programme. I build upon the work of these authors to try to create a rounded picture, deploying a wide range of sources and incorporating evidence from the ego-account of a Viennese seamstress, material from some of the often over-looked Austrian provinces, as well as other Austrian sources, such as newspapers, and League sources, such as the reports of Commissioner-General Zimmerman.

Histories of internationalism sometimes overlook the perspective of the recipients of the internationalists' work,⁴²⁸ and the viewpoint of, and impact on, people and on societies. Economists and economic historians also often have a narrow field of vision with respect to the effects of policies, and the ideologies and interests that underlie them, as Francesco Boldizzoni has pointed out.⁴²⁹ In the case of Austrian financial

'The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction', in Gunter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss / Schuschnigg Era in Austria: A Reassessment, Contemporary Austrian Studies 11*.

⁴²⁵ Eduard März, *Austrian Banking and Financial Policy – Creditanstalt at a Turning Point, 1913-1923*, trans. Charles Kessler (London, 1984), 506, originally published in German as *Österreichische Bankpolitik in der Zeit der großen Wende 1913-1923* (Vienna, 1981).

⁴²⁶ Barbara Jelavich, *Modern Austria – Empire and Republic 1800-1980* (Cambridge, 1987), 175; F. L. Carsten, *The First Austrian Republic 1918-1938 – A Study Based Upon British and Austrian Documents* (Aldershot, 1986), 104.

⁴²⁷ Jens-Wilhelm Wessels, *Economic Policy and Microeconomic Performance in Inter-War Europe – The Case of Austria, 1918-1938* (Stuttgart, 2007); see also Peter Becker in "...dem Bürger die Verfolgung seiner Anliegen erleichtern": zur Geschichte der Verwaltungsreform im Österreich des 20. Jahrhunderts', in Heinrich Berger, Melanie Dejnega, Regina Fritz and Alexander Prenninger (eds.), *Politische Gewalt und Machtausübung im 20. Jahrhundert: Zeitgeschichte, Zeitgeschehen und Kontroversen: Festschrift für Gerhard Botz* (Vienna, 2011).

⁴²⁸ See, for example, Glenda Sluga's recent work, *Internationalism in the Age of Nationalism*, (Philadelphia, 2013).

⁴²⁹ In *The Poverty of Clio – Resurrecting Economic History*, by Francesco Boldizzoni (Princeton, 2011).

reconstruction, whether it is seen as a success or not to some extent depends upon whose perspective is examined. Many of those who have written about the work of the League in Austria only examine elite, Vienna-based (male) perspectives, and do not consider the social effects of the programme, in common with Financial Committee members, who, as we saw in the previous chapter, did not much consider the ‘social’, or for that matter, political, effect of their work.⁴³⁰ This chapter gives a broader perspective on the work of the League, which alters the assessment of whether the programme was successful or not.

I argue in this chapter that whilst the League’s programme did indeed deliver currency stability and access to loans for Austria, it also had many detrimental aspects, as it further fuelled a speculative atmosphere that worked to undermine the stability of Austrian banks, and occasioned a large rise in the level of unemployment. Furthermore, the scheme left some of the key problems of the Austrian economy, such as the large trade deficit and under-investment in industry, unresolved. More positive assessments of the League’s work in Austria often overlook the social impacts of the programme, such as its effects on service provision and those made unemployed, an oversight that this chapter remedies. This lacuna leaves a major facet of the programme, that is, the impact on the population of Austria, under-investigated in previous works. The social impact is central when considering the success or otherwise of the scheme – for what use are financial and economic policies if they do not serve and benefit wider society? To ignore or minimize the significance of the social effects of financial and economic policies is to ignore what should surely be their fundamental *raison d’être*. Sources from Austrian provincial archives and the experiences of individuals are for the first time deployed to understand this aspect of the impact of the scheme.

⁴³⁰ Marcus typifies this approach: he acknowledges that the level of unemployment resulting from the programme was high but does not analyse this in any depth or consider the social and political effects of this, Nathan Marcus, *Credibility, Confidence and Capital: Austrian Reconstruction and the Collapse of Global Finance, 1921-1931* (unpublished thesis, New York University, 2012).

Confidence, speculation and the *Krone*

The main initial aims of the scheme for Austrian reconstruction were to stabilise the Austrian currency, and to obtain foreign loans for Austria in order to bridge the gap between its governmental income and expenditure, until such time as equilibrium was achieved. The extent to which these aims were fulfilled is one way to assess the extent to which the League's programme was a success, and certain progress was made almost instantaneously. The decision to definitely pursue the League scheme was taken at the end of August 1922 and the announcement of this immediately created positive results in Austria. There was a tangible restoration of public confidence from late August 1922, a development that Commissioner-General Zimmerman labelled as 'remarkable'.⁴³¹ The main sources of the new feeling of optimism were a belief that foreign loans into the country would be forthcoming, and a belief that this foreign money was central to prospects for Austrian recovery. The new mood of foreign and domestic investor and speculator confidence continued into 1923, an outcome that Zimmerman attributed to 'the intervention of the League of Nations, the interest shown by foreign countries and the energy of the Government'.⁴³²

The 'flight to the crown', as Maurice Fanshawe labelled the return of capital to Austria, started as soon as it became clear that the implementation of a League plan was definitely being attempted, and it predated the launch of any of the measures outlined in the League's programme.⁴³³ At the end of August 1922, before the details of the scheme had been revealed,⁴³⁴ before the unbacked issue of banknotes had ceased, before any moves had been taken to attain budget equilibrium, and before the currency value was officially fixed, there was a surge in confidence which saw foreign currency holdings converted back into *Krone*. Hyperinflation ceased in September 1922, and internal prices remained relatively steady.⁴³⁵ The stabilisation of the crown on the

⁴³¹ *The First Report by the Commissioner-General of the League of Nations for Austria*, 15 December – 15 January 15 1923 (Geneva, 1923).

⁴³² *The Seventh Report of the Commissioner-General*, 15 June – 15 July 1923 (Geneva, 1923), 1.

⁴³³ Maurice Fanshawe, *Reconstruction*, 136.

⁴³⁴ Although its likely contours would have been clear from the Financial Committee's 1921 plan.

⁴³⁵ See Steve H. Hanke and Nicholas Krus, 'World hyperinflations', in Randall E. Parker and Robert Whaples (eds.), *Routledge Handbook of Major Events in European History* (Abingdon, Oxon, 2013), table 30.1, 372-373.

foreign exchanges and the end of hyperinflation thus occurred almost immediately upon the announcement of the League's involvement and without any policy changes or reforms, as Arthur Salter acknowledged.⁴³⁶ It seemed that the very existence League support was sufficient to create some of the conditions which might allow Austria to return to prosperity. As Marcus and März point out, however, part of the reason for the stability on the exchanges was that the government's Foreign Exchange Agency, through which all foreign currency earned from export sales had to pass, was able maintain the value of the *Krone* through intervention on the currency market, something that the sheer level of currency instability had previously not made possible. Levels of public confidence after August 1922, whilst improved, were still volatile, and to sustain the value of the *Krone* the Foreign Exchange Agency had to act. From November 1922, they attempted to maintain the *Krone*'s value in relation to the Swiss franc, and then, after the franc's value started to fluctuate in May 1923, fixed the *Krone* to the dollar.⁴³⁷

Examination of the dollar-to-*Krone* exchange rate reveals how the value of the *Krone* on foreign exchanges stabilised once League involvement in Austria was certain. The exchange rate held steady and even improved somewhat between late August and mid-December 1922: 75,000 *Krone* were required to obtain one dollar on 25 August and 70,750 on 15 December.⁴³⁸ This stability continued into 1923, and by 14 March approximately the same rate of 71,175 *Krone* to the dollar had been maintained.⁴³⁹ And it was not just on the foreign exchanges that matters improved. The League reported that during the same period, the purchasing power of the *Krone* also increased domestically, as prices reduced. A further sign of the people of Austria's much greater

⁴³⁶ Sir Arthur Salter, *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926).

⁴³⁷ See Marcus, *Credibility* and Eduard März, *Austrian Banking* (London, 1984), 536.

⁴³⁸ Document, 'Summary of position on December 15 1922', 19 December 1922, in LON S100, Mr. Nixon Box No. 4 Austria, 79/5/1 – League of Nations Financial Delegation in Austria.

⁴³⁹ *Third Report of the Commissioner-General*, 15 February – 15 March 1923, in League of Nations, *Austria – Progress in the Financial Reconstruction*, (Geneva, 1923), 14.

confidence in their own currency, and by implication, the future of their own country, can be seen in the 82% increase in the savings rate in November 1922.⁴⁴⁰

The Financial Committee regarded the production of unbacked bank notes⁴⁴¹ and the expansion of the money supply as the cause of the *Krone*'s difficulties, and so their delegation in Vienna moved in the autumn of 1922 to ensure that this ceased. This aspect of the reform programme of the League was, as we have seen, not actually necessary to arrest the slide in the value of the *Krone* (and in any case there were large inflows of money into Austria post-August 1922, and the amount of money in circulation rose),⁴⁴² but the knowledge that this reform would occur was likely an important factor in restoring confidence in the *Krone*. The end of 'inflationary'⁴⁴³ issue was also a prerequisite if Austria was ever to obtain the guarantees from foreign governments that were so critical to the prospects of Austria gaining the foreign loans that it needed. Thus, the necessity of the rapid establishment of the bank of issue was clear to the Austrian government, and they moved very quickly in the autumn of 1922 to ensure that the legislation governing this was enacted.⁴⁴⁴

The move to cease production of 'inflationary' bank notes occurred on 18 November 1922. At this point, Finance Minister Victor Kienböck declared, 'the time of inflation was finally over' and 'the reconstruction had stepped out of plans and into life'.⁴⁴⁵ A new bank of issue, theoretically independent from the supposedly damaging political influence of government, was launched in early 1923, backed up by hard currency

⁴⁴⁰ Document, 'Summary of position on December 15 1922', 19 December 1922, in LNA S100, Mr. Nixon Box No. 4 Austria, 79/5/1 – League of Nations Financial Delegation in Austria.

⁴⁴¹ I.e. bank notes which were not covered by minimum reserves of a currency fixed to gold or gold in the central bank.

⁴⁴² See März, *Austrian Banking*, 536-537.

⁴⁴³ As the League of Nations' Financial Delegation referred to 'the issue of paper money' by the Austrian National Bank in a document: Summary of Position on 15 December 1922, S100 Mr Nixon, Box No. 4 Austria.

⁴⁴⁴ See Report by the Provisional Delegation of the League of Nations at Vienna, 1 February 1923, in League of Nations, *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926), 195-196.

⁴⁴⁵ Victor Kienböck, *Das österreichische Sanierungswerk* (Stuttgart, 1925), 31.

(primarily the dollar) supplies equivalent to 83 million gold *Krone*.⁴⁴⁶ On 18 May, the *Krone* was fixed to the dollar (which was in turn fixed to gold) at a rate of 71,060, making Austria the first European country to return to gold after the First World War. The *Krone* remained at a parity of 14,400 to gold for the remainder of its existence.⁴⁴⁷ On 7 July 1924, a new gold-backed currency, the *Schilling*, which involved the issue of coins that contained precious metals, was introduced, completing the final stage of Austrian currency restructuring. 10,000 *Krone* were exchangeable for one *Schilling*. The *Reichspost* greeted the introduction of the new currency with great enthusiasm, writing that 'just as the silver of the Austrian *Schilling* is more tangible and solid than paper, so the new currency seems a tangible down-payment on a better future'.⁴⁴⁸

The stabilisation of the external value of the *Krone* also saw the end of hyperinflation, a major achievement of the programme. The stabilisation of the *Krone*, and the anticipation that foreign loans would be obtained, caused the rapid increase in domestic prices to cease from September 1922: a dramatic change from August 1922, when inflation had peaked at 129%. Retailers no longer drove prices up in response to fears of further currency depreciation. However, the effects of hyperinflation on living standards had been ameliorated by the wide-spread practice of index-linking of wages to prices, a practice which in the stabilisation era declined. In his third report, Zimmerman recorded that rents and coal prices had risen, and so that the index of prices recorded a 6% increase between February and March 1923.⁴⁴⁹ In April and May

⁴⁴⁶ See ibid, 31. Further issue of notes were only permitted 'on the basis of the maintenance of a statutory proportion of gold and foreign exchange'. 20% was the 'statutory minimum cover prescribed for the first five years... in gold and foreign exchanges stable with gold.' This was 'soon far exceeded': Sir Arthur Salter, *The Financial Reconstruction of Austria*. Salter, 91. By 1926, the notes in circulation were 60% covered by the gold or gold-backed holdings of the National Bank according to a League report: Draft Report on the Financial Reconstruction of Austria, 15 September 1926, LNA R519.

⁴⁴⁷ I.e. 14,000 paper *Krone* were equal to one gold *Krone*. The figure on gold parity is from Kienböck, *Sanierungswerk*, 31. There is some discussion about whether the exchange rate with the dollar was too high or too low. See März, *Austrian Banking*, 536-537. From 6 August 1925 the *Krone* was left free to float against the dollar, 536.

⁴⁴⁸ The *Reichspost*, cited by Karl Bachinger and Herbert Matis in *Der Österreichischen Schilling – Geschichte einer Währung* (Graz, 1974), 79. No exact date given. The *Neue Freie Presse* were rather more sceptical about the introduction of the silver coinage.

⁴⁴⁹ *The Third Report of the Commissioner-General*, 15 February – 15 March 1923 (Geneva, 1923), 14.

the rate was 7% each month,⁴⁵⁰ and as Bachinger and Matis point out, the speculative boom that occurred in 1923 and early 1924 produced obvious price rises.⁴⁵¹ But the cost of living increases did not end after the Austrian stock exchange the *Börse* crashed but continued into 1925. In an internal League of Nation's report for the EFO, League economist and member of the EFO secretariat, J. van Waldré de Bordes, noted that 'the index of the cost of living has uninterruptedly been rising since August 1923 up to February 1925. During that same period, the wage level has constantly been rising, through somewhat slower than the cost of living index'.⁴⁵² So whilst the League's programme brought the benefit of dramatically reducing the level of inflation and creating more stable prices, prices still out-ran wages for many people. It was the view of both Alexander Loveday of the EFO and Adrianus Pelt of the League's Information Section that by 1924, the salaries of officials were too low.⁴⁵³ Average wages, whilst low in comparison with other countries, however, did not fall, and in this sense, wage earners did not lose out too much in this period.⁴⁵⁴

The steps taken to re-establish and stabilise the currency represented considerable successes in the work of the League and the Austrian government, and were for Arthur Salter and other EFO operatives essential developments that allowed Sir Arthur to report approvingly to the International Chamber of Commerce in June 1925 that the Austrian currency, which had been 'the most disorganised currency in Europe outside

⁴⁵⁰ See Letter from the Commissioner-General to the Federal Minister of Finance, 20 April 1923, contained in Annex VI of *The Fifth Report of the Commissioner-General*, 15 April – 15 May 1923 (Geneva, 1923), 16.

⁴⁵¹ Karl Bachinger and Herbert Matis, *Schilling*, 72.

⁴⁵² J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria. De Bordes' work was part of the statistical and data-driven work that emerged after the establishment of the League, see A. Alexander Menzies, 'Technical Assistance and the League of Nations', 295–296.

⁴⁵³ See Alexander Loveday to Arthur Salter, 29 May 1924, and Adrianus Pelt, Memorandum on the policy to be followed by the Council of the League of Nations at its next meeting, June 1924, in regard to the Austrian reconstruction problem, both in LNA S110.

⁴⁵⁴ Indeed, wages were often considered too high and a desire for lower wages may have been one motivation for the support of industry for anti-democratic groups such as the *Heimwehr*. Wages and productivity over the course of the First Republic were on about a par (wages grew by 19% and productivity by 18%). Steifel points out that wages were low in international comparison, regardless of what Austrian employers believed the case to be. Wage levels were not much hit by the high level of unemployment, however. See Dieter Stiefel, 'The Great Depression in a Small Country – Austria, The World Economic Crisis of the 1930s and its Significance for the Present Day', in Ivan T. Berend and Knut Borchadt (eds.), *The Impact of the Depression of the 1930s and its Relevance for the Contemporary World* (Berne, 1986).

'Russia' was now stable, on a gold basis and with plenty of reserves.⁴⁵⁵ As we will see, however, currency stabilisation also had various effects upon the Austrian economic and financial situation that were detrimental to other aspects of stability.

The apparent return of confidence to Austria and in its currency was not the entirely beneficial development that it might at first have appeared to be, and indeed it had some very negative features. The rapid restoration of value of the *Krone* in many ways reflected the continuation of precisely the kinds of disordered speculative activity that had undermined the currency in the first place. As Peter Cottrell has written, 'life in Vienna came increasingly to be centred on the *Börse* during the inflation, and, moreover, for a further fifteen months after monetary stabilisation'.⁴⁵⁶ The knowledge that foreign loans would arrive engendered a bullish mood amongst both foreign and domestic speculators, and a dramatic speculative boom on the stock market commenced and continued throughout 1923. The stock exchange index rose from 882 in March 1923 to 2680 in January 1924.⁴⁵⁷ Already by April 1923 the Commissioner-General was reporting upon a feverish atmosphere in Vienna where there was a 'desire for rapid gains in a milieu in which large fortunes were made in a short space of time'.⁴⁵⁸ He was, however, somewhat positive about the development, as he recognised that it generated capital, a higher standard for living for those who had capital with which to speculate, and tax receipts.⁴⁵⁹ By Christmas that year, Zimmerman was more negative about the reckless and speculative mood that the stock exchange boom engendered, reporting critically of 'a feverish desire to spend' in an atmosphere of 'heedless extravagance'.⁴⁶⁰ This was the kind of atmosphere that according to SDAP leader Otto Bauer produced 'the cultureless luxury of the newly enriched Bourgeoisie'

⁴⁵⁵ Arthur Salter's speech to the International Chamber of Commerce, 23 June 1925, Austria, Miscellaneous Memoranda on the Austrian situation, LNA S113, Sir Arthur Salter, No. 10, Austria.

⁴⁵⁶ P. L. Cottrell, 'Mushrooms and Dinosaurs: Sieghart and the Boden-Credit-Anstalt during the 1920s', in Alice Teichova, Terry Gourvish and Agnes Pogány, *Universal Banking in the Twentieth Century – Finance, Industry and the State in North and Central Europe* (Aldershot, 1994), 155.

⁴⁵⁷ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

⁴⁵⁸ The *Fourth Report of the Commissioner-General*, 15 March – 15 April 1923 (Geneva, 1923), 10.

⁴⁵⁹ The *Eighth Report of the Commissioner-General*, 15 July -15 August 1923, (Geneva, 1923), 6.

⁴⁶⁰ The *Thirteenth Report of the Commissioner-General*, 15 December 1923 – 14 January 1924, (Geneva, 1924), 1. Gulick describes the 'gold-rush atmosphere' at this time, *Austria from Habsburg to Hitler*, 684.

which when ‘the country is in plight, embitters the masses’.⁴⁶¹ This culture had been a feature of the inflationary days, and it now continued in wild stock market speculation.

The first anniversary of Zimmerman’s tenure passed and still the bubble grew. By January 1924 the mean index figure on the *Börse* was up 2680 from its level of 502 in September 1922, the month of the commencement of the League’s work in Austria. The mood was now one of reckless over-confidence, and in early 1924 leading foreign speculators on the Viennese *Börse* co-ordinated with Viennese banks to launch a concerted attack on the French *franc*, which seemed for a time likely to be the next European currency to succumb to worthlessness. Vast quantities of Viennese-based capital were lost as the French government succeeded in March 1924 in maintaining the value of their currency via the means of the provision of a large loan from J. P. Morgan Bank.⁴⁶² Some investors on the Austrian stock exchange lost considerable sums in France, and the incident more generally pierced the bullish confidence of the *Börse*. The collapse was dramatic – a fall in the value of the stock exchange index of 27% in a month from 15 March to 15 April, representing a decrease by this point of 36% from the highest value of the index.⁴⁶³ By October 1924, the stock exchange value had fallen further to 975, and it was to remain in the doldrums for the remainder of the duration of the Commissioner-General’s work in Austria.⁴⁶⁴ According to the *Arbeiter-Zeitung* in the year after the stabilisation, profits from speculation on the stock exchange ‘piled high’ and ‘daily hymns of celebration to the reconstruction’ were heard at the *Börse*. Now, the newspaper reported, this atmosphere had ‘completely collapsed’.⁴⁶⁵ And it was not just those who engaged in franc speculation who were affected. Small

⁴⁶¹ Otto Bauer, cited by Wolfgang Maderthaner, ‘Von der Zeit um 1860 bis zum Jahr 1945’, in Peter Csendes and Ferdinand Opll (eds.), *Wien – Geschichte einer Stadt, Band 3: Von 1790 bis zur Gegenwart* (Wien, Köln, Weimar, 2006), 353.

⁴⁶² For an account of the significance of the Austrian situation for the speculation on the franc, see a document ‘Les operations de la Banque National Autrichiene’ (undated but around September 1924), Archives de la Banque de France, Paris (BdF), Versement 1037200603, Boite 22. For more on the situation in France, see Chapter Six and Peter Jackson, *Beyond the Balance of Power – France and the Politics of National Security in the Era of the First World War* (Cambridge, 2013).

⁴⁶³ *The Sixteenth Report of the Commissioner-General*, 15 March – 15 April 1924 (Geneva, 1924), 1.

⁴⁶⁴ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

⁴⁶⁵ The *Arbeiter-Zeitung*, cited by Bachinger and Matis, *Schilling*, 75. No exact date given.

investors who had not been involved were also, according to Bachinger and Matis, ‘thrown’ by the stock market crash ‘into the Abyss’.⁴⁶⁶

The *franc* incident revealed the problematic speculative activities of many Austrian banks. The banks’ position had been undermined by disruptions resulting from the war and the loss of the Austrian empire. Their excessively close connections to Austrian industry, lack of capital, and the insufficient regulation of their activities created further difficulties.⁴⁶⁷ The League’s scheme did nothing to address this major source of instability in the Austria financial and economic system, and indeed by provoking a fresh wave of speculative activity and creating depressive economic conditions, actually acted to increase the problems of Viennese banking, which were during the Great Depression to prove such a significant destabilising force.⁴⁶⁸ The number of banks in Austria halved between 1923 and 1927,⁴⁶⁹ and, attracted to Austria by the belief that there were profits to be made in the restoration of Vienna to the heart of central European trading and financing, speculative ‘sharks’ moved in the early 1920s to gain powerful roles in Austrian banks.⁴⁷⁰ Men, such as Italian (previously Austro-Hungarian – he was from Trieste) Camillo Castiglioni, who became president of the *Depositenbank*, and Siegmund Bosel, who had a controlling share in the *Unionbank*, were instrumental in the catastrophic attack on the franc. Castiglioni, in particular, was associated with these activities, and fled to Italy amid a furore about his role in the collapse of the *Depositenbank*, which lost large amounts in its attempts to profit from speculation against the franc.⁴⁷¹

⁴⁶⁶ Bachinger and Matis, *Schilling*, 75.

⁴⁶⁷ See Peter Eigner, ‘Banking-Industry Networks – the Austrian Experience, 1895-1940’, in Philip L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918-1994* (Aldershot, 1997). Other comparable economies had tighter regulation of their banking sectors.

⁴⁶⁸ For more on this, see Chapter Six.

⁴⁶⁹ Peter Berger, ‘The Austrian Economy, 1918-1938’, in Herbert Matis (ed.), *The Economic Development of Austria since 1870* (Aldershot, 1994), 264.

⁴⁷⁰ Eigner, ‘Banking-Industry Networks’. Eigner says that ‘the inflation period was the time of “sharks”, as Karl Kraus named the nouveaux riches and the speculators’, 102.

⁴⁷¹ See article about Castiglioni, ‘Austria: Gone’, in Time Magazine, 6 October 1924. See also Dieter Stiefel, *Camillo Castiglioni oder Die Metaphysik der Haifische* (Vienna, 2012).

Austrian banks had extremely close relationships with Austrian industry, as Peter Eigner reveals, owning large shares of the enterprises that they supplied investment capital and credit to. Bankers often sat on the boards of many of these companies. Thus, the needs of industry were very dependent upon the activities these banks, who, lacking capital in the post-war period, had become more and more involved in speculative activity.⁴⁷² The weak position of Austrian industry encouraged the banks to engage in speculation, but equally, losses acquired through this activity undermined the position of industry, through weakening the position of the banks upon which they depended. In addition to the connections between Austrian industry and the banking sector, some banks were also involved closely with the Christian Social Party. This relationship led to the adoption of dubious practices in order to obscure and cover-up the disreputable banking activities of some Christian Social politicians, and the post-stabilisation speculative boom saw these banks drawn further into ill-advised activities, and other institutions weakened in the process.

The case of the *Steirer* Bank is an important and illustrative one. *Steirer* was established after the First World War by Christian Social politician and governor of Styria (and associate of the *Heimwehr*,⁴⁷³ and later the National Socialists), Dr. Anton Rintelen,⁴⁷⁴ partly for anti-Semitic reasons.⁴⁷⁵ The bank had a short and ignominious history. Local Christian Social politicians used *Steirer* to obtain substantial credits, and were heavily involved, via the bank, in Stock Exchange speculation in the aftermath of stabilisation. The bank suffered heavy losses and bankruptcy loomed. To prevent a political scandal, the *Central-Bank Deutscher Sparkassen* (whose chief shareholder, Styrian based financier Dr. Viktor Wutte (a Pangerman), was close to Dr. Rintelen) were leaned on by the government to take over the *Steirer*. *Steirer* was not the only such concern that

⁴⁷² Dieter Stiefel, 'The Bankers' View: Austria's Economic and Political Development and the Role of Banks', 10.

⁴⁷³ The *Heimwehr* were anti-socialist, anti-democratic and anti-Semitic paramilitaries in Austria in the interwar period.

⁴⁷⁴ Anton Rintelen, 1876-1946. Governor of Styria 1919-1926 and 1928-1933. He conspired with the Nazi Party during the attempted coup in July 1934 against Engelbert Dollfuss.

⁴⁷⁵ As Rintelen (and other Christian Socials) wished to see more 'Christian' banks in Austria, Charles A. Gulick, *Austria – From Habsburg to Hitler* (Berkeley, 1948), 703. The Christian Socials labelled their policy 'practical anti-Semitism'.

*Central-Bank Deutscher Sparkassen*⁴⁷⁶ (CBDS), who were already weakened by the disruptions that the end of Empire had caused, absorbed, and in 1926, CBDS itself collapsed. The CBDS might have been able to survive, had it not been persuaded to take on liabilities, such as the *Steirer*, by the government. The government had acted, in part, to try to reduce the damaging financial fallout from events after the end of the speculative bubble, and also to protect various Christian Social politicians from exposure for their shady profiteering activities.⁴⁷⁷ When the edifice of CBDS collapsed, the government had to offer a guarantee to savers. In the case of the *Postsparkasse*⁴⁷⁸ bank, which fell into difficulties shortly after the CBDS, the National Bank took it over, a move which, in turn, undermined the National Bank's position.

The failure of attempts to profit from selling the franc in 1924 significantly weakened the Austrian banking sector, whose illiquidity increased, and whose under-regulated managements responded by beginning the obfuscation and concealments about their balance sheets that would finally explode into view with the collapse of *Creditanstalt* bank in 1931. The events of 1924 started a process of bankruptcies and mergers within Austrian banking which by 1929 created a situation where *Creditanstalt* was the only Austrian bank supporting industry. The bank became a behemoth, but its size concealed the illiquidity of many of the concerns that it had absorbed. Difficulties of post-war adjustment, damaging speculative activities triggered by inflation and then exacerbated by the false sense of confidence that the League's scheme produced, as well as an absence of regulatory oversight, produced weak and unstable banks: banks upon whom the industrial activities of Austria depended.⁴⁷⁹ As we will see in Chapter Six, the instability and indebtedness of Austrian banks, which was exacerbated by the consequences of the League's financial reconstruction plan, was a major weakness in

⁴⁷⁶ Central-Bank German Savings Bank.

⁴⁷⁷ On Steirer Bank and CBDS see F. L. Carsten, *The First Austrian Republic 1918-1938 – A Study Based Upon British and Austrian Documents* (Aldershot, 1986), 101-102 and Gulick, *From Habsburg to Hitler*, 702-707 and Karl Ausch, *Als die Banken Fielen – Zur Soziologie der politischen Korruption* (Vienna, 1968).

⁴⁷⁸ Postal Savings Bank.

⁴⁷⁹ Eigner, 'Banking-Industry Networks'. See also, Patricia Clavin, *The Great Depression in Europe, 1929-1939* (Basingstoke, 2000), 121.

the Austrian financial and economic system, and, as it turned out, a weakness in the European financial and economic system.

Despite the troubling consequences of the League plan in relation to speculative activity and banking, the scheme did work very effectively to obtain for Austria the loans that it was felt by the government and the League were so badly needed.⁴⁸⁰ The short-term and long-term loans were successfully floated, and the new confidence in Austria was illustrated by the speed and enthusiasm with which foreign investors signed up to participate. Commissioner-General Zimmerman reported that the short-term tranche issued in London was twice oversubscribed, whilst the long-term tranche was oversubscribed three times within two hours of its issue in the same city. In New York, a similar situation occurred within just fifteen minutes.⁴⁸¹ A loan issue in Austria was also enthusiastically received and raised the equivalent of \$13 million, three times the value of money in savings accounts.⁴⁸² The issue of the long-term loan allowed the repayment of the short term credits in July 1923, at which time Zimmerman triumphantly and justifiably stated that the League loan system, ‘though it was condemned in various quarters as too intricate and as unlikely to inspire confidence in the investing public, is a perfectly practical and feasible one’.⁴⁸³ According to Julio Santaella, the loans had the positive impact of unlocking capital flows into Austria; they had ‘catalytic’ effect, a development that Commissioner-General Zimmerman reported favourably upon in early 1923 and late 1924.⁴⁸⁴

⁴⁸⁰ The short-term loan was secured on gross receipts of customs and tobacco and guaranteed in the following proportions: Britain 24.5%; France 24.5%; Italy 24%; Czechoslovakia 24.5%; Belgium 2%. See *The Third Report of the Commissioner-General*, 15 February – 15 March 1923 (Geneva, 1923), 7.

⁴⁸¹ See *The Third Report of the Commissioner-General*, 15 February – 15 March 1923, (Geneva, 1923) on the short term loan 6-7, and *The Sixth Report of the Commissioner-General*, 15 May – 15 June 1923 (Geneva, 1923) 1-7 on the long-term loan. Although the reaction in the Netherlands to the short-term loan was less positive, see Marcus, *Credibility*, 136-137.

⁴⁸² *The Seventh Report of the Commissioner-General*, 15 June – 15 July 1923 (Geneva, 1924), 1.

⁴⁸³ *The Sixth Report of the Commissioner-General*, 15 May – 15 June 1923 (Geneva, 1923), 4.

⁴⁸⁴ Julio Santaella, ‘Stabilization Programs and External Enforcement: Experience from the 1920s’, *Staff Papers - International Monetary Fund* 40 / 3 (1993), 584–621; See ‘The Third Report’, which states that the Austrian government were now ‘able to appeal to private foreign capital for the first time since the creation of the present State’, 6.

The kind of financing that followed on from the provision of the first international loans can be seen in the example of the 1925 \$5 million ‘Dollar-Anleihe’ (Dollar-Loan) that was raised in New York for the province of Upper Austria and their private sector partners in order to finance the development of their hydroelectric and coal capacity. The restoration of a degree of confidence in Austria is revealed in a promotional brochure for potential investors which portrayed a glowing image of the conditions and potential of the province.⁴⁸⁵ A hydroelectric scheme was also developed in the Tyrol, and the financing for this was heavily dependent upon Austrian banks, who were in turn heavily reliant on money from the United States. Indeed, a report published by the shareholders in Innsbruck in 1925 reveals that in 1924 the Austrian backers (mainly banks) of the Tyrolean hydroelectric company sought foreign financial backing, and, specifically, financial ties with the United States.⁴⁸⁶ The League loans encouraged further foreign financing, and encouraged Austrian banking interests and economic concerns to seek out such financing, which had a positive effect upon the development of infrastructure and on job creation in Austria in these areas. As will be seen in the final chapter of this thesis, however, the extent of the dependency of Austrian economic and financial concerns upon foreign money was a significant problem when the depression started to impact in the early 1930s.

In addition to encouraging capital flows, Flores and Decorzant also adjudge the loans a success as they provided Austria (and later League loan recipients) with not just access to credit, but also credit at a lower rate of interest than that which might be expected, given the dire economic condition of these countries at the time.⁴⁸⁷ As the first country to benefit from League loans, however, the rate of interest that Austria obtained was not as advantageous as that achieved by later beneficiaries. Lenders were

⁴⁸⁵ ‘Province of Upper Austria’, published in connection with the issue of \$5,000,000 Province of Upper Austria, 7% External Sinking Fund Gold Bond, 1925-1945 (published by Bowne and Co. Inc, NYC), Oberösterreichisches Landesarchiv, Linz (OÖLA), Dollaranleihe, Valutoanleihe des Landes 1925, Kreditangebote, 1.

⁴⁸⁶ *Tiroler Wasserkraftwerke – Aktiengesellschaft – Rechenschafts Bericht 15 Juli – 31 Dezember 1924*, Tiroler Landesarchiv, Innsbruck (TLA), Nachlässe Franz Stumpf, Karton 3, Pos. 10.

⁴⁸⁷ Juan Flores and Yann Decorzant, ‘Public Borrowing in Harsh Times: the League of Nations Loans Revisited’, Universite de Geneve *Working Paper Series*, 12091 (September 2012). Zimmerman’s eleventh report gave interest rates of between 6% and 8.04% (excluding amortisation), *The Eleventh Report of the Commissioner-General*, 15 October 1923-15 November 1923 (Geneva, 1923), 4.

understandably somewhat cautious, and the average rate of interest for Austria on the long-term loans was around 7%, according to Flores and Decorzant. März cites an interest rate of between 9.46% and 10.20%, a rate that he says ‘in view of the Great Powers’ guarantees and the provisos’ was ‘strikingly high’.⁴⁸⁸ For creditors, the Austrian scheme offered a very profitable rate of return, and the guarantees of Britain, France, Italy and Czechoslovakia removed any risk. It is thus unsurprising that, as we will see in the assessment of the political response to the scheme contained in the next chapter, accusations were sometimes made that the scheme benefitted foreign financial interests, whilst leaving Austrians to struggle under the strictures of budget cuts.⁴⁸⁹

The wider economic implications of the scheme

The League’s scheme had complex effects upon the economy of Austria. As we have seen, the programme contributed to Austrian stability in the short-term by stabilising the currency, creating more stable prices and savings’ values, and restoring, at least for a time, confidence. However, this confidence had some negative, speculative effects that did not aid long-term stability, and served to mask some of the economic problems that had been created: in a number of different ways, the League’s programme and its consequences had a depressive effect upon economic conditions in Austria.

The low value of the Austrian currency in the inflationary period had created an advantage for Austrian exporters, but the combination of stabilisation within Austria and declining currency values elsewhere removed this advantage in late 1922 and into 1923. This feature of the Austrian economic scene was perhaps unavoidable, as the country could not do much about the value of other currencies and further depreciation of the *Krone* would have damaged international and domestic confidence, but nevertheless stabilisation did create problems for the export sectors of the

⁴⁸⁸ März, *Austrian Banking*, 504.

⁴⁸⁹ A further beneficial aspect of the League of Nation’s scheme to those outside Austria was that the costs to the nations who supported it were very minimal. Thus, it was for them a much more cost-effective way of supporting Austrian and European stability than the previous grants of aid and provision of direct loans had been. According to Maurice Fanshawe, the total cost of the scheme to the League and to the guarantor states was only £7000, and of this, he estimated that Britain’s share was £600-700. See Fanshawe, *Reconstruction*.

economy, often already struggling with negative trading conditions and high tariffs.⁴⁹⁰

The League's programme also contributed to depressive economic conditions through its cuts to expenditure in certain areas, such as the postal service, and through its huge redundancy programme. In excess of 85,000 civil servants lost their positions, short of the League target of 100,000 but still a very considerable reduction.⁴⁹¹ At least 28% of civil servants were made redundant.⁴⁹² The League and Commissioner-General Zimmerman continued to pressurise the government to make further redundancies, even during periods of high unemployment. Furthermore, there were also reductions to the numbers of civil servants employed at provincial level in some areas, as the government reduced and then removed the grants it provided to pay for the salaries of some of them.⁴⁹³ As März says, the chances of ex-state employees finding new jobs in the depressed economic climate of Austria were 'extremely slim'.⁴⁹⁴

Various other pieces of evidence point to the depressed economic conditions of Austria in the years following financial stabilisation. There is an absence of data from the time on actual rates of economic growth. The notion that the way to assess the health of a country's economy was by the measurement of the extent of growth (or shrinkage) in the level of gross national or domestic product had not yet been conceived in the 1920s, and it was only adopted as an international tool at the Bretton Woods conference of 1944.⁴⁹⁵ Estimates have been made, however. According to Peter Cottrell, between 1913 and 1929, growth in Austria averaged only 0.35% in terms of

⁴⁹⁰ See *The Fourteenth Report of the Commissioner-General of the League of Nations for Austria*, 15 January – 15 February 1924 (Geneva, 1924), 13.

⁴⁹¹ The figure of c. 85,000 was given in Zimmerman in his final, Forty-Second Report, 8, and also by Barbara Jelavich in *Modern Austria*, 175. By the time that 100,000 dismissal were supposed to have been made (according to the original plan) on 1 July 1924, c. 68,000 officials had been dismissed, 7. Arthur Salter gave a figure of nearly 96,000 in 'General Survey', in League of Nations, *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926), 73. John Deak uses the higher figure in 'Dismantling Empire: Chancellor Ignaz Seipel and Austria's Financial Crisis, 1922-1925', in Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *Contemporary Austrian Studies 19, From Empire to Republic: Post-World War I Austria*, (New Orleans, 2010), 136.

⁴⁹² 100,000 civil servants was a third of the total number, *ibid.*, 136.

⁴⁹³ See Kienböck, *Sanierungswerk*, 26. By 1925 the centrally provided grants for the purpose of *Personalaufwandes* (personnel expenses) had been stopped altogether.

⁴⁹⁴ März, *Austrian Banking*, 539.

⁴⁹⁵ See Dirk Philipsen, *The Little Big Number – How GDP Came to Rule the World and What to do About it* (Princeton, 2015).

income per capita.⁴⁹⁶ Weber characterises Austrian growth in this era as stagnated – it was not non-existent, but it was unimpressive, and lower after the stabilisation of the *Krone* than before.⁴⁹⁷ Wicker points out, in addition, that in Poland and Hungary, the provision of the stabilisation loans seemed to have a positive effect on output, but that this was not the case in Austria.⁴⁹⁸ Overall, the return of confidence and capital produced a short-lived boom in some areas in Austria in 1923, which kept unemployment at a lower level than it might otherwise have been, in spite of the problems that exporters had. These problems manifested themselves in the dire balance of trade figures: imports exceeded exports by 14% in 1923, as the trade deficit leapt from 144 million gold *Krone* in the first quarter of 1923, to 297 million gold *Krone* by the final quarter.⁴⁹⁹ After this, between 1924 and 1926, Austria experienced recessionary conditions.

Some of those closely involved in the scheme in Austria acknowledged some of the problems. By the early 1924, Zimmerman reported that ‘the recent period of business activity is at an end’,⁵⁰⁰ and in a speech in 1925, Sir Arthur Salter struck an uncharacteristically downbeat note. He said that although ‘striking progress’ had been made, ‘there is now an economic depression in Austria’. He pointed out that the same was true in other countries that had stabilised after depreciation, including Britain.⁵⁰¹ The Austrian Committee of the League, not prone to comment negatively upon the situation in Austria, similarly acknowledged that from 1924 there was in Austria ‘a

⁴⁹⁶ The rate was at its highest in the late 1920s, when growth was 10% overall (not per annum), Peter Cattrell, ‘Mushrooms and Dinosaurs: Sieghart and the Boden-Credit-Anstalt during the 1920s’, in *Universal Banking*, 156.

⁴⁹⁷ Fritz Weber, ‘From Interwar Stagnation to Postwar Prosperity: Austria’s reconstruction after 1945’, in Alice Teichova (ed.), *Central Europe in the Twentieth Century – an Economic History Perspective* (Aldershot, 1997), 121-145.

⁴⁹⁸ Elmus Wicker, ‘Terminating Hyperinflation in the Dismembered Habsburg Monarchy’, *American Economic Review* 76/3 (1986), 350-364.

⁴⁹⁹ *The Fourteenth Report of the Commissioner-General of the League of Nations for Austria*, 15 January – 15 February 1924 (Geneva, 1924), 13.

⁵⁰⁰ *Ibid.*, 13.

⁵⁰¹ Sir Arthur Salter, speech to the International Chamber of Commerce ‘Recent Progress in European Reconstruction’, 23 June 1925, LNA S113 – Sir Arthur Salter, No. 10 Austria, File, Austria, Misc. Memorandum on the Austrian situation from January 1925. Revealingly, Sir Arthur claims that the depression in Austria had been anticipated by the League.

grave economic crisis'.⁵⁰² In contrast, the economists Charles Rist and Walter Layton, commissioned by the League to investigate conditions in Austria in 1925 to pave the way for the withdrawal of League control, painted a rosy picture.⁵⁰³ Whilst they were probably correct to challenge some of the notions about the supposed economic unviability of Austria, their report, created essentially for the purposes of facilitating League withdrawal, did distort the reality of the Austrian economy.⁵⁰⁴ Rist and Layton did not retreat from the key tenets of the original League programme, emphasising that even though Austria was in economic crisis, 'recovery must necessarily be slow, but it is certain, if the Austrian people and the Austrian Government strive energetically... to maintain budgetary equilibrium and to exploit to the full Austria's natural advantage'.⁵⁰⁵

Another area that pointed to economic difficulties within Austria is that of the level of bankruptcy, a phenomenon that was also analysed by J. van Waldré de Bordes using information provided to him by a private Austrian organisation, the *Creditorenverien*. De Bordes labelled the situation with regards to bankruptcies 'appalling'. In 1922, there were only a total of 62 bankruptcies. By 1923, this figure had leapt to 533, before soaring in 1924 to 2546, a forty-one fold increase. Between May 1924 and April 1925 (which the exception of September 1924) an average of 200 business filed for bankruptcies per month, with the rate at times running at 300 a month.⁵⁰⁶ The situation remained as bad in 1926.⁵⁰⁷ Small banks that had sprung up during the inflationary era were particularly affected. Industrial and commercial companies were hit by trading problems following stabilisation. Other merchants, attracted by the low rate of the franc during the time of speculation, were affected. They had purchased goods on

⁵⁰² Draft Report on the Financial Reconstruction of Austria, 15 September 1926, submitted by M. Strasburger, Delegate for Poland, to the General Assembly, LNA R519.

⁵⁰³ See Berger, 'The League of Nations', 81; Piétri, *La reconstruction financière*, 145.

⁵⁰⁴ Walter Layton and Charles Rist, *The Economic Situation of Austria* (Geneva, 1925). See also Marcus, *Credibility*, 225-226.

⁵⁰⁵ Layton and Rist, reported in Draft Report on the Financial Reconstruction of Austria, 15 September 1926, submitted by M. Strasburger, Delegate for Poland, to the General Assembly, LNA R519.

⁵⁰⁶ J. van Waldré de Bordes, Bankruptcies in Austria, 27 May 1925, S115. The figures refer to the main form of bankruptcy in Austria at the time, *Gerichtliche Ausgleiche*.

⁵⁰⁷ Berger, 'The Austrian Economy', 264.

credit that, with the franc's recovery after the J. P. Morgan loan, became difficult to repay. Producers of luxury goods, who had profited in the boom, also struggled.⁵⁰⁸

These bankruptcies contributed to the level of unemployment in Austria, and a further consequence of the deflationary nature of the League's scheme was that it produced high unemployment in Austria. The rate of unemployment had remained low in the years following the First World War, and in August 1922, on the eve of the League's scheme for Austria, 31,000 people were registered as being in receipt of government unemployment support.⁵⁰⁹ According to Karl Bachinger and Herbert Matis, there was essentially full employment in Austria 1920-1922.⁵¹⁰ Commissioner-General Zimmerman recorded information about the level of unemployment, at least in relation to those in receipt of government assistance, in his monthly reports to the Financial Committee of the League. At the time of his first report covering the period 15 December to 15 January 1923, the number of people receiving unemployment benefit was 150,000, a nearly five-fold increase on the level found in August.⁵¹¹ The real level of unemployment was higher still: in 1924, when unemployment figures in official statistics started to include those 'registered' and not just those in receipt of relief, approximately 30,000 more people were listed as unemployed than were eligible for unemployment benefit.⁵¹² By this stage, unemployment had become a major political issue, and it was a matter that was frequently mentioned in some of the Austrian press. In March 1924, for example, the *Arbeiter-Zeitung* published a sarcastic cartoon depicting an unemployed man, which satirised Seipel's economic theories as expounded at a speech that he had given at the Dominican Church in Vienna (see Figure 1. below).

⁵⁰⁸ See Bachinger and Matis, *Schilling*, 76.

⁵⁰⁹ *Statistisches Handbook Für Die Republic Österreich* (Vienna, 1925), 120.

⁵¹⁰ Karl Bachinger and Herbert Matis, 'Die österreichische Nachkriegsinflation, 1918-1922', in *Beiträge zur historischen Sozialkunde 3, Die Inflation in der 20er Jahre* (1986) 83-91, reproduced in Herbert Matis (ed.), *The Economic Development of Austria since 1870* (Aldershot, 1994), 320.

⁵¹¹ *The First Report of the Commissioner-General of the League of Nations for Austria*, 15 December 1922 – 15 January 1923 (Geneva, 1923), note 1, 11.

⁵¹² See *Statistisches Handbook Für Die Republic Österreich* (Vienna, 1927), 142.

Figure 1. Der Arbeitslose (unemployed person), *Arbeiter-Zeitung*, 11 March 1924, 8.

The caption says, 'So now, after the speech of the prelate Seipel in the Dominican Church, I know: an imbalance in ownership is necessary to give an incentive to work and progress.'



There was a surge in unemployment occasioned by the commencement of the League's Plan and by the stabilisation of the currency. According to League economist de Bordes, the impact of unemployment was felt 'immediately' when the League programme began.⁵¹³ By April 1923, however, as the effects of the speculative boom started to filter through the economy, the rate recorded by Zimmerman had declined to 149,000 and this trend continued until by October 1923 when the rate, at 80,000, was the lowest for a year.⁵¹⁴ By December 1923, the rate had started to rise again, and in early 1924 jumped by 24%, from 97,000 at the end of December to 120,000 at the end of

⁵¹³ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10.

⁵¹⁴ *The Fourth Report of the Commissioner-General of the League of Nations for Austria*, 15 March 1923 – 15 April 1923 (Geneva, 1923), 9; *The Tenth Report of the Commissioner-General of the League of Nations to Austria*, 15 September – 15 October 1924 (Geneva, 1924), 6.

January.⁵¹⁵ The summer months saw reductions in unemployment, which Zimmerman attributed to seasonal factors, before starting to rise once again in autumn 1924 and at the start of 1925. The official statistics reveal that the numbers in receipt of unemployment relief rose by around seven and a half times between the time of the commencement of the League scheme in August 1922 and its peak in January 1926, an increase of some 200,000 people.⁵¹⁶ The League's scheme, thus, seems to have occasioned initially very high levels of unemployment in late 1922 and early 1923, followed by a persistently high level of joblessness from 1924 onwards, which rose further still in 1925 and 1926.

Commissioner-General Zimmerman, ideologically committed to austerity, did not have many useful suggestions to deal with the scourge of unemployment, other than to suggest further reductions in government spending, but he was alarmed by the problem and in his twenty-fifth report of January 1925, he highlighted its extent.⁵¹⁷ At this stage, Zimmerman recorded that there were 175,000 unemployed people in Austria, whilst the official statistics of the Austrian Republic gave the figure as 219,000 people.⁵¹⁸ Zimmerman's analysis revealed that the level of joblessness as expressed in his reports, never mind the even higher figure given in the official data, was far in excess of that of comparable countries. In Czechoslovakia, for example, only 80,000 were out of work even though the population there was twice that of Austria. Poland was four times the size of Austria in terms of its population, but only had the same number of unemployed. In Germany the recorded number of workless was 436,000 and yet the population was ten times larger than Austria's: per capita unemployment in Germany was, thus, running at only between twenty to twenty five percent of the rate in Austria.⁵¹⁹ According to the official statistics, unemployment did not fall below

⁵¹⁵ *The Fourteenth Report of the Commissioner-General of the League of Nations to Austria, 15 January – 15 February 1924* (Geneva, 1924), 14. These figures all represent the rate of unemployment as recorded by Zimmerman, which was the number of those in receipt of unemployment assistance.

⁵¹⁶ From 31,000 to 231,000.

⁵¹⁷ According to his biographer, Jacques Bosman, Zimmerman was 'an unwavering partisan for financial austerity'. Bosman cited by Berger, 'The League', 77.

⁵¹⁸ *Statistisches Handbook* (1927), 142.

⁵¹⁹ *The Twenty-Fifth Report of the General Commissioner of the League of Nations for Austria, 15 December 1924 – 25 January, 1925* (Geneva, 1925), 6.

150,000 in 1925 and 1926 in Austria, and it reached its highest level of 254,000 in January 1926 at a time when the population was approximately six and a half million people.⁵²⁰ As de Bordes pointed out, the level of unemployment in Austria remained at 'a much higher level than during the period of inflation' throughout this time.⁵²¹

We have already seen that by comparison with other countries the unemployment level in Austria was high, but it is useful to try to gain a sense of what the actual percentage of jobless as a proportion of the workforce was. There are some difficulties about exactly assessing the extent of unemployment in Austria at this time as some of the contemporary figures collected tended to be expressed in terms of an absolute numerical value that related to the numbers of people registered as unemployed, a figure which often excluded those ineligible to claim for unemployment benefit, who often did not register. Agricultural and forestry workers, some workers in rural industries, along with domestic workers, were not eligible, which, given that the agricultural and forestry sector comprised between 40-50% of those employed, means a great many people may not have been counted in the official statistics.⁵²² Female workers were, however, eligible for unemployment relief, something that was not true in all countries at this time. To receive support, workers had to have been employed for at least twenty weeks during the previous two years, and before 1924, support was only given for only twelve weeks. This was extended to forty-two weeks in 1924, in the face of the high and persistent unemployment levels.⁵²³ Figures were not collected in Austria on the overall size of the workforce, so the unemployment rate as a percentage of the workforce was not calculated. There had been no labour-force survey in Austria since 1902, but there were figures available for the numbers of people employed under collective contracts (which were, according to de Bordes, universal in Austria at this

⁵²⁰ *Statistisches Handbook* (1927), 142.

⁵²¹ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10.

⁵²² There are different figures for the proportions employed in these areas. In a document in LNA S113, Sir Arthur Salter, No. 10, Austria, 'Comparison between the natural resources of Austria and Switzerland', the figure is given as 40%, whilst Wicker puts the figure at 50% in Elmus Wicker, 'Terminating Hyperinflation in the Dismembered Habsburg Monarchy', *American Economic Review* 76/3 (1986), 350-364.

⁵²³ Wicker, 'Terminating Hyperinflation', 361.

time), so some percentages of the level of unemployment can be calculated for certain industries, but there existed no overall official calculation of the percentage.⁵²⁴

A comparison with one of the countries most affected by unemployment at this time, Britain, helps to illustrate the scale of Austria's problem. Britain's unemployment rate at the end of 1924 ran at around 10-11% of the workforce, and at this time the Commissioner-General estimated that there was a similar level of unemployment per head of population in Austria as in Britain. Indeed he suggested that it was only in Britain, of all countries in the world, that the rate was in anyway comparable to the level in Austria.⁵²⁵ Given that the Commissioner-General understated the true levels of unemployment and that the actual percentage ran much higher, Marcus's assertion that the level of unemployment in Austria was the highest per capita in the world seems accurate.⁵²⁶ Other evidence can be found in the information provided by the Austrian labour movement, representing primarily industrial workers. In May 1925, the Austrian Chamber of Workmen and Employees gave the figure for the number of people unemployed as 180,000 and suggested that this represented 10% of the workforce, which if true would suggest that when the official level of unemployment peaked in January 1926 at approximately 250,000, around 14% of the workforce were unemployed.⁵²⁷ Economist Elmus Wicker has attempted to estimate how much the programmes of the 1920s that were aimed at ending hyperinflation contributed to the overall rates of unemployment in the various countries. He gives a 'deliberately conservative' estimate that, in Austria, the excess unemployment generated specifically by the stabilisation programme ran at 7% of the workforce, an effect that he terms in the neutral language of an economist, as 'nonnegligible'.⁵²⁸

⁵²⁴ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

⁵²⁵ *The Twenty-Fifth Report of the Commissioner-General of the League of Nations for Austria*, 15 December 1924 – 15 January 1925 (Geneva, 1925), 6.

⁵²⁶ Marcus, *Credibility, Confidence and Capital*, 231.

⁵²⁷ *Neue Freie Presse* (NFP), 'Arbeitslosigkeit und Auswanderung', 27 May 1925, 3.

⁵²⁸ Elmus Wicker, 'Terminating Hyperinflation', 350-351.

The rate of unemployment was not uniform across the country, although its impact was felt widely across many different sectors and in different regions of Austria. Industrial areas were particularly affected, although, of course, there is less reliable information relating to the position of agricultural workers because of their ineligibility for unemployment relief. According to de Bordes 'the industrial districts (Vienna, Wiener-Neustadt, Graz and Linz) are responsible for three-quarters of the unemployment in winter and practically all of it in summer'.⁵²⁹ Certain sectors of the economy also showed higher levels of unemployment than others, so the rate in the chemical, rubber, paper and graphics industries was very low, whilst the rate in metals, clothing, and hotel work ran at 10-15% in January 1925. Graz, which depended upon the iron and metal industries, was particularly badly hit.⁵³⁰

How can the high and persistent level of unemployment that Austria experienced during the time of the League's work in Austria be explained? Arthur Salter was clear that the unemployment experienced was 'post-stabilisation unemployment'.⁵³¹ Elmus Wicker's explanation of the causes include the impact of the sacking of the 85,000 state employees and effect of stabilisation had upon the size of banking operations in the country, the reduction of which resulted in 10,000 fewer employees at financial institutions. Zimmerman did acknowledge that stabilisation had reduced Austrian export advantages, which depressed the economy, but he also attributed unemployment levels to a lack of markets, the cost of credit (which was high partly because of the stabilisation programme),⁵³² the financial burdens produced by taxation and the costs of social legislation.⁵³³ He did not understand the detrimental effect that other aspects of the League's programme likely had on unemployment. There is in his reports a clearly expressed concern about the unemployment rate, juxtaposed with frequent exhortations to the government to go faster and further with their cuts to the number of civil servants employed, with no hint of contradiction. Zimmerman's second

⁵²⁹ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10.

⁵³⁰ Ibid.

⁵³¹ Salter, *The Financial Reconstruction of Austria*, 79.

⁵³² See page 154.

⁵³³ *The Twenty-Fifth Report of the Commissioner-General*, 15 December 1924 – 15 January 1925 (Geneva, 1926), 7.

report to the Financial Committee, for example, talks approvingly of the high number of state employees made redundant, whilst also bemoaning the unemployment ‘crisis’, and pointing to the ‘general hardship and individual suffering’ that the crisis produced.⁵³⁴ In his mind, there was no contradiction: anything other than minimal government expenditure (including spending upon the wages of public servants) was harmful to the economic outlook. Whilst handwringing about the numbers of jobless in his twenty-fifth report (covering late 1924 and early 1925), Zimmerman also opined that, ‘one of the greatest services that can be rendered to the economic life of a nation is to make drastic reductions in public expenditure’.⁵³⁵ For Zimmerman, a major factor in causing unemployment was excessive government spending, even though this was also something that was originally blamed in pre-stabilisation era, when levels of worklessness were low, for hyperinflation. Whilst notions of counter-cyclical government spending had not at this time been fully developed,⁵³⁶ to urge the state to make more people jobless when joblessness was a problem does seem particularly perverse.

One contemporary at the League, J. van Waldré de Bordes, did have a more rounded and sophisticated understanding of the causes of the unemployment. He recognised the deflationary effects of aspects of the League programme in his ‘Note on Unemployment’, and acknowledged that the looser monetary policy pursued by the National Bank of Austria from Autumn 1923 to Autumn 1924 helped to reduce unemployment.⁵³⁷ Such a policy was, of course, anathema to the Financial Committee and its supporters, such as Montagu Norman. The delegation of the Committee that visited Austria in September 1924 saw to it that such a policy was stopped, which occasioned an increase in the already high levels of joblessness, as has been seen.⁵³⁸ Furthermore, depressive conditions were created by the high bank rate that was

⁵³⁴ *The Second Report of the Commissioner-General*, 15 January – 15 February 1923 (Geneva, 1923), 12.

⁵³⁵ *The Twenty-Fifth Report of the Commissioner-General*, 15 December 1924 – 15 January 1925 (Geneva, 1925), 7.

⁵³⁶ John Maynard Keynes published his *General Theory of Employment, Interest and Money* expounding this theory in London in 1936.

⁵³⁷ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10. He cited *Statistische Nachrichten* 1925, March, 49

⁵³⁸ J. van Waldré de Bordes, Note on Unemployment, 26 May 1925, LNA S113, Sir Arthur Salter, No. 10, Austria.

required to maintain the value of the *Schilling* and the gold standard. In March 1925 the bank rate was 13%, for example.⁵³⁹ Such a rate made borrowing for investment by Austrian firms very difficult, which in turn had a depressive effect on the economy, increasing unemployment.

Unemployment is not just a statistical matter or a subject for theorising about in economics: it is a cause of real hardship. This is a fact that often seemed to be of minimal concern to some at the League of Nations. Frequently, League representatives accepted unemployment as an unfortunate bi-product of necessary reforms.⁵⁴⁰ As some of the negative effects of the League's programme on employment levels and social conditions became clear in early 1923, for example, the response of the Austrian Committee of the League was to suggest that the suffering was necessary and unavoidable. They wrote that 'it was clearly foreseen in September [1922] that sacrifices and hardship during the transitional period were the indispensable condition of Austria returning to a position of self-supporting independence and prosperity'.⁵⁴¹ Consideration was not made of how to alleviate these difficulties. Avoidance of unemployment could be a central aim of economic, financial and fiscal policy, but in the case of Austrian financial reconstruction, budget equilibrium and currency stability were the priority, and unemployment was treated as a necessary, albeit regrettable, side-effect.

Unemployment was a particular issue for Vienna, as Commissioner-General Zimmerman highlighted, but it was not only in Vienna that it was a problem. Evidence of the detrimental social effects of the unemployment produced during the initial period of the League's programme, and evidence of concern about this, can be found in the meetings that took place in Graz of the *Landtag* (regional assembly) of Styria. Styria

⁵³⁹ *The Twenty-Seventh Report of the Commissioner-General*, 15 February - 15 March, 1925 (Geneva, 1925), 5. In this report Zimmerman also says that the Chairman and General Manager of the Austrian National Bank went to the Bank of England to discuss the Austrian bank rate and seek advice, 5.

⁵⁴⁰ This approach to the problem is also adopted by some of the historians of the League's work. See, for example, Marcus, *Credibility, Confidence and Capital*.

⁵⁴¹ 'The Financial Reconstruction of Austria', 30 January 1923, LNA C/S.CA.23.

was a semi-industrial region, with some industrial areas based in Graz, and some small industrial settlements elsewhere. It also relied upon its agricultural economy. On 21 December 1922 the *Landtag* – which contained a substantial number of SDAP representatives but more Christian Social members – passed unanimously and without amendment a measure enabling the regional government to provide emergency funds to help assist the unemployed. One hundred million *Kronen* were supplied for the purpose, which was intended to assist the ‘genuinely poor’.⁵⁴² The assembly also took steps to attempt to organise contacts with local industry to see how they could assist with the alleviation of unemployment.

In the Tyrol, a region that was much more dependent on agriculture and tourism than Styria, and where regional politics were dominated by Christian Social affiliates the Tyrolean People’s Party⁵⁴³, similar discussions occurred in the regional parliament in December 1922. Proposing an urgent motion to take measures to tackle unemployment, SDAP representative for Innsbruck Martin Rapoldi stated that ‘for weeks the level of unemployment in Tyrol has risen alarmingly’. According to Rapoldi, the support given to the unemployed was inadequate to even purchase sufficient bread, and thus the workless were ‘abandoned to the largest woes’.⁵⁴⁴ Rapoldi and his co-signatories proposed public works schemes such as the completion of the construction of the high road to Hungerburg on the outskirts of Innsbruck, and emergency winter works to help alleviate unemployment. They identified a sum of money that the Industrial District Commission could use for this purpose.⁵⁴⁵ In contrast to Styria, the motion was not immediately adopted by the *Landtag*, but the measures were referred to its Finance and Construction Committee.⁵⁴⁶ In this example in the

⁵⁴² Stenographische Berichte des Landestages Steiermark I, 1920-1923, Sitzung 38, 21 Dezember 1922, in the Landesarchiv Steiermark, Graz (LAS).

⁵⁴³ *Tiroler Volkspartei* who had a large majority in the regional parliament. At this time, this party had 27 members in the regional parliament, to the SDAP’s 8, and the Pangerman’s 4 members, see the Stenographische Berichte des Tiroler Landtages I. Period, III. Session vom 14. November 1922 bis 1. Feber 1923, TLA. The brand of specifically Tyrolean Christian Socialism that the *Tiroler Volkspartei* represented reflected the greater sense of regional identity that existed in the Tirol compared with some other regions.

⁵⁴⁴ Stenographische Berichte den Tiroler Landtages I. Periode III. Session vom 14 November 1922 bis 1. Feber 1923, 21, TLA.

⁵⁴⁵ Ibid. Industrial District Committee – *Industriallen Bezirkskommission*.

⁵⁴⁶ Ibid, 30.

Tyrol we see the proposal of a programme of public investment for the purpose of the alleviation of unemployment. These were economic policies that were in opposition to the principles of the League's financial reconstruction scheme, which had envisaged a small state and no government invention of this type. Butschek identifies what he refers '*Präkeynesianismus*' in Austria but his focus is on the 1930s. In the discussion and proposals of the Tyrolean *Landtag* in 1922, we seem to have an even earlier example.⁵⁴⁷

Concern about unemployment persisted in the provinces of Austria, and by 1925, when unemployment had reached very high levels, the SDAP-organised marches urging for 'work and bread for the unemployed' in Vienna and in Innsbruck.⁵⁴⁸ At this point, the whole of the Tyrolean *Landtag*, with its large majority of representatives of the Tyrolean People's Party, voted unanimously in favour of an SDAP motion proposing similar publicly-financed job creation measures to those put forward in 1922. According to the SDAP representative for Innsbruck, Herr Holzhammer, speaking in the debate on this motion, although rises in the numbers of unemployed were seen across Austria, the problem was particularly acute in the Tyrol where levels were 'downright frightening'. He also pointed out the suffering experienced by the many unemployed who were not counted in the figures or did not claim the benefits to which they were entitled. Holzhammer also focussed upon housing shortages and poor quality housing and urged consideration of measures to finance the construction of housing, as, through this, 'commercial employment opportunities and incomes' could be generated to reduce unemployment. By these measures Holzhammer suggested, the 'greatest evils of our time... housing shortages and unemployment... would be mitigated and thereby lasting and useful results produced'.⁵⁴⁹ The motion, which the *Landtag* had no power to enforce, was amended by a proposal of a member of the Tyrolean People's Party that the regional governor refuse all work permits to foreigners in times of high

⁵⁴⁷ Felix Butschek, '*Präkeynesianismus in Österreich*', *Wirtschaft und Gesellschaft* 19/2 (1993).

⁵⁴⁸ Intelligence Report, 29 April 1925, Österreichische Staatsarchiv (ÖStA), AdR, NPA 179, Liasse Österreich.

⁵⁴⁹ Stenographische Berichte den Tiroler Landtages I. Periode, VII. Session vom 17 Nov. 1924 bis 7 März 1925, Sitzung am 26. Februar 1925, 367-368, TLA.

unemployment as foreign labour ‘aggravated unemployed and housing shortages’.⁵⁵⁰ Thus, in some of the regions of Austria, the sources document a great level of concern about the unemployment produced in the wake of the League’s programme for financial reconstruction, and give us an insight into the suffering caused by unemployment, and some of the proposals to tackle the problem via non-orthodox measures – proposals that ran counter to doctrines promoted in the League’s scheme.

Concern about unemployment was often expressed by organisations such as the Austrian Chamber of Workmen and Employees⁵⁵¹, and some representatives in the Tyrol, such as Martin Rapoldi, were clearly deeply worried about the suffering that unemployment could cause. Individual stories and women’s experiences of unemployment have often disappeared from view, however. The effects that unemployment could have on an individual and a woman are revealed in the diaries of Josefa Gastegger, a young seamstress from Vienna.⁵⁵² Gastegger was from a working-class background: her father was a bricklayer, and from the age of sixteen she worked to support herself in the textiles industry, taking a number of temporary positions in the industry in the early part of the 1920s.⁵⁵³ The textile industry was particularly vulnerable to recessionary conditions, and Gastegger experienced periods of unemployment. By 1925, she was working for Frau Hauser’s business in Vienna in a job she enjoyed, but, at this time of particular difficulty for the Austrian economy (1925 being the year of peak post-stabilisation unemployment), she realised that once again, she would lose her job. Recognising that in Vienna she would ‘probably again, though it is so unpleasant to me’, need to apply for unemployment assistance, Gastegger heard of a position working in a kitchen in Württemberg, Germany, and decided to take her chances abroad. In 1926 she moved for another job to Antwerp.⁵⁵⁴ Gastegger’s position as a young, single, childless person made the possibility of migrating for work an option

⁵⁵⁰ Ibid, 371.

⁵⁵¹ *Neue Freie Presse* (NFP), ‘Arbeitslosigkeit und Auswanderung’, 27 May 1925, 3.

⁵⁵² Josefa Donabaum (born Gastegger), 1905-2004.

⁵⁵³ Sammlung Frauennachlässe, Institut für Geschichte, Universität Wien (SFL), NL47 Das Tagebuch von Josefa Donabaum geb. Gastegger, Kopien des zwischen September 1921 und September 1926 geführten Tagesbuches.

⁵⁵⁴ Eintrag, Wien August 1925, SFL NL47, Das Tagebuch von Josefa Donabaum geb. Gastegger, Kopien des zwischen September 1921 und September 1926 geführten Tagesbuches.

for her, but her experience illuminates the precarious employment conditions for many people in post-stabilisation Austria. Women, more likely to be working in insecure and non-unionised professions such as hers, were particularly vulnerable; especially as, since the war, the status of women's employment had been downgraded as part of a gendered attempt, according to Maureen Healy, to 'reconstruct' the old pre-war era. Healy describes the difficulties of reintegrating soldiers after the war, and the problem of absorbing sometimes physically and psychologically damaged men back in to the labour force, particularly with soldiering now considered the 'one true masculine vocation'.⁵⁵⁵ There was amongst returning soldiers anger about female employment, and, partly in response to this, the authorities made concerted efforts to reduce the number of women in work, and restore traditional gender relations.⁵⁵⁶ It was in this context that the women who claimed unemployment benefit received a lower rate than men, which then potentially left them in an even more impoverished condition than men. Gastegger's diaries are interesting on the issue of unemployment assistance, as she professed a dislike of claiming it.⁵⁵⁷ This may have reflected a desire on her part to always be self-supporting, but it also may point to the rather stringent and humiliating obligations that those in receipt of these benefits were subjected to. They experienced constant monitoring, and had to report twice a week to labour exchanges, where their willingness to work was assessed, and officials could require the unemployed to take positions, even if they were not suitable.⁵⁵⁸

Gastegger's experiences also reveal a common response to unemployment: emigration. Indeed, it was thought by Basil Blackett and others that emigration might be an answer to the Austrian unemployment problem, and, thus, the practice was to be encouraged.⁵⁵⁹ The *Neue Freie Presse* on the 27 May 1925, the same year that

⁵⁵⁵ Maureen Healy, 'Civilising the Soldier in Post-War Austria', in Nancy M. Wingfield and Maria Bucur (eds.), *Gender and War in Twentieth-Century Eastern Europe* (Bloomington and Indianapolis, Indiana, 2006), 56.

⁵⁵⁶ Healy, *ibid*. The SDAP as much as the Christian Social Party were involved in this.

⁵⁵⁷ Eintrag, Wien August 1925, SFL NL47, Das Tagebuch von Josefa Donabaum geb. Gastegger, Kopien des zwischen September 1921 und September 1926 geführten Tagesbuches.

⁵⁵⁸ See Wicker, 'Terminating', 361.

⁵⁵⁹ See Blackett note to Drummond, Monnet and Salter, September 1922, LNA S107, Sir A Salter, No. 4 Austria. See also 'The Third Report', 15 March 1923 – 15 April 1923, Annex XI, The Emigration Movement in Austria, translation from the Reichspost, 6 March 1923, 37-38.

Gastegger left Austria, reported that the Chamber of Workmen and Employees had petitioned the Chancellor and called for steps to be taken to get 50,000 workers to emigrate to North America. One of Chamber's particular concerns was the drain that unemployment support represented: they believed that the standard of living of workers was 'seriously affected by the fact that every five of them must support one unemployed'. For the Chamber at this point, emigration was an answer.⁵⁶⁰ There certainly was high emigration from Austria at this time, but nevertheless, high unemployment also persisted.⁵⁶¹ In their petition, the Chamber linked the high level of unemployment with the question of Austria viability. The country seemed to them not able to viably sustain the population and they asked; 'how many people can live in Austria so long as she is forced to exist as an independent State and an independent economic unit'.⁵⁶² Whilst a few contemporaries were clear that Austria did have the resources to be viable as an independent entity, in the minds of many, currency stabilisation and the reform programme had not resolved the issue, as there were still problems around unemployment, trade and investment.⁵⁶³

Thus, the problem of unemployment in the post-stabilisation period illustrates the ways in which the League's scheme for Austrian reconstruction simultaneously contributed to processes that increased stability and the prospects for survival in the country, whilst also contributing to developments that undermined them. Currency instability and inflation had caused insecurity and a wide-spread perception that the country was not viable as an independent entity. Unemployment caused precisely the same problems, and even as the currency stabilised, the *Anschluss* movement and political tensions grew, as we will see in the next chapter.

⁵⁶⁰ The Chamber of Workmen and Employees report and petition reported in the NFP, 27 May 1925 in 'Arbeitslosigkeit und Auswanderung', 3.

⁵⁶¹ The *Reichspost* on 6 March 1923 produced a detailed breakdown of recent emigration based on information from the Emigration Department of the Federal Ministry, and reported that 'emigration rose to a very high figure in the month of January 1923'. See Annex XI in 'The Third Report', 37-38.

⁵⁶² NFP, 27 May 1925, 'Arbeitslosigkeit und Auswanderung', 3. Emphasis in original.

⁵⁶³ Rist and Layton clearly felt that the prospects for Austria were reasonable, and another private League report at the time stated that there was a 'comparison between the natural resources of Austria and Switzerland'. Switzerland was much more stable and prosperous than Austria: 'Comparison between the natural resources of Austria and Switzerland', LNA S113, Sir Arthur Salter, No. 10, Austria.

The reform of budget and administration

In addition to currency stabilisation and the provision of foreign loans, another element that was regarded by the Financial Committee of the League as critical to Austrian financial reconstruction was the achievement of budget equilibrium and lower government spending, and assessing the success of attempts to achieve these is a further way of analysing the impact of the League's programme. The absence of budgetary equilibrium was seen by the Financial Committee to be the central cause of Austria's financial woes, and they attributed the deficit to excessive government spending.⁵⁶⁴ Thus, it was axiomatic to the Financial Committee that cuts be made to the government's budget in order to achieve budgetary balance, although they did envisage some increases in taxation too.⁵⁶⁵ The principle of budgetary equilibrium was central to the League of Nations' scheme, and the Geneva Protocols stipulated the level at which the budget should be balanced (350 million gold *Krone*), a sum that Peter Berger says was a 'very low level', and which entailed large reductions in state spending.⁵⁶⁶ As has been seen, this required large reductions in the numbers of state employees. It also involved administrative reforms to government procedures, the rationalisation of postal, telegraph and rail services, cuts to government-funded services, and modest raises in the level of some taxes to help cover the deficit.⁵⁶⁷ The *Umsatzsteuer* (Turnover Tax) introduced in April 1923 was particularly helpful in raising revenue.⁵⁶⁸

Right from the commencement of his involvement in Austria, Commissioner-General Zimmerman was very keen to promote any money saving administrative reforms and efficiencies that he could find, such as the reduction in the number of government ministries. As Peter Becker says, Zimmerman was able to pressurise the government

⁵⁶⁴ See Minutes of the Financial Committee which are in LNA S107, Sir A Salter, No. 4 Austria.

⁵⁶⁵ *The Fourteenth Report of the Commissioner-General*, 15 January 1923 -15 February 1923 (Geneva, 1923) cites the November 1922 Delegation, 2-3.

⁵⁶⁶ Berger, 'The Austrian Economy', 262.

⁵⁶⁷ For details of the tax changes, see Victor Kienböck, *Das österreichische Sanierungswerk* (Stuttgart, 1925), 25.

⁵⁶⁸ See März, *Austrian Banking*, 539.

with respect to administrative rationalisation and reductions in expenditure via his published monthly reports.⁵⁶⁹ At times, Zimmerman took an extraordinarily hands on approach, inspecting the light railway system personally to attempt to identify guards whose jobs could be made redundant.⁵⁷⁰ In addition to the reductions in government ministries and the reduction in the number of civil servants, a comprehensive plan of administrative reform was designed to increase the efficiency of bureaucratic procedures. The *Gesetz zur Vereinfachung der Verwaltung* (Law to Simplify Administration) was finally passed in June 1925. According to the Government minister responsible, Vice Chancellor Felix Frank of the *Großdeutsche Volkspartei*, the administrative reforms represented ‘standardisation, simplification and savings’.⁵⁷¹ The reforms were an innovative part of the League’s programme, representing the first attempt by an international organisation to assist with this kind of restructuring. Reorganisation to try to reduce spending (and cut jobs) also occurred when the Telegraph and Telephone administration was merged with that of the Postal Service. Postal rates were increased by 50%, and redundancies made from the state-run tobacco monopoly.⁵⁷² Subsidies on certain kinds of rail fare were also reduced, some reorganisations carried out on railways, and the state railway company was commercialised according to a plan devised by British rail expert, Sir William Acworth.⁵⁷³ The railway reforms produced opposition, as will be seen in the next chapter.⁵⁷⁴ The League’s programme did occasion some significant restructuring of the bureaucratic apparatus and administration of infrastructure in Austria, but the measures did not go as far as Zimmerman and the League would have liked.

⁵⁶⁹ See, for example, *The First Report of the Commissioner-General of the League of Nations for Austria* (Geneva, 1923).

⁵⁷⁰ See Peter Becker “...dem Bürger die Verfolgung seiner Anliegen erleichtern”: zur Geschichte der Verwaltungsreform im Österreich des 20. Jahrhunderts’, in Heinrich Berger, Melanie Dejnega, Regina Fritz and Alexander Prenninger (eds.), *Politische Gewalt und Machtausübung im 20. Jahrhundert* (Vienna, Cologne and Weimar, 2011), 123.

⁵⁷¹ ‘Vereinheitlichung, Vereinfachung und Einsparung’, cited by Peter Becker in “...dem Bürger die Verfolgung”. Frank was speaking at the sitting of the Nationalrat, at which he launched the draft law on 5 June 1924.

⁵⁷² See *The Seventh Report of the Commissioner-General of the League of Nations to Austria*, 15 June – 15 July 1923 (Geneva, 1923), 4.

⁵⁷³ See *The Fourth Report of the Commissioner-General of the League of Nations for Austria*, 15 March – 15 April 1923, (Geneva, 1923) and *The Eleventh Report of the Commissioner-General*, 15 Oct – 15 Nov 1923, 8. See also Arthur Salter, ‘General Survey’ 47-48 for a summary of the railway reforms and a file in LNA S113 Sir Arthur Salter No. 10 Austria: Railway Expert and Sudbahn.

⁵⁷⁴ And see *The Twenty-Third Report of the Commissioner-General*, 15 October 1924 – 15 November 1924 (Geneva, 1924), 1-2.

Zimmerman wrote to the Chancellor in February 1924, for example, that ‘nothing is at present of greater urgency from Austria than to carry out the reforms with rapidity and vigour and to brush aside all obstacles... very little has, so far, been accomplished in the matter of expenditure.’⁵⁷⁵ In April 1923 he was frustrated that the number of official publications and army establishments had not been further reduced, and that reform of the administration to federal theatres had not been implemented.⁵⁷⁶

The reforms that were implemented did contribute, however, to the achievement of budgetary equilibrium at an earlier date than envisaged, and by 1925, the Financial Committee reported that the remaining deficit was only five million gold *Krone*, and that in 1926, the Austrian state would actually achieve a surplus of 28.4 million gold *Krone*.⁵⁷⁷ The attainment of this was at a higher budgetary level than that desired by the Financial Committee and Zimmerman. The budget actually accepted in 1926 of 515 million gold *Krone* was considerably more than the 350 million gold *Krone* envisaged in 1922, even allowing for the fact that there had been some inflation during this period.⁵⁷⁸ The relative speed with which Austria achieved balance was due to the much higher than anticipated tax take that the state received after 1922. Restored confidence in the prospects for Austrian survival encouraged the payment of taxes, and direct taxes actually produced in 1923 five times the revenue that had been estimated by the Delegation.⁵⁷⁹ Part of this was down to positive effects created by the stock market boom – monies made were taxable, and the creation of wealth encouraged the payment of tax.⁵⁸⁰ This unexpected benefit of the League’s programme had complex consequences. It helped increase confidence in the country and its budget, and somewhat reduced the pressure to cut services and government spending yet further. As will be seen in the next chapter, however, it also increased political tensions, in that

⁵⁷⁵ Letter from the Commissioner General to the Austria Chancellor, 28 February 1923, LNA C/S.C.A/25(a).

⁵⁷⁶ See *The Fourth Report of the Commissioner-General*, 15 March – 15 April 1923 (Geneva, 1923), 4.

⁵⁷⁷ Draft Report on the Financial Reconstruction of Austria, 15 September 1926, submitted by M. Strasburger, Delegate for Poland, to the General Assembly, LNA R519.

⁵⁷⁸ Salter, ‘General Survey’, 78.

⁵⁷⁹ *The Sixth Report of the Commissioner-General of the League of Nations for Austria*, 15 June 1923 – 15 July 1923 (Geneva, 1923), 9. Although receipts from the tax on the railways and the salt monopoly produced less revenue than anticipated.

⁵⁸⁰ In his *Sixth Report*, Zimmerman said that the tax receipts were ‘due to a number of exceptional circumstances, and in particular to the payment of taxes in advance’, 9.

Zimmerman and other Financial Committee representatives felt that the tax receipts were exceptional and not sustainable, and that anyway, the level of taxation was too high. This view brought them into conflict with Austrian regional governments, and particularly, the administration of the City of Vienna.

Despite the higher than anticipated tax-take, however, significant cuts to some services did occur, and these produced some deleterious social impacts and damaged the enhancements to state functions and provision that had occurred towards the end of, and after, the War. The exigencies of the war, and the SDAP's determination to introduce social reform, had seen the functions of the Habsburg state and its Republican successor expand. During the war, a Ministry of Social Welfare and National Health was established, but despite this, as Healy argues, one of reasons for the collapse in support for the Habsburg state at the end of the First World War was the state's failure to deliver basic welfare and provisions for its people.⁵⁸¹ In the context of this collapse in the functions of the state, the effective provision of services to its 'demanding citizens' was one method by which the new post-war state could build its authority.⁵⁸² The designers of the League's programme for Austria had hoped to create legitimacy via the establishment of a stable currency, balanced finances and a rationalised bureaucracy. By undermining effective service provision, promoting the 'degradation of certain social achievements',⁵⁸³ and alienating certain groups whose support could have helped to develop a stable future for the Austrian Republic, such as civil servants and war veterans, the programme also had negative effects upon the generation of support for the new Austrian state from its populace. Thus, a process intended to rationalise the new state and ensure its viability, namely, reductions in government spending to a level that allowed a lower and balanced budget, also had the

⁵⁸¹ Maureen Healy, 'Becoming Austrian', *Central European History* 35/2 (2002), 1-35.

⁵⁸² Ke-chin Hsia, 'A Partnership of the Weak: War Victims and the State in the Early First Austrian Republic', *Contemporary Austrian Studies* 19, *From Empire to Republic – Post-World War I Austria*, 205. See also Dieter Stiefel, 10, for a summary of the social improvements introduced after the war. Working hours were reduced, unemployment support was guaranteed, employees were granted more power within their work places and trades union rights were guaranteed. See also Otto Staininger, (ed.), *Ferdinand Hanusch (1866-1923) – Ein Leben für den sozialen Aufstieg* (Vienna, 1973)

⁵⁸³ Peter Berger, *Im Schatten der Diktatur – Die Finanzdiplomatie der Vertreter des Völkerbundes in Österreich, Meinord Marinus Rost van Tonningen, 1931-1936* (Vienna, 2000), 18.

effect of reducing the legitimacy of the new state, and its long term prospects for durability, as will be explored in the next chapter.

Public health provision was a service that was negatively affected by the drive for permanent budget equilibrium insisted upon in the League's scheme. The government instituted cuts to health care in a bill of 3 February 1923, the Reform of Public Administration of the Hospitals and Sick Law, which entailed cuts to public health provision of 25-30 milliard *Krone*. The impact of this is revealed in some of the debates held at the Styrian *Landtag*, where SDAP members, in particular, expressed their concern and dissatisfaction at threatened closure of the Graz-West hospital. Their objections were multiple: they disliked the reduction in health provision, and the fact that the location of this hospital in the industrialised west of the city meant that working-class citizens would suffer more from its closure. They were also concerned about the unemployment that would be produced if some of the hospital's staff were made redundant.⁵⁸⁴ In this, the members of the *Landtag* showed an awareness of the ways in which reductions in public spending can reduce social cohesiveness. It is not just the reduction in services, but specifically which group of people will be affected (in this case, mostly working-class people), and the impact of the resulting job losses that will have an impact. Furthermore, even though wage levels in the First Republic were generally maintained, pressure on health budgets does seem to have affected the wages for some workers ('*Badepersonal*'), who were affiliated to a health workers' union, according to a report in the *Arbeiter-Zeitung* from 1924.⁵⁸⁵ The austerity measures also affected the provision of services for what were termed 'war victims', which included those disabled by the war, along with war widows and their dependents. It is estimated that between 4-8% of the Austrian population, some 250,000-500,000 people, were war victims. These people saw reductions in veterans' education and health services, and reductions in the level of their pension

⁵⁸⁴ Stenographische Berichte des Landestages Steiermark I, 1920-1923, Sitzung 40, 30 Dezember 1922, LAS.

⁵⁸⁵ AZ, 11 March 1924, 10, an article entitled 'Sozialpolitik' about the struggle for fair wages of *Badepersonal* 'das dem Zentralverband des Krankenpflegepersonals angeschlossen'.

entitlements.⁵⁸⁶ The next chapter explores the opposition that this provoked, and the implications that these cuts had for the prospects for the future stability of, and the creation of legitimacy for, the Austrian state.

It is interesting to note, that the federal subsidy to the Viennese State Opera was not cut, as a result, according to Arthur Salter, of his direct intervention. Salter helped to ensure this when he was part of the delegation that oversaw the League's plan prior to the arrival of Zimmerman. In the case of the opera, Salter was clearly able to see the benefit that this element of expenditure would have, writing that 'the morale of the whole people depended... upon this daily escape and inspiration'.⁵⁸⁷ He did not apparently place the same value on other aspects of government expenditure, such as services for veterans, and expenditure on decent health provision. The priority that Salter placed upon the maintenance of the opera may reflect the kinds of assumptions about the value of Austrian 'civilisation' that we saw described in Chapter Two. If it was partly the culture of Austria, and the cultured character of its people, that made the country worth saving, it is no surprise that Salter should wish to privileged the preservation of cultural, ahead of material, services.⁵⁸⁸

Whilst government spending came down as public servants were laid off and certain spending programmes cut, it was not reduced to the envisaged level, much to Zimmerman's irritation. One factor was that the economic problems that the League's scheme generated, such as unemployment, saw certain public costs rise, as the government contributed 20% of the cost of unemployment assistance. Unemployment,

⁵⁸⁶ Verena Pawlowsky and Harold Wendelin, 'Government Care of War Widows and Disabled Veterans after World War I', in *Contemporary Austrian Studies* 19, 171. Ke-chin Hsia's estimate of the number of war victims is rather higher at between 5% and 8% of the population: Ke-Chin Hsia, 'A Partnership of the Weak: War Victims and the State in the Early First Austrian Republic', *Contemporary Austrian Studies* 19, *From Empire to Republic – Post-World War I Austria*, 205, 213. A letter from the Central Union of the National Organisation of Austrian Disabled Soldiers and Soldiers' Dependents to the Secretary General of the League of Nations, undated, LNA R519 reveals the response of this organisation to cuts to veterans' services. See also *The Third Report of the Commissioner-General*, 15 February – 15 March 1923 (Geneva, 1923), on cuts to garrison health care, 8. See also Chapter Five.

⁵⁸⁷ Salter, *Slave of the Lamp*, 100.

⁵⁸⁸ See pages 49-51.

as has been seen, was at a low level before the commencement of the scheme, and its dramatic escalation was costly for the government. Government expenditure was increased when the length of time for which people were entitled to assistance was extended in 1924, as the problem of long-term unemployment was recognised. In 1925, Parliament voted to increase the level of unemployment relief for men.⁵⁸⁹ A further issue was that the immediate savings produced by redundancies were limited by the generous terms of pay-offs. Attempts to reduce the level of these were thwarted in the Extraordinary Council of the Parliament that was established to scrutinize the actions of the government early on in the League's programme.⁵⁹⁰ Additionally, the scale of bankruptcies in the banking sector 1923-1927 led to expenditure, as the government attempted to reduce the impact of this.⁵⁹¹ Overall, the League achieved its aim of budget equilibrium and the level of the budget was reduced, but not by as much as the League would have liked.

Conclusions

This chapter sheds light on the mixed effects in Austria of the financial reconstruction scheme. It had a number of positive impacts, but also significant detrimental aspects, and the programme in some respects hindered economic development. In public reports, as we have seen, the League and its representatives tended to portray the effects of the programme in a predominantly positive light. However, the presentation of the project as an uncomplicated success story was never the whole truth. Although the scheme did achieve many of its short term financial aims, such as the stabilisation of the currency and the successful acquisition of foreign loans for the Austrian government, its contribution to the longer-term macro-economic stability of Austria is much more debatable. Furthermore, the effects of the scheme had positive and

⁵⁸⁹ *The Twenty-Eighth Report of the Commissioner-General*, 15 March 1925 – 15 April 1925 (Geneva, 1925), 8. Payments went up by 11% for young, unmarried men, and 19% for men with families. Most of the extra cost was born by industry, in compensation for which, as small tax on industry was remitted. According to British Ambassador to Vienna A. Akers Douglas, unemployment relief had been increased on seven occasions between January 1923 and January 1925. A. Akers Douglas to Mr. Chamberlain, 2 January 1925, TNA T160/60, 2073/18.

⁵⁹⁰ See the next chapter for more on the work of the Extraordinary Council.

⁵⁹¹ Berger, 'The Austrian Economy', 264-265.

negative effects upon the inhabitants of Austria: the stabilisation of the value of the currency produced a greater degree of stability in prices and in the value of wages and savings, but its deflationary aspects reduced social welfare provision and produced very high and persistent unemployment. The programme for Austrian financial reconstruction generated currency stability partly through the psychological confidence that it initially produced. It also delivered loans to Austria. It also, however, created depressive conditions, a high trade deficit and high unemployment, as well as some negative social impacts. Furthermore, whilst stabilisation prevented the further erosion of the capital of savers, it also provoked more of the speculative excesses that generated social tensions, and further undermined the precarious position of Austrian banking, a problem that the League's programme did nothing to address. In addition, some aspects of the reform plan caused social harm via the reduction in services, and the high levels of unemployment occasioned by the scheme, which caused hardship and insecurity across Austria. The detrimental social effects that occurred worked to undermine the stability and brighter future that it was hoped would be created for Austria by the programme.

In certain respects, the programme actually undermined support for the new state. Confidence in Austria's future was generated, to some extent, in the international financial community and international investors, as schemes such as the hydro-electric plant in Upper Austria reveal, but for those who were affected by unemployment, or the reduction of service provision, the chances of creating in them a belief in the legitimacy of the Republic were reduced. The Austrian scheme raises the question of who these kinds of international programme were for. Their proponents may well have believed them to be in the interests of wider society and the greater good, but the neglect of the 'social question' (mentioned by a member of the Financial Committee at the time that the programme was drawn up), points to a tendency to not consider the interests of ordinary people sufficiently, nor the effects of 'stabilisation' on their conditions of life. Furthermore, little consideration was made of the effect that all of this might have upon the political situation in Austria, with respect to its legitimacy as a state, and the political divisions that existed, as will be explored in the next chapter.

Chapter Five

The political impact of the scheme on Austria 1922 – 1926

'Austria is accustomed to ill-treatment by the League on the pretext of reconstruction'

Der Abend, 1925

The scheme for Austrian reconstruction had conflicting political effects on the processes of Austrian state- and nation-building, and on the ideological climate of Austrian politics. Currency and budgetary difficulties and lack of confidence in the prospects for the Republic's continued existence were the impetus for the League's project, as we have seen. Through reforming the currency, public finances, and through the reorganisation of the bureaucratic apparatus of the state, the League's plan became part of an attempt at state-building in the fragile new entity.⁵⁹² Implicitly, the programme had a nation-building element, in that consolidating the new state would assist in the creation of a belief in Austrian viability, and thus reduce the likelihood that *Anschluss* or any other reorganisation of Austria's borders would occur.

This chapter reveals that with respect to its political effects, the League's programme was in many ways detrimental to the future prospects for political stability for Austria, and, thus, ultimately did not really enhance the chances of survival of an independent Austrian state. Political conflicts deepened between the main political parties over social and economic ideologies, and calls for *Anschluss* remained present, whilst opposition characterised the reactions of much of the press, and in many instances the public, towards the programme, in part because of an abrasive and undiplomatic approach from the League. The problems of interwar Austria were manifold, and the

⁵⁹² John Deak, 'Dismantling Empire: Chancellor Ignaz Seipel and Austria's Financial Crisis, 1922-1925', in Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *From Empire to Republic: Post-World War I Austria – Contemporary Austrian Studies* 19 (New Orleans, 2010), 123-141.

League's programme could not hope to entirely overcome them, but the country's political conflicts predominantly deepened as a result of the League's work, and the prospects for its long-term stability were not helped.

This chapter investigates the previously overlooked significance of regional power within Austria on the League's scheme's efficaciousness and impact, and the ways in which the regions of Austria, particularly the City of Vienna, were able to resist and subvert the aims of the programme. In the work of international organisations, the connection between the international and the local or the regional is not often considered. The conflict that was caused by Vienna's resistance to the dictates of the scheme fed into and exacerbated the increasingly politically polarised conditions in the Republic of Austria. Tensions between the central state and the regions increased, to the detriment of future prospects for Austrian stability, and in Vienna, two very different narratives of 'reconstruction' were articulated and were in tension and competition: one a product of an 'Austro-Marxist'⁵⁹³ vision and the other of League-backed economic and financial orthodoxy.

Very little explicit consideration has been made of the significance of the League's programme in the process of Austrian state-building. John Deak discusses the issue, but his treatment of it is brief.⁵⁹⁴ In his view, Chancellor Seipel's pursuit and implementation of the scheme was part of the Chancellor's contribution to the construction and stabilisation of new Austria, that is, its transition from Empire and monarchy. Becker provides some implicit support for this view in his positive account of the bureaucratic reforms occasioned by the League's work, but his focus is very narrow and he does not attempt to consider the wider political implications of the changes, such as, their effects on debates about *Anschluss* or on the fractious relations between the two major political parties, the Christian Social Party and the SDAP.⁵⁹⁵

⁵⁹³ As the SDAP in Vienna are often labelled.

⁵⁹⁴ Deak, 'Dismantling Empire'.

⁵⁹⁵ Peter Becker "...dem Bürger die Verfolgung seiner Anliegen erleichtern": zur Geschichte der Verwaltungsreform im Österreich des 20. Jahrhunderts', in Heinrich Berger, Melanie Dejnega, Regina Fritz and

Most historians of the League also do not examine the effect of the programme on the creation of political stability within Austria.⁵⁹⁶ Nathan Marcus is an exception to this, and he points to instances of cooperation between the Social Democrats and Christian Social Party, and denies that the programme exacerbated political polarisation in the country.⁵⁹⁷ Deak, however, expressing a view shared by many Austrian historians, does regard the Geneva Protocols and the period of their implementation as a time during which a '*Kulturmampf*' was unleashed between, on the one side, the Christian Socials in general and Ignaz Seipel in particular; and, on the other, the Social Democrats and Otto Bauer in particular. Deak argues that Seipel moved into implacable hostility towards the SDAP and ultimately, democracy.⁵⁹⁸ Peter Berger disputes this, arguing that both the Christian Socials and the SDAP supported the work of the League.⁵⁹⁹

My research supports the view that the Austrian reconstruction programme contributed to the deepening gulf between the two main political elements in Austria, and extends this interpretation through examination of the significance of regional-national and regional-international relations to the situation in Austria, a part of the story that is often entirely overlooked in the scholarship. These aspects of the impact of the scheme were a crucial dimension in the ideological conflict between the SDAP and the Christian Social Party, and also an important facet of the tense dynamic between the central state and the provinces.

Alexander Prenninger (eds.), *Politische Gewalt und Machtausübung im 20 Jahrhundert: Zeitgeschichte, Zeitgeschehen und Kontroversen: Festschrift für Gerhard Botz* (Vienna, 2011), 113-138.

⁵⁹⁶ See Yann Decorzant, 'Internationalism in the Economic and Financial Organisation of the League', in Dan Laqua (ed.), *Internationalism Reconfigured: Transnational Ideas and Movements Between the Wars* (London, 2011), 129 and Frank Beyersdorf, 'Credit or Chaos? The Austrian Stabilisation Programme of 1923 and the League of Nations', also in Laqua, *Internationalism*, 135-157.

⁵⁹⁷ Nathan Marcus, *Credibility, Confidence and Capital: Austrian reconstruction and the collapse of global finance, 1921-1931*. (Unpublished thesis, New York University, 2012).

⁵⁹⁸ John Deak, 'Ignaz Seipel (1876-1932) Founding Father of the Austrian Republic', in Gunter Bischof, Fritz Plasser and Eva Maltschnig (eds.), *Austrian Lives – Contemporary Austrian Studies* 21 (New Orleans, 2012), 50; Charles A. Gulick, *Austria: From Habsburg to Hitler* (Berkeley, 1948).

⁵⁹⁹ Peter Berger, 'The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction', in Gunter Bischof, Anton Pelinka and Alexander Lassner (eds.), *Contemporary Austrian Studies* 11, *The Dollfuss / Schuschnigg Era in Austria: A Reassessment*, 74.

This chapter first investigates the effects of the programme on national politics, including press and public reactions; the political divisions between the SDAP and the Christian Social party; the efforts on state and nation formation in Austria, and questions of Austrian viability and sovereignty. It also investigates relations between the government and the Commissioner-General. It then examines the tensions that were exacerbated by the programme in the relations between the provinces and the federal government, revealing that the League had not initially given very much consideration to the ways in which their programme would operate at a local level, and how provinces could potentially work in opposition to the intentions of the programme. Ultimately, I argue that the League of Nation's programme for Austrian financial reconstruction often acted to undermine political stability.

The impact of the League's scheme on national politics – press and public

The responses in Austria to the Geneva Treaty and its associated reform plan were varied and diverse. The advent of the treaty saw a surge in short-term confidence that manifested in the speculative activity that took place on the Viennese *Börse*, and in the support that the programme had amongst the financial sector in Vienna – a member of which labelled the Geneva Protocols Seipel's 'heroic feat'.⁶⁰⁰ However, the programme was regarded with a great deal of suspicion and at times hostility by many people. There were ideological opponents who rejected the underlying tenets of the plan, such as the SDAP and the left-wing press, but also others who regarded the Geneva deal as representing an unacceptable foreign intrusion into Austria matters. The SDAP had this concern, but so did the pro-*Anschluss* and anti- St Germain right, and others who were keen to protect Austrian sovereignty.

In the late summer and autumn of 1922, there was extensive press coverage in Austria of the negotiations and agreements relating to the scheme, of the work of the League's

⁶⁰⁰ The General Director of the Wiener Bankgesellschaft, Wilhelm König, labelled Seipel's work a 'Großtat', in the *Reichspost*, 6 October 1922. Cited by Rolf Steininger in '12 November 1918 bis 13. März 1938: Stationen auf dem Weg zum "Anschluss"', in Rolf Steininger and Michael Gehler (eds.), *Österreich im 20. Jahrhundert, Band 1 – Von der Monarchie bis zum Zweiten Weltkrieg* (Vienna, Cologne and Weimar, 1997), 111.

Provisional Delegation, and of the contentious parliamentary debates that discussed the project. There was also a great deal of coverage at other significant moments, particularly in September 1924 when revisions to the scheme were negotiated by the League and the Austrian government. Some newspapers, most notably the *Neue Freie Presse* (NFP), but to a lesser extent the *Arbeiter-Zeitung* (AZ), continued to feature regular stories about the project throughout the entire period. The initial press reaction to the League's work was generally hostile and negative, although the centrist and liberal NFP adopted a more neutral tone, and the pro-government *Reichspost* was positive.⁶⁰¹

For the SDAP's daily, *Arbeiter-Zeitung*, the scheme had many flaws. Upon the announcement of the outline of the programme, they felt that the decisions of the Finance Committee 'exceed the worst expectations'. The policies relating to the central bank were 'absurd', and the newspaper worried that the requirement for the independence of the central bank would hinder industrial production.⁶⁰² In a completely contrasting tone, the *Reichspost* reported that it was said by the Prague press that the work of the League was 'the basis for the continued independent economic and political existence of Austria'.⁶⁰³

The *Arbeiter-Zeitung*'s opposition was fused with anxiety about the erosion of Austrian sovereignty that they felt the League's programme entailed. On 27 September 1922, for example, the newspaper expressed concern that proposals suggested that 'the Central Bank should become entirely independent of the State! This would mean that we completely surrender our monetary policy to foreign capital'. The newspaper warned that 'the proposals of the Financial Committee are, therefore, the most dangerous attack conceivable upon our entire economic life'.⁶⁰⁴ For the left-wing press, the issue of the encroachment into Austrian sovereignty was tied up with the desire to resist a

⁶⁰¹ See *Neue Freie Presse* (NFP), 27 September 1922, 3.

⁶⁰² *Arbeiter-Zeitung* (AZ), 27 September 1922, 3.

⁶⁰³ *Reichspost* (RP), 22 September 1922, 1.

⁶⁰⁴ AZ, 27 September 1922, 3. See also, AZ, 25 September 1924, 1.

certain kind of control and influence. This was the control of ‘foreign’ financial interests represented by the transnational financial community in the shape of the League’s Financial Committee, its supporters such as Sir Montagu Norman, and the wider banking and finance community that was assisting with the raising of loans for Austria. It was not just in left-wing newspapers, however, that the issue was raised – other organs shared this fear of loss of sovereignty. Economics journal *Der österreichische Volkswirt*, for example, published an article on September 23 1922 by its editor, economist Dr. Stolper, expressing opposition to the scheme because of the limits to Austrian sovereignty that it entailed.⁶⁰⁵

These reactions to the Geneva Protocols might seem somewhat paradoxical. Although fears that Austria was not a viable entity were common, and many Austrians desired to see the country subsumed into a greater Germany, the surrender of sovereignty to foreign powers in the shape of the League of Nations caused a sudden surge of concern about *Austrian* sovereignty and *Austrian* rights. This apparent paradox can be accounted for by considering that pursuit of international help via the League (in order to preserve independent Austria) served to associate Austrian financial reconstruction with the League and in turn the whole post-war international settlement, and, specifically, the Treaty of St. Germain. The peace treaty, whose force the Geneva agreements strengthened,⁶⁰⁶ was widely regarded in Austria as an unjust attack on the right of Austria to self-determination. Indeed, such was the pitch of opposition to St. Germain that Bachinger and Matis describe how ‘opposition to the Peace Provision... degenerated into outright rejection psychosis’.⁶⁰⁷ Thus, for many people, the League’s programme for Austrian financial reconstruction represented not so much a welcome boost to the nascent Republic’s future prospects for survival, as a further attack on the

⁶⁰⁵ *Der österreichischer Volkswirt* (ÖV), 23 September 1922, translation in LNA S97 Mr Nixon’s Files. See also Stolper’s article ‘Genf’ in ÖV, 7 October 1922, 9-12.

⁶⁰⁶ Through their *Anschlussverbot* clause.

⁶⁰⁷ Karl Bachinger and Herbert Matis, *Der Österreichische Schilling – Geschichte Einer Währung* (Graz, 1974), 25. Rejection psychosis: ‘Ablehnungspsychose’. See also Erich Zöllner, *Geschichte Österreichs – von den Anfängen bis zur gegenwart* (Vienna, 1979), 501.

right of Austria to determine where its *own* future should lie, whether that be as an independent state or as part of a larger (or for that matter, smaller) state.

League officials were very aware of the negative press attention that the programme attracted within Austria and were very active in their attempts to counter this.⁶⁰⁸ Salter, in particular, energetically produced articles to propagandise the scheme in a publicity strategy organised by the League's Information Section, and League representatives communicated frequently with the press.⁶⁰⁹ The Provisional Delegation of the Financial Committee, who oversaw the work on the programme in the autumn of 1922, visited the editor of the *Arbeiter-Zeitung* in November 1922, to little avail, however.⁶¹⁰ Even as the politicians of the SDAP adopted a somewhat more compromising stance towards the work of the League, at least to the extent of not obstructing the passage of the initial legislation, the AZ was very strident in its condemnation of the scheme.⁶¹¹ The *Neue Freie Presse* did grow more positive and may have been influenced by the League propaganda efforts, or perhaps simply by the initially positive results of the programme in terms of currency stabilisation and the obtaining of funds for loans. Of course, the NFP's liberal standpoint also created an ideological affinity with the principles reflected in the League's programme.⁶¹²

In general, however, the scepticism about the reform plan in the Austrian press remained high, despite these League efforts. Opposition to the programme did not just

⁶⁰⁸ Evidence of the propaganda efforts that the League engaged in to counter these perceptions can be found in LNA S97, Mr. Nixon's Files. In S97 79/14/1 – 79/27/1, in a Review of the *Neue Freie Presse* 25 September – 1 October 1922 it is reported that the Provisional Delegation in autumn 1922 'communicates regularly with the Austrian press regarding the scheme'. The S97 files also reveal the efforts that Salter went to in order to publicise the League's work favourably around the world.

⁶⁰⁹ The role of Adrianus Pelt of the Information Section was particularly important. See Beyersdorf, "Credit or Chaos" for more information on the League's promotional efforts, and also Pelt Reports, LNA S100 Mr. Nixon, Box No. 4.

⁶¹⁰ Letter from the Delegation of the League of Nations, Vienna, 21 Nov 1921, LNA S107, Sir A Salter, No. 4 Austria.

⁶¹¹ See, for example, AZ, 27 September 1922, 3.

⁶¹² The NFP, in particular, grew more positive, in LNA S97 Mr. Nixon's Files, it is suggested that they were influenced in this by the coverage of other liberal organs such as *Le Temps*. The NFP printed speeches to the League about the scheme in full. See, for example, their coverage of Arthur Balfour and Kienböck's speeches, 2 March 1923.

occur in the initial days of the launch of the scheme, but remained present throughout. Any expression of reprove from the League about the progress made on implementing the reform programme generally produced a negative reaction, and the radical and left-wing press were particularly critical of this kind of League intervention. The *Arbeiter-Zeitung* in spring 1924 objected strongly to the League's insistence at this time on the continuance of the role and powers of Zimmerman, and to League criticism of the government for not enacting reforms more swiftly. The AZ called for control to be withdrawn by the end of the year and for the political parties of Austria to unite to 'Stop the austerity!' and 'Stop the throttling of economically, socially and culturally necessary expenditure!' They did express doubt, however, that the bourgeois 'lackeys' in charge in Austria would be capable of following such a course.⁶¹³ The following year in May 1925, after a resolution from the League's Committee of Control that condemned the failure to reform the relationship between the federal state and the provinces, League official Meinoud Rost van Tonningen reported to the League that once again the press coverage was generally very negative with respect to this League intervention.⁶¹⁴ *Der Abend*, a radical paper, commented that Austria was 'accustomed to ill-treatment by the League on the pretext of reconstruction'.⁶¹⁵ And a League Press Review of the Austrian Press covering this period noted that even the *Neue Freie Presse* commented on the Committee of Control intervention in 'a very bitter tone'.⁶¹⁶

The left-wing press also had a negative reaction to the September 1924 agreement which extended League control far beyond the two-year period originally envisaged. Even though the government did not achieve their aim of having Zimmerman's powers of control removed, the new agreement did allow for the establishment of budget equilibrium at a somewhat higher level than that originally planned, and gave the government slightly more right to be consulted by the Commissioner-General.

⁶¹³ AZ, 14 March 1924, 1. I have translated 'Abbau' as austerity. It translates literally as 'reduction' or 'degradation'. See page 92.

⁶¹⁴ Meinoud Rost van Tonningen to J van Waldré de Bordes, 8 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

⁶¹⁵ DA quoted in Extract from Press Review (no. 1052), Austrian Press – Committee of Control, LNA S113, Sir Arthur Salter No. 10 Austria. The translation is the League's. The article is undated but from May 1925.

⁶¹⁶ Extract from Press Review (no. 1052), Austrian Press – Committee of Control, LNA S113, Sir Arthur Salter, No. 10 Austria.

Opposition remained trenchant, despite the fact that these represented small victories for the Austrian government, as, by this stage, the left-wing press were completely opposed to any continuance of League control. For the *Arbeiter-Zeitung*, the measures were completely insufficient and they commented sarcastically on the ‘great success’ that the government had achieved, in that it was now given two days to read Zimmerman’s reports before they were transmitted to the League.⁶¹⁷ In the view of the paper, the government had ‘suffered a complete and fatal defeat’,⁶¹⁸ and they commented that Austria was administered by the League as a protectorate in a form ‘that today might not anymore be possible against a Colonial people’.⁶¹⁹ *Der Abend*’s view of the agreement was similar.⁶²⁰ In complete but not surprising contrast, the pro-government Christian Social paper *Reichspost* portrayed the events of September 1924 as a great victory for the government, and were also positive about the achievements of the reconstruction plan to date.⁶²¹

An absence of opinion polls or any kind of systematic attempt to assess the reaction of the public to the League’s work makes it tricky to judge the public mood, but some inferences and conclusions can be drawn. As has been seen, press reaction was frequently negative, and this may have reflected a similar attitude on the part of their readership, although we cannot assume that. Evidence from the League’s own officials suggests that at least at times, public feeling was negative. According to M. Krabbe of the Commissioner-General’s office, League criticism of the failure in Austria to resolve the issue of the respective powers of the central government and the provinces also affected Austrian public opinion very adversely: it had a ‘deplorable effect’, reducing support for the work of the League and generally demoralising the population.⁶²² League economist J. van Waldré De Bordes wrote similarly in 1925 that the Committee of Control resolutions had ‘a very bad effect’ on public opinion in Austria, and that ‘in

⁶¹⁷ AZ, 25 September 1924, 1.

⁶¹⁸ AZ cited in a report from Vienna by Edward O. Coote to J. Ramsay MacDonald, 18 September 1924, on the decision of the Financial Committee concerning Austria.

⁶¹⁹ AZ, 25 September 1924, 1.

⁶²⁰ *Der Abend* cited in a report from Vienna by Edward O. Coote to J. Ramsay MacDonald, 18 September 1924, on the decision of the Financial Committee concerning Austria.

⁶²¹ *Reichspost* (RP), 26 September, 1924, 3.

⁶²² M. Krabbe to M. de Bordes, 7 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

view of the pessimism and hopelessness with which the Austrian public regards the future and the chances of a recovery of the country with the help of the League of Nations, it is of primary importance that in the drafting of resolutions on Austria to be adopted by the different meetings in June due regard should be made to their psychological effect.⁶²³ It is notable that de Bordes comments on the ‘psychological effect’, as so much of the politics around the idea of Austrian viability was affected by psychological mentalities. Demoralisation caused a loss of faith in the possibility of Austrian autonomy, and increased the attraction of the idea of *Anschluss*. Indeed, Rost suggested just this in relation to the 1925 incident, stating that the effect of the Committee of Control resolution had been to strengthen the level of support for union with Germany.⁶²⁴ In this regard, de Bordes and Rost’s concerns echoed those of Monnet during the previous year, and demonstrate a high-handed disregard on the part of some of those in Geneva connected with the programme for the perceptions and interests of the public in Austria. So certain were the Financial Committee (who advised the Committee of Control, some of whose members were in both Committees), on the correctness of their course, that it was difficult for them to even recognise an alternative view. Publicly, though, the League promoted the idea that mass opinion was favourable. In a joint report by the Financial Committee and the Commissioner-General Zimmerman, for example, published on 15 September 1924, they stated that there had been ‘a remarkable change in public opinion’, and that the Austrian public were ‘deeply impressed by the progress hitherto made’.⁶²⁵

Zimmerman was very keen to create a positive impression of public opinion as this encouraged foreign investors, and increased the sense that the League’s scheme was a successful one. His first official dispatch to the Financial Committee reported that the League’s work had ‘inspired the Austrian public with confidence’ and his third report

⁶²³ J Van Walre De Bordes, ‘Resolution of the Austrian Committee of Control’, 11 May 1925, LNA S113, Sir Arthur Salter, No 10 Austria.

⁶²⁴ Meinoud Rost van Tonningen to J van Waldré de Bordes, 8 May 1925, LNA S113, Sir Arthur Salter, No. 10 Austria.

⁶²⁵ Joint League of Nations Report by the Financial Committee and the Commissioner-General, 15 September 1924, LNA S110, 2/19/3.

that the loan agreements had made ‘a very good impression in Austria’.⁶²⁶ Whilst Zimmerman may have at times overstated the degree of favourable feeling on the part of ordinary Austrians, it was certainly the case that the initial stages of the League’s work produced a surge of confidence, as people anticipated the arrival of the foreign loans and envisaged a more positive future for their country. The increase in the savings rate, the level of investment in the internal loan, the extent of the purchase of government bonds, and to some the extent of speculative activity on the stock market, were all testament to this.⁶²⁷ Later, as the League revised their scheme in September 1924 on terms that were a little more favourable to Austria (and in repudiation of Zimmerman’s wishes), Austrian public reaction was, according to a British diplomat, positive.⁶²⁸

League involvement also produced manifestations of active opposition. A protest in Vienna held on the 24 September 1922, as details of the Protocols governing the scheme were being finalised, seems to reveal this. The ‘People’s Association of Vienna’ demonstrated against the treaties of St Germain and Versailles and in favour of *Anschluss*.⁶²⁹ There was a connection in the minds of many between the scheme and the upholding and maintenance of the widely despised St Germain, because, as we saw in Chapter Two, the League’s work was, in part, a project to shore up the peace treaties and the international system that emerged from the Paris Peace Conference.

There were not many protests that directly attacked the League’s scheme itself: strikes at the time tended to be focussed upon what were ostensibly different issues. Strikes between 1923 and 1924 were commonly about wages and jobs. Agitation by railway workers, however, which commenced in 1923 but was particularly intense in 1924, was

⁶²⁶ *The First Report of the Commissioner-General of the League for Nations to Austria*, December 15 1922 – January 15 1923 (Geneva, 1923), 4 and *The Third Report of the Commissioner-General*, 15 February 1923 – 15 March 1923 (Geneva, 1923), 7.

⁶²⁷ See the previous chapter.

⁶²⁸ British National Archive (TNA), E. Keeling to Ramsay MacDonald, 26 September 1924, T160/60, 2073/17.

⁶²⁹ Österreichische Staatsarchiv (ÖStA), AdR, NPA 178, Liasse Österreich 2, 1922, contains an intelligence report on this.

related in part to the reforms demanded as part of the League's programme.⁶³⁰ Failure to resolve the railway workers' dispute contributed to Seipel's decision to resign the Chancellorship in 1924, at least according to his own account.⁶³¹ Additionally, protests about unemployment often had a link to the League programme, in that, as seen in the previous chapter, joblessness was a major consequence of the scheme. The *Arbeiter-Zeitung* frequently reported on the issue, and on 4 March 1924 announced 'a rally in sympathy for unemployed workers', which was particularly directed in support of sacked bank employees.⁶³² The assassination attempt upon Seipel in June 1924 was carried out by an unemployed man, and in this sense might be regarded as a manifestation of opposition to Seipel's and the League's policies.⁶³³ Other public protests were frequently anti-peace treaty, German nationalist and often overtly anti-Semitic, such as the mass demonstration organised by the National Anti-Semitic Campaign Committee in the early months of the League's work in Austria, which urged '*Ostjuden hinaus!*'⁶³⁴ Explicitly anti-Semitic protests had a long lineage in Vienna, but the occasion of the League's work seems to have intensified the frequency of pro-*Anschluss*, anti-St Germain and anti-Semitic protests, and so it may be reasonable to infer that the protests were directed in part at the League's work. Opinion with respect to the issue of *Anschluss* was volatile and somewhat dependent upon conditions in the country – in the words of Jonathan Bloomfield the idea of *Anschluss* often acted in this era in Austria as a 'psychological parachute which avoided confronting awkward realities'.⁶³⁵ With the inclusion of the *Anschlussverbot*⁶³⁶ in the Geneva Agreement, the

⁶³⁰ See *The Twenty-Third Report of the Commissioner-General* 15 October – 15 November 1924 (Geneva, 1924), 1-2.

⁶³¹ See Marcus, *Credibility, Confidence and Capital*, 229. Seipel's resignation actually had more to do with internal Christian Social Party politics and his failure to get agreement from the provinces about reforms to their powers. British Ambassador to Vienna, A. Akers Douglas, wrote in a letter to His Majesty's Principal Secretary of State for Foreign Affairs, 14 November 1924, TNA T160/60 2073/17 that 'the disinclination of the Vienna Municipality and the Provincial Administrations to economise' was a significant factor in Seipel's resignation.

⁶³² AZ, 4 March 1924, 'Ein Sympathiekundgebung der arbeitslosen Angestellen', 7.

⁶³³ Despite suffering from the after-effects of the assassination attempt and diabetes, Seipel insisted upon travelling to Geneva over the summer of 1924 to negotiations with the League.

⁶³⁴ Plakat, 'Ostjuden hinaus', February 1923, in the Dokumentationsarchiv des österreichischen Widerstandes Wien. The poster also bears the disturbing slogan 'Kulturlosigkeit – Barbarei – Reaktion – Pogrom!' (roughly; 'Lack of culture – Barbarism – Reaction – Pogrom!').

⁶³⁵ Jonathan Bloomfield, 'Surviving in a Harsh World: Trade and Inflation in the Czechoslovak and Austrian Republics 1918-1926', in Carl-Ludwig Holtfrerich, Gerhard A. Ritter and Peter-Christian Witt (eds.), *Die Erfahrung der Inflation im Internationalen Zusammenhang und Vergleich*, (Berlin and New York, 1984), 233.

⁶³⁶ 'Anschlussverbot' – approximately, 'Anschluss forbidden'.

League's reconstruction work in Austria became associated with the Treaty of St Germain. The *Anschlussverbot* turned out to be counter-productive, in that it stirred up pro-*Anschluss* sentiments. Thus, the internationalism of the scheme had the effect of alienating many people from support for internationalism, and by 1925, the *Anschluss* movement was strong and rising.⁶³⁷

At this stage, as the economic crisis continued and unemployment soared, the records show that the mood in Austria was generally very pessimistic. The period of confident speculation on the stock exchange was long over, and protests intensified. The Austrian archives reveal that protests in 1925 were often German-nationalist protests, such as the anti-St Germain one held in the Praterstern Park in Vienna in August 1925.⁶³⁸ In addition to these, there were other manifestations, including SDAP-organised marches urging for 'work and bread for the unemployed'.⁶³⁹ One of these marches sought to protect the gains that the workers obtained in the early years of the First Republic, and called for the 'security of the 8-hour day through international legal agreements!' Similar demonstrations were held in Innsbruck.⁶⁴⁰ The increase of unemployment that the League's scheme occasioned added to public hostility towards it, and to the general climate of unrest in the country. Furthermore, the rise of unemployment and the persistence of economic problems also correlated with the growth in the strength of right-wing and anti-Semitic movements in the country.

The impact of the League's scheme on national politics – parties and parliament

Conflict also increased between the main political parties. In the early years of the new republic, the SDAP and the Christian Social Party worked together on the constitution and in government, although this was always an awkward partnership.⁶⁴¹ By the time of

⁶³⁷ See Peter Berger, 'The League of Nations'. The League pulled out mainly because 'Geneva was alarmed by a remarkable growth in strength of the Austrian Anschluss movement during the first half of 1925', 81.

⁶³⁸ See ÖStA, AdR, NPA 179, Liasse Österreich.

⁶³⁹ Ibid., Intelligence Report, 29 April 1925.

⁶⁴⁰ Ibid., Intelligence Report, 29 April 1925.

⁶⁴¹ It was a rather tense coalition. According to Tim Kirk, the SDAP were relieved to end their 'uneasy collaboration with the bourgeoisie' after the 1920 election. Tim Kirk, 'Ideology and politics in the state that nobody wanted: Austro-Marxism, Austrofascism, and the First Austrian Republic', in Gunter Bishof, Fritz

the League's programme, this era of cooperation and compromise was long gone, however, and one of the effects of the scheme was to increase tension between the parties. Relations deteriorated further after the events of the July Revolt of 1927, where, following the acquittal for murder of far-right wing militia members, Viennese socialist supporters launched a general strike, huge protests and riots, and were then shot upon by police.⁶⁴² By 1934, the two erstwhile coalition partners were engaged in an existential struggle against one another, which culminated during the 'Austrian civil war' in a pitched battle at *Karl-Marx-Hof*, the (to Christian Social eyes anyway) fortress-like Socialist housing development in the Viennese suburbs.⁶⁴³ Ultimately the SDAP were outlawed as a political movement. Factors pre- and post-dating the League's involvement contributed to the political divisions and political breakdown of Austria, but the scheme for Austrian reconstruction played its part in increasing political polarisation, and in this way destabilised the country.

Initially, however, the government and the League were able to obtain sufficient support to get their programme going. Parliamentary support was crucial for the reconstruction programme to even commence. The Austrian constitution, enacted 1 October 1920, and designed by Viennese legal professor Hans Kelsen at the behest of the then national and SDAP leader, Karl Renner (later, after the Second World War, a key figure in Austria's transition to democracy as well as the Second Republic's first president),⁶⁴⁴ established a bi-cameral parliamentary republic. Parliament was composed of two assemblies, the National and the Federal. Direct elections for the National Assembly (*Nationalrat*), were held on the basis of proportional representation, and representatives were sent from regional parliaments to the Federal Assembly (*Bundesrat*). The National Assembly was the primary legislative body, and also the body responsible for electing the Chancellor. The Chancellor was responsible for enacting

Plasser, Anton Pelinka, Alexander Smith (eds.), 'Global Austria – Austria's Place in Europe and the World', (New Orleans, 2011), 88.

⁶⁴² 89 people died in these protests. The Palace of Justice building was also set alight. On this and Seipel's response see Deak, 'Ignaz Seipel', 51-53.

⁶⁴³ The SDAP have been criticised for being ineffective in this struggle by, for example, Anson Rabinbach in *The Crisis of Austrian Socialism – From Red Vienna to Civil War 1927-1934* (Chicago, 1983), and Geoff Eley, in *Forging Democracy – The History of the Left in Europe, 1850-2000*, (Oxford, 2002).

⁶⁴⁴ Karl Renner, 1870-1950.

legislation. Both houses of Parliament elected the president, but presidential powers were weak at this stage.⁶⁴⁵ The *Nationalrat* thus had to pass the legislation that governed the initial phases of the scheme, such as that establishing the Bank of Issue, and were also called upon to grant the government the exceptional powers deemed necessary to give the government sufficient power and authority to proceed with the steps ordained by the programme.

At the time that the legislation relating to the Geneva Protocols came into force, the conservative Catholic Christian Social Party and their allies in the Pan-German (*Großdeutsche Volkspartei*) party could form a majority in the *Nationalrat*, although they did not have the two-thirds majority that passing the Enabling Law (as a temporary deviation from the constitution) required. The Pan-German attitude towards the League's work was somewhat ambiguous. It might be anticipated that the Party calling for German unity would oppose completely moves to ensure Austrian survival. The Geneva Protocols reinforced the clauses in Versailles and St Germain outlawing *Anschluss*, and the scheme explicitly linked the provision of foreign finance to the continued independence of Austria. Despite this, the Pan-Germans supported the relevant legislation in Parliament as part of the government. They appear at this stage to have been willing to trade their support for continued political power: to oppose would have entailed losing their government positions. Furthermore, according to Rolf Steininger, the party saw that the Geneva Protocols were the only way of keeping Austria intact and obtaining help for the ailing country at this point: the Pan-Germans were keen to merge Austria with Germany on a unified basis and, thus, they were supportive of the programme if it reduced the chances of any of the *Länder* seceding from the country.⁶⁴⁶ In addition, the Party may have objected strenuously to the *Anschlussverbot*, and in general to the acceptance of the treaty of St Germain that the League's programme implied, but they did support elements of the reform plan. So, for

⁶⁴⁵ See Walter Goldinger and Dieter A. Binder, *Geschichte der Republik Österreich 1918-1938* (Wien, 1992) and Hans Kelsen, *Die Verfassungsgesetze der Republik Deutschösterreich* (Vienna, 1919). The constitution was amended in 1929 to give more powers to the president. The 1920 constitution was the basis for Austria's post-1945 constitution, which remains in place.

⁶⁴⁶ Steininger, 'Stationen auf dem Weg zum 'Anschluss'', 111.

example, the Pan-German Vice-Chancellor Felix Frank oversaw the introduction of the Administrative Reform Bill of 1925 and presented the reforms to Parliament as an ‘extraordinarily important step on the road to rehabilitation’.⁶⁴⁷ The Pan-Germans had not given up on the idea of *Anschluss* by any means, but the section of the Party that was in political power regarded the Protocols as temporary expedient to help reform Austria and keep Austria on its feet until such time as union with Germany was possible. In that sense at this stage, the Pan-Germans supported moves that would keep Austria from disintegrating, as they wished Austria to join Germany as one entity, and to prevent the country from being subsumed by Italy.⁶⁴⁸

The tentative and contingent nature of the Pan-German support for the League’s scheme is revealed, however, in the actions in 1925 of Felix Frank, now out of office, and Dr Dinghofer, a former Pan-German president of the Austrian National Assembly, who travelled to meet politicians in Berlin to push their view that the September 1924 Geneva Agreement had ‘pressed Austria too close’.⁶⁴⁹ The two were very unhappy that the agreement envisaged an extension of the duration of the Commissioner-General’s control. Furthermore, the rhetoric from Pan-German groups remained very hostile, and there was an increase in the intensity of pro-*Anschluss* anti-St Germain protests in 1925, as we have seen. The League’s programme seems to have contributed to a rise in the level of support for the Pan-Germans – many federal government officials were Christian Socials, and some of these defected to the Pan-German cause, alienated by the scale of the layoffs that resulted from the Geneva scheme. Extremist Pan-German sentiment was also intensified in 1925 as economic problems, such as stagnation and high unemployment, continued to blight the country.⁶⁵⁰

⁶⁴⁷ See Peter Becker in ‘...dem Bürger die Verfolgung’. Frank was speaking at the sitting of the Nationalrat in which he launched the draft law on 5 June 1924.

⁶⁴⁸ Steininger, ‘Stationen auf dem Weg zum ‘Anschluss’’, 111.

⁶⁴⁹ Akers Douglas to Chamberlain, 23 January 1925, T160/60, 2073/18.

⁶⁵⁰ The Nazi Party were not at this stage much of a force within Austria. As Bruce F. Pauley points out, they had no unique appeal in Austria as parties from across the political spectrum supported the idea of *Großdeutschland*, and ‘when it came to racial anti-Semitism... the Nazis could scarcely surpass the virulence of the GNP [Pan-German Party] and the League of anti-Semites’. Furthermore, ‘even the Nazis’ love of uniforms and marching, and their hatred of democracy and Marxism could be matched by the paramilitary Heimwehr’, Bruce F. Pauley, ‘The Austrian Nazi Party before 1938 – Some Recent Revelations’, in F. Parkinson (ed.),

The Pan-Germans, whilst in government, supported the reform programme, however, and thus the primary source of parliamentary opposition came from the SDAP. The Christian Social Party, who dominated national government throughout the period of the League's programme, along with all regional parliaments with the exception of Vienna,⁶⁵¹ were frequently at odds with the Social Democrats, who dominated the regional government in Vienna, despite the cooperation between the two before 1920. Even though the Christian Social Party were politically pre-eminent in the First Republic, and the SDAP remained out of government after 1920, the SDAP were a very powerful force. They had won the first post-war election in 1919, gaining 41% of the vote, and always performed strongly in national elections, obtaining between 36% and 42% of the vote. The party actually topped the poll again in 1930, and they were certainly in contention for victory in each national election, although they did not manage to form a national government after 1920.⁶⁵² The reconstruction programme became a site of political and ideological competition and tension between the two dominant political forces within the Austrian Republic.

The response of the SDAP to the Geneva Protocols was multi-faceted. The party was essentially opposed to the scheme, but for various reasons did not want to completely obstruct it, as we saw in Chapter Two. In rhetorical terms, however, the Social Democrats were implacably hostile to the League's scheme and the Geneva Protocols. In the *Nationalrat*, during a stormy debate on Geneva, Otto Bauer denounced the Protocols as a 'crime!' and 'treason!'⁶⁵³ Bauer, on the left of the Party, might be expected to adopt this line.⁶⁵⁴ However, even SDAP moderate Karl Renner was

Conquering the Past – Austrian Nazism Yesterday and Today (Detroit, 1989), 36. Later, the Nazis absorbed the Pan-Germans.

⁶⁵¹ Although in the Tyrol, the Tyrolean *Völkspartei* were dominant. They were a sister party to the Christian Socials, however.

⁶⁵² Figures on election results from Gulick, *Austria From Habsburg to Hitler*, 690, 712 and 914. I have rounded the figures up or down to the nearest whole percentage point.

⁶⁵³ *Stenographisches Protokoll des Nationalrates der Republik Österreich, III. Session, Sitzung 138*, 12 October 1924, 4433, VGA.

⁶⁵⁴ Although he had previously cooperated with Seipel on matters to do with the drafting of the Republic's constitution.

condemnatory. The Geneva Protocols had he said ‘sacrificed the independence of the country’. It had ‘with the burden of the reconstruction, made victims of the wide masses of the working class and wage earners’, and, indeed, the scheme had ‘delivered the financial interests of the land into the hands of international financial capitalism’.⁶⁵⁵ Renner even embarked upon an overseas tour to attempt to rouse foreign opposition to the Treaty, but met with little success.⁶⁵⁶

Despite the SDAP’s strong opposition and condemnation, and despite the significant press campaign opposing the Geneva Protocols, in autumn 1922 the Austrian Parliament voted through the legislation required. The SDAP ultimately agreed to abstain on the critical issue of the *Ermächtigungsgesetz*, or Enabling Law. Rhetoric from the SDAP – the Geneva Protocols were routinely labelled by them as the ‘Geneva Bondage Treaty’ – was not matched by determined resistance at this stage. A general strike could have been called, for example, but it was not. The SDAP could have used their armed *Arbeiterwehr* to express overt opposition,⁶⁵⁷ but they did not. The question arises as to why the SDAP did not mount more determined resistance. For one thing, the full implications of the programme in terms of budgetary cuts were not yet clear, as Seipel had taken care to ensure that they were not publicised.⁶⁵⁸ Furthermore, the involvement of the League had finally produced conditions of stability with respects to the Austrian currency, thus making it more difficult for the SDAP to resist. The party also did not want to provoke the kind of political (and potentially financial) crisis that complete obstruction would have produced.⁶⁵⁹ And, as seen in Chapter Two, the SDAP

⁶⁵⁵ Dr Karl Renner, *Österreich, St Germain und der Kommende Freide*, (Wien, 1946), 57. Cited by John Deak in ‘Ignaz Seipel’, 50.

⁶⁵⁶ See Adrianus Pelt to Frank Nixon, 28 October 1923, LNA S100, Mr Nixon, Box No. 4 Austria, 79/5/1, League of Nations’ Financial Delegation in Vienna. See also Klemens von Klemperer, *Ignaz Seipel – Christian Statesman in a Time of Crisis* (Princeton, NJ, 1972), 208-209. März writes that behind the scenes, Renner was more conciliatory, see *Austrian Banking*, 497-498.

⁶⁵⁷ There was no proper domestic disarmament in Austria after the war. See Joe C. Dixon, *Defeat and Disarmament – Allied Diplomacy and the Politics of Military Affairs in Austria, 1918-1922* (Newark, Delaware, 1986): ‘abundant evidence could be found easily in the summer and autumn of 1920 that the population possessed dangerously large quantities of weapons’, 120; ‘by the mid-1920s it was simply far too late to disband firmly entrenched paramilitary groups’, 133.

⁶⁵⁸ See Dr Tugenhat, ‘Memorandum on the Present Situation in Austria’, January 1925, in TNA T160/60, 2073/18. Dr Tugenhat was the London correspondent of the *Neue Freie Presse*.

⁶⁵⁹ See Peter Berger, *Im Schatten der Diktatur – Die Finanzdiplomatie der Vertreter des Völkerbundes in Österreich, Meinord Marinus Rost van Tonningen, 1931-1936* (Vienna, 2000), 20.

were subject to a determined campaign by the League's delegation to Vienna to obtain their acquiescence and persuade them that the Financial Committee did not only act in the interests of capital. The League recognised that even in opposition, the SDAP had a large and important body of support, in Vienna, in Linz, amongst railway workers and within the army.⁶⁶⁰ By late 1922, Avenol was able to report with satisfaction to Niemeyer that 'the intransigent early opposition of the Socialists has been abandoned'.⁶⁶¹

The apparently compromising stance of the SDAP on the issue of the Enabling Law did not continue, however, and certainly never represented acceptance of this measure. According to Nathan Marcus, the actions of the SDAP reveal the success of the Provisional Delegation's efforts to facilitate cooperation between the Party and the Christian Social government, and the polemical public objections of leading party members were often rhetorical flourishes, and not necessarily a representation of their actual position.⁶⁶² Finance Minister Victor Kienböck provided partial support for this view: the SDAP did not want to bear any responsibility if the scheme failed, he wrote.⁶⁶³ The situation was in fact more complex than this. Social Democratic opposition was not merely rhetorical, but their strong association with the new state meant that, even for those like Bauer who advocated *Anschluss*, the Geneva Protocols provided them with a difficulty. To resist implementation of the scheme ran the risk of undermining the state yet further, as a new inflationary spiral and renewed desertion of the *Krone* would likely occur, but to support the scheme also posed, in their view, a threat to the interests of the working class and a threat to the legitimacy and sovereignty of the country in itself.⁶⁶⁴

⁶⁶⁰ See Sir Arthur Salter to Loewes Dickinson, Kings College, LNA London, 4 December 1922 on SDAP opposition and League efforts to overcome it, LNA, S100, Mr Nixon Box No. 4 Austria, 79/5/1 League of Nations' Financial Delegation to Vienna.

⁶⁶¹ Joseph Avenol to Sir Otto Niemeyer, LNA S100, Mr Nixon, Box No. 4 Austria, 79/5/1, League of Nations' Financial Delegation to Vienna. The letter is undated but its position in the file reveals its approximate date as late 1922. Similarly, in a letter from late 1922 sent from Eric Drummond to Wallenburg (which appears to have been drafted by Nixon), Drummond wrote that 'we are extremely satisfied... The Chancellor has shown himself strong enough... to come to an agreement with the Socialists', LNA S107, Sir A Salter, No. 4 Austria.

⁶⁶² Nathan Marcus, *Credibility, Confidence and Capital*.

⁶⁶³ Victor Kienböck, *Das österreichische Sanierungswerk* (Stuttgart, 1925), 24.

⁶⁶⁴ See Berger, *Im Schatten*, 20.

Thus, the SDAP opted to oppose without completely destroying the Geneva treaty, and attempted to ameliorate the effects of the treaty and the reform plan where they could, and continually campaign against it. Their lack of acceptance of the Enabling Act is revealed in their challenge to it. In 1922, the Party launched a case in the Supreme Court on the constitutionality of the measure, and the Supreme Court found in favour of the SDAP.⁶⁶⁵ Through this the party succeeded in achieving a very important amendment to the terms of the Enabling Act and a revised mechanism was established, within which the government was placed under far greater parliamentary scrutiny. An Extraordinary Cabinet Council (*außerordentlichen Kabinetsrat*) of the National Assembly was set up to oversee the work of the government under the Enabling Act. The Council was comprised of the Chancellor, Vice Chancellor and government ministers, and also twenty-six state councillors who were elected by the Assembly in proportion to the level of each party's support.⁶⁶⁶ Whilst it could not block the government and the League's programme, the Extraordinary Council subjected the government to a higher level of scrutiny, and through it the SDAP did manage to prevent some measures. The Extraordinary Council made it difficult for aspects of the League's programme to be implemented, particularly in the areas of cuts to the pensions of ex-state employees, major amendments to the terms of redundancy arrangements, the implementation of certain cuts to social spending, and the permanent cessation of the indexing of civil servants' wages.⁶⁶⁷

The establishment of the Extraordinary Council posed problems for the implementation of the scheme in the League officials' eyes, and in early February 1923, the League Council appealed for the cooperation of the Extraordinary Council.⁶⁶⁸ In his report on this period, Zimmerman also manifested concern, writing in his Second Report that 'the discussion of this Cabinet Council' (by which he meant the Extraordinary Cabinet

⁶⁶⁵ See *The Fourth Report of the Commissioner-General*, 15 March – 15 April 1923, (Geneva, 1923).

⁶⁶⁶ See Adrianus Pelt, Draft Article for 'Monthly Summary', Financial Reconstruction of Austria, LNA S100, Mr Nixon, Box No 4 Austria, 79/5/1, League of Nation's Financial Delegation in Vienna, undated but late 1922.

⁶⁶⁷ See *The Second Report of the Commissioner-General*, January 15 – February 15 1923, (Geneva, 1923), 4-5.

⁶⁶⁸ League resolution, 1 February 1923 contained in *ibid.*, 5.

Council) ‘tend to assume the passionate and stormy character of Parliamentary debates. The Opposition has already made use of obstructive tactics’. The passions that could be aroused by the government’s reform scheme are illustrated, if Zimmerman is to be believed, in his report of events during one particularly fraught meeting where SDAP members had apparently ‘not even shrunk from acts of violence against the temporary head of Government when he was presiding at a meeting’.⁶⁶⁹ The Extraordinary Council itself rejected the notion that it was obstructive, and pointed out in a report that ‘the Extraordinary Cabinet Council has up til now disposed of seven matters in thirteen sittings... it cannot, therefore, be said... that the intention of the Council is to delay the measures proposed by the government.’⁶⁷⁰ Even if the actions of the Council did not constitute a completely obstructive approach, their work inevitably slowed. The creation of the Council to some extent impeded the implementation of the programme, and represented an SDAP victory against the government, and the establishment of Austrian parliamentary influence over the reform desired by the League.

The Extraordinary Cabinet Council’s powers were, however, limited to a short delay, and not a veto, of the government’s work.⁶⁷¹ Despite the formation of the Council, the Enabling Act still left the government in a fairly strong position with respect to Parliament, and in this sense, the work of the League was an early move which undermined the sovereignty of the Austrian Parliament – which stopped meeting after 1933. Charles Gulick may be correct that the League programme gave Seipel the excuse that he wanted to be able to create stronger government at the expense of Parliament.⁶⁷² Even if this was not his motive, the Enabling Act, a measure which the League considered necessary in order to ensure that the government could implement

⁶⁶⁹ Commissioner-General Zimmerman, in his *Second Report*, 4.

⁶⁷⁰ Bericht der Transaktionen der außerordentlichen Kabinettsitzung, 20 December 1922 – 14 February 1923, ÖSA, (in ‘Report on Transactions of the Extraordinary Cabinet Council’, Annex II of *The Second Report of the Commissioner-General*, 15 January 1923 – 15 February 1923 (Geneva, 1923), 16).

⁶⁷¹ See Victor Kienböck, *Das österreichische Sanierungswerk* (Stuttgart, 1925), 25. According to Kienböck, the Council was constituted until the end of 1924. It stopped meeting after a couple of months, however.

⁶⁷² Gulick, in, *From Habsburg to Hitler*, wrote with respect to the Enabling Act: ‘through this proposal to exclude parliament Seipel had secured the incorporation of a pet scheme which he had first published on May 26, 1919... Not the least interesting aspect of the episode is its foreshadowing of the role Seipel was to play in the destruction of Austrian democracy’, 166-167.

the reform programme, was a part of the Austrian reconstruction scheme that worked to, in some respects, reduce the prospects for creating a durable and stable Austrian state. Eroding the role and status of the democratic parliamentary body served to exacerbate political tensions between the Christian Social Party and the SDAP, as well as creating a regrettable precedent for bypassing this body. Thus, the League's project involved a step that undermined the new democratic institutions of the Republic. The League's desire for the government to be able to take decisive action in implementing the reconstruction programme was understandable, but, as with some of the other aspects of the programme, the political implications of the policies it involved in it were overlooked.

In addition to the concession that they achieved through the establishment of the Extraordinary Council, the SDAP campaigned against the measures entailed by the project for Austrian financial reconstruction. The importance that the party placed upon the League's scheme is shown in the fact that at the Party Conference of 1923 they 'busied themselves nearly exclusively with the Geneva Convention'. The SDAP provided constant critique, and a report on the conference stated that 'the Party has led the struggle against their effects on political and economic areas with all force and emphasis'.⁶⁷³ They propagandised and publicised their opposition to the treaty, ensuring, for example, the wide distribution of an anti-Geneva speech by Robert Danneberg in the National Assembly on 6 November 1922, in which Danneberg said that the finance plan of Seipel's government was an attack on industry and a 'murderous attack on' ('Attentat') the working classes. This speech was reproduced as a cheaply available pamphlet and distributed throughout Austria.⁶⁷⁴ Seipel, according to John Deak, never forgave the SDAP for their determined resistance in late 1922 and early 1923 to his programme.⁶⁷⁵

⁶⁷³ Bericht der Parteivertretung der Sozialdemokratischen Arbeiterpartei Deutschösterreichs an den Parteitag in Wien 1923, Verein für Geschichte der Arbeiterbewegung Archiv, Vienna (VGA), Partei Archive vor 1934.

⁶⁷⁴ 'Der Finanzplan der Regierung Seipel – Rede des Abgeordneten Robert Danneberg im Nationalrat am 6. November 1922' (Wien 1922), copy in VGA, Karton 49, Mappe 2, and in the Oberösterreichische Landesarchiv Linz (ÖOLA), Landesausschuss, K V 5 261-270, Sch. 1574, 268, Volkerbundanleihe.

⁶⁷⁵ Deak, 'Ignaz Seipel', 68.

The SDAP made continual attempts to try to reduce the effects of the treaty and encourage government in this regard, without causing the whole process to collapse altogether. In this, their attitude was not one of complete intransigent opposition, but more one of continued scepticism and critique. In 1924, for example, Socialist leader Otto Bauer wrote to the Chancellor questioning some of the principles that underlay the Protocols, whilst also demonstrating that he understood the need for Seipel to compromise pragmatically with Austria's international supporters. He argued that the idea 'that surpluses must be used primarily to repay debt is English dogma. On the other hand, the idea that productive investment in the Austrian economy will guarantee permanent reconstruction is plausible... if one at the same time makes concessions to English dogma'.⁶⁷⁶ The Austrian archives reveal that, although the SDAP were determinedly opposed to many aspects of government policy, and considered the Christian Socials to represent a reactionary and pro-capitalist clerical tendency, they would provide information to the government if they thought that it would help their position vis-à-vis Geneva: Bauer seems to have had informants at Geneva who assisted with this.⁶⁷⁷ The SDAP were also able to extract concessions in return for their support for key aspects of government policy with respect to the Reform Plan, as illustrated on the occasion of the passage of the *Schilling Bill* and a temporary budget, when the SDAP supported these measures in the National Assembly in return for concessions relating to workers' insurance and army recruitment.⁶⁷⁸

After 1924, and as the Commissioner-General's control continued far beyond the envisaged two years, the SDAP and the Pan-Germans united in their opposition. The SDAP, like the Pan-Germans, were concerned about this extension to the role of the League and the encroachment upon Austrian sovereignty that it represented. Despite this, however, neither Party actually took great steps to obstruct the passage through

⁶⁷⁶ Otto Bauer to Chancellor Seipel, ÖSA, AdR, AA, NPA 235. The letter is undated but is contained within a file of documents from 1924.

⁶⁷⁷ In his letter to Seipel, Bauer talks of his 'man on the ground' in Geneva. Otto Bauer to Chancellor Seipel, ÖSA, AdR, AA, NPA 235. The letter is undated but is contained within a file of documents from 1924.

⁶⁷⁸ See A. Akers Douglas to Austen Chamberlain, 2 January 1925, TNA T160/60, 2073/18.

Parliament of the relevant report on this matter in 1924, revealing again an unwillingness to engage in complete obstructionism. At local level, where, in some areas, most notably Vienna, they were the dominant party, the SDAP were able to resist the strictures of the programme to a quite remarkable level, as we will see later in this chapter. However, at national level, they had to choose between resistance, obstruction and compromise, and ultimately used a combination of these strategies. The Social Democrats pursued a policy attempting to ameliorate the effects of the treaty at a national level, and where they had the power to do so – at regional level in Vienna itself – they followed their own path, and enacted measures in taxation and social welfare in opposition to the principles of the Geneva Protocols.

Overall, the effect of the financial reconstruction programme was to increase the sense of an irreconcilable division between the Christian Social Party, who moved in the mid-1920s towards a position of ever greater scepticism regarding democracy, and the Socialists, who, (as we shall see, particularly via their work in Vienna) increasingly advanced an alternative economic and social vision of ‘reconstruction’. Despite this, however, the story is not just straightforwardly one of a pro-Geneva government and an anti-Geneva opposition, as an examination of the reactions of Christian Social politicians to the work of Zimmerman and the League reveals. The reaction of the Austrian government to the League’s scheme between 1922 and 1926 was shifting and sometimes ambiguous. The government and particularly Chancellor Seipel had so desperately desired the League’s assistance, but at times the government sought to reduce the impacts of the scheme first envisaged in Geneva, and in this they came into conflict with the League’s representative and overseer, Commissioner-General Zimmerman. The sources of tension were to do with both the government’s resistance to implementing the full letter of some aspects of the League agreements, and Zimmerman’s intransigent and at times high-handed approach.

Seipel was very publicly positive, in an address to the Assembly of the League of Nations, in his assessment of the initial period of the scheme: ‘a financially broken down state in its last hour was supported in a hitherto unprecedented manner’ and

thus, ‘its independence and viability’ would be saved. At this point, at least in public, Seipel spoke favourably of Zimmerman stating that he was ‘sincerely pleased, that the Commissioner-General in the person of ... Dr Zimmerman has been found’ and praising his ‘seriousness and conscientiousness’.⁶⁷⁹ This harmony, expressed perhaps partly for the benefit of the foreign investors to Austria at a time when the loan arrangements were not yet finalised, did not last.

At first, however, the Christian Social government were very supportive of the programme, and in some respects, as the authors of the legislation that enacted it in Austria, the scheme’s co-creators. It was access to foreign loans that the Austrian government primarily sought from the League’s programme, but even if this was the focus, they were not opposed to the austerity and currency measures that the scheme entailed. An Enabling Act was something that was attractive for the government,⁶⁸⁰ whilst an eventual return to the gold standard was regarded as a key method of demonstrating their administrative competence. According to Peter Berger, key members of the government were very supportive of the programme and its values, and he regards the League’s programme as a ‘conservative national government’s strategy’.⁶⁸¹ For the capitalist wing of the Christian Socials, League functionaries were allies against ‘Marxism’, and the outside imposition of control strengthened their hand in taking measures to reduce social provision, cut spending and increase their power. As Berger points out, finance minister Kienböck was the same man who, as President of the Austrian National Bank, stuck with deflationary policies in Austria in the early 1930s at which time ‘he still advocated co-operation with Geneva, more or less along the lines of the past’.⁶⁸²

⁶⁷⁹ Rede vom Bundeskanzler Seipel vor dem Völkerbundrat in Paris am 1. Februar 1923, *Aussenpolitische Dokumente der Republik Österreich* (ADÖ), Band 5 – Unter der Finanzkontrolle des Völkerbundes, (Vienna and Munich, 2002), doc. 733, 71-75.

⁶⁸⁰ And according to Gulick, particularly Seipel, see footnote 83, above.

⁶⁸¹ Berger, ‘The League of Nations’, 77

⁶⁸² Berger, ibid., 75. Kienböck was President of the Bank between 1932 and 1938. He was a member of the Finance Committee of the League 1937-1938 and he died in 1956. He was retired from his post at the time of the *Anschluss* and re-joined Austrian public life after the war and worked at the National Bank once again and on the distribution of the Marshall Plan.

The governing part of the Christian Social party were not opposed to the financial and administrative reforms laid down by the League, far from it. As Seipel and the Christian Socials were hardly upholders of democracy in later years in Austria, one possible way of interpreting the Christian Social's attitude to the League's work is that it helped them reduce the strength of federal democracy and weaken the forces of the left in Austria.

The Christian Social government did not generally seek to portray the League programme as in any sense an imposition from outside, but associated themselves fully with it, perhaps partly to allay fears about external foreign control. So the government drew up the necessary legislation on financial and economic reforms and changes to the civil service and presented them to Parliament as their own scheme. Although some of the rhetoric in Austria against the terms of the Geneva Agreement portrayed it as very much a foreign (or at least French and British) programme, the reforms were also widely associated with the government and very personally with Seipel. The SDAP portrayed government policy as both part of the 'Geneva Bondage Treaty', and also as 'Seipel's plan'.⁶⁸³

The Christian Social-led governments that were in charge between the commencement of the League's programme in October 1922 and the withdrawal of Commissioner-General Zimmerman in mid-1926 resisted fully implementing the scheme and at times resented Zimmerman, however.⁶⁸⁴ One of the sources of resentment was in the role of the Commissioner-General himself and the whole idea of 'control'. In his survey of events published in 1926, Sir Arthur Salter wholeheartedly rejected the idea that the League's scheme in Austria represented a repudiation of that country's sovereignty. He stated that it had sometimes been said that the League 'have seized the occasion of a country in need to institute a foreign tyranny, to destroy the sovereignty of the assisted State, to replace a native by an external government'. However, 'nothing could be

⁶⁸³ See, for example, pamphlet 'Der Finanzplan der Regierung Seipel – Rede des Abgeordneten Robert Danneberg im Nationalrat am 6. November 1922' (Wien 1922), in VGA, Karton 49, Mappe 2, and in the ÖOLA, Landesausschuss, K V 5 261-270, Sch. 1574, 268, Volkerbundanleihe.

⁶⁸⁴ Ignaz Seipel led a Christian-Social / Pan-German coalition government from 31 May 1922 until 20 November 1924. Rudolf Ramek led a government of the same complexion from 20 November 1924 until 20 October 1926. Seipel remained a powerful force behind the scenes and retook the Chancellorship after Ramek.

further from the facts', Salter asserted.⁶⁸⁵ Even though the idea that a 'foreign tyranny' ran Austria was hyperbole, Salter was overstating his case – the Commissioner-General did have extensive powers, both in terms of his direct control in certain areas, such as on the spending of the monies in loan accounts, and in terms of his entitlement to oversee and monitor the work of the government on the reform plan and the budget. He could also enforce his wishes by creating negative publicity about government action or inaction in his reports, through frequent press briefings, and via appeals to the League. Furthermore, even though it was initially envisaged that the Commissioner-General would remain in place with his full powers in force for approximately two years, in the event League control was in force for almost four years.⁶⁸⁶ With his official powers, Zimmerman was, according to Karl Bachinger and Herbert Matis, 'the most powerful figure in his host-country', and, although this may be to exaggerate the extent of his actual leverage, the perception that Zimmerman was such a figure led to growing resentment about his role, even from the government.⁶⁸⁷

It was not just the powers granted to Zimmerman as part of the League agreements that the government resented, for Zimmerman's rather abrasive personality also caused tension. League official Adrianus Pelt had praised Zimmerman on his appointment as 'an able administrator and a very energetic man, who speaks German fluently and is thoroughly familiar with conditions in Central Europe', but these positive words were not often reiterated elsewhere.⁶⁸⁸ There is a great deal of evidence of tensions between the government and the Commissioner-General over his powers, his

⁶⁸⁵ Sir Arthur Salter, *The Financial Reconstruction of Austria – General Survey and Principal Documents*, (Geneva, 1926), 82. Salter said further that 'the greatest care has been taken to create a system at once elastic, and so far as possible invisible; a system which gives just so much control, at any moment, is essential to secure the desired object and no more', 84.

⁶⁸⁶ The terms of the Geneva Protocols included provision for the role of Commissioner-General to be reinstated at any time up to 1936. League-directed control was in place from October 1922 in the shape of the Financial Committee delegation, before Zimmerman became Commissioner-General in December 1922. His control terminated in June 1926.

⁶⁸⁷ Karl Bachinger and Herbert Matis cited by Peter Berger in 'The League', 77. (From *Der oesterreichische Schilling – Geschichte einer Waehrung* (Graz, 1974)). For this kind of representation of Zimmerman and his powers, see AZ, 25 September 1924, 1.

⁶⁸⁸ Pelt Reports, LNA S100 Mr. Nixon, Box No. 4.

demands and his approach.⁶⁸⁹ The Austrian archives contain frequent references to these strains, such as those discussed by Ambassador Franckenstein and foreign minister Grünberger in March 1924.⁶⁹⁰ Even early on in his time in Austria, Zimmerman described conflict between himself and the government in a private letter to Sir Arthur Salter in 1923, in which he wrote that the government was trying to avoid the publication of his first report, ‘because of what is said... about the necessity of administrative reforms’.⁶⁹¹ In 1924, the Austrian Minister of Foreign Affairs found Zimmerman’s attitude and interference ‘intolerable’.⁶⁹² The British Ambassador also reported to Prime Minister Ramsay MacDonald upon the continuing difficulties between the two parties in 1925.⁶⁹³

The problems between the two sides are often attributed to Zimmerman’s undiplomatic approach,⁶⁹⁴ but they were also to a significant degree a result of his steadfast commitment to the original principles that underlay the League’s programme, the principles outlined in Chapter Three. It was no accident that such a strong supporter of these policies should be appointed. Although Zimmerman was not the first choice for the job,⁶⁹⁵ he was nevertheless a popular candidate with influential figures

⁶⁸⁹ Adrianus Pelt, ‘Draft Article for ‘Monthly Summary’ Financial Reconstruction of Austria’, LNA S100, Mr Nixon, Box No. 4, 79/5/1, League of Nation’s Financial Delegation in Vienna.

⁶⁹⁰ ÖSA, AdR, AA, NPA 235, Ambassador Franckenstein to Dr. Grünberger, 12 March 1924. See also ÖSA, AdR, AA, NPA 236, for example, the Austrian Ambassador to Amsterdam wrote to the foreign ministry on 28 May 1924 that ‘for about half a year the reports of the Commissioner-General Hr. Zimmerman spoke of the non-compliance of the Austrian Government’. On 6 November 1925, Ambassador Franckenstein wrote to Otto Niemeyer that ‘unfortunately relations between the government and Mr Zimmerman have again become difficult’, ÖSA, AdR, AA, Handelspolitik 336. See also A Akers Douglas to Ramsay MacDonald, 29 August 1924, TNA T160/60, F2073/17, as previously reported, ‘there has been considerable tension in the relations between the Commissioner-General and the Austrian Government, and this feeling became very acute in the period immediately preceding the arrival of the Delegation’. Dr Zimmerman published ‘the essential portions of his 19th Report in the press before informing the Austrian government or even showing them.... Its publication has raised a storm here’.

⁶⁹¹ Zimmerman to Sir Arthur Salter, 12 February 1923, LNA S97, Mr. Nixon’s Files, 79/24/1, Correspondence with the Commissioner-General’s Office in Vienna.

⁶⁹² LNA S97 Mr. Nixon’s Files. In addition, there was particular controversy over Zimmerman’s nineteenth report: *The Nineteenth Report of the Commissioner-General, 15 July – 15 August 1924* (Geneva, 1924).

⁶⁹³ Also see TNA T160/60, A. Akers Douglas to Ramsay MacDonald, 29 August 1925.

⁶⁹⁴ See, for example, Louis W. Pauly, *Who Elected the Bankers – Surveillance and Control in the World Economy* (Ithaca and London, 1997), 55.

⁶⁹⁵ American Roland Boyden was first choice. See Jean Monnet to Sir Maurice Hankey, 2 November 1922, R519. According to Zoltán Peteresz, Zimmerman was Montagu Norman’s first choice, but the French government would have preferred Boyden, as they sought to increase American involvement in Europe at this

like Montagu Norman, precisely because of his ideological stance. In the view of an informant to the Bank of England, writing shortly before Zimmerman's appointment, 'international economic interests would be strongly served' if Zimmerman were given the job.⁶⁹⁶ And other international banking figures with connections to the League agreed: Montagu Norman told Salter mid-October 1922 that Dutch banker 'ter Meulen is here to-day and wishes you to know first that he considers Z [Zimmerman] suitable and excellent in all respects'.⁶⁹⁷

As Zimmerman was an acceptable candidate precisely because of his commitment to budgetary retrenchment, it is not surprising that a consistent source of exasperation for the Commissioner-General was the failure of the Austrian government to entirely fulfil the League's plan of cuts to the number of civil servants and to expenditure. As has been noted previously, budget equilibrium was achieved much sooner than anticipated because of the higher than expected tax revenues that were collected, and the reduction in the level of expenditure did not proceed at the pace nor to the extent that Zimmerman hoped. So in his fifth report, for example, Zimmerman wrote that, 'I much regret to note that once again the numbers of dismissals between April 7th and May 5th was entirely inadequate'.⁶⁹⁸ The monthly reports that the Commissioner-General produced were publicly available and distributed to the press, and before September 1924, not always shown to the government prior to publication. Indeed, Zimmerman seemed to use his reports as leverage against the government, which created further conflict. Following the advanced publication of Zimmerman's Nineteenth Report, the President of Austrian National Bank offered to resign, and the Foreign Minister complained to the British Ambassador that 'Austria had no option but to bow before the commands of the League', and 'that Dr Zimmerman now had every party and every

time, *Jeremiah Smith, Jr., and Hungary 1924-1926: The United States, the League of Nations and the Financial Reconstruction of Hungary* (Verlag Versita, 2013), 71.

⁶⁹⁶ Opinion received from GENERAL, 14 October 1922, BOE, OV28/53 Austria (Rehabilitation). The informant was code-named GENERAL and was based in Holland. He used the code name 'Carpenter' to refer to Zimmerman (the name Zimmermann means 'carpenter' in German), 'I know that the international economic interests would be strongly served if a personality like Carpenter should be placed in a position as alluded to by you'.

⁶⁹⁷ Montagu Norman to Arthur Salter, 18 October 1922, BOE, OV28/53 Austria (Rehabilitation).

⁶⁹⁸ *Fifth Report of the Commissioner-General, 15 April 1923 – 15 May 1923* (Geneva, 1923), 3.

person in Austria against him'.⁶⁹⁹ On another occasion, the source of tension was the disgruntlement of Zimmerman and others with the appointment of an Austrian head of the Bank of Issue.⁷⁰⁰

Disagreements also existed over the deployment of the funds in the loans and the overall size of budget permitted by the League's programme. Throughout 1923 and into 1924, the Financial Committee and the Council of the League (acting always on the advice of the Financial Committee) were steadfast in their support for Zimmerman. Early in that year, much to the disgust of large sections of the Austrian press, the Council reminded the Austrian government of Zimmerman's powers and stressed, in a tone that mixed an appeal to honour with a veiled threat, that 'the original programme adopted by the Austrian government constitutes a solemn undertaking, the execution of which remains obligatory'.⁷⁰¹ They stated that under the terms of the Geneva Protocols, it was only if permanent budgetary equilibrium was established that control could be withdrawn. As it was widely believed in League circles that the level of taxation in Austria at this time was excessively and unsustainably high, it was clear that at this stage, the Financial Committee and the Council were backing Zimmerman.

In March 1924, however, the Austrian government decided to attempt to challenge the Commissioner-General more vigorously, and made a direct appeal to the League. According to the *Arbeiter-Zeitung* on 9 March 1924, the Finance Minister at Geneva 'launched a public polemic against Commissioner-General Zimmerman'.⁷⁰² In his speech the Minister revealed his opposition to not just Zimmerman's interference and control, but also to a central aspect of the League's whole programme, saying that the 'throttling government expenditure to the extent envisaged in the reform and

⁶⁹⁹ See A. Akers Douglas to Ramsay MacDonald, 29 August 1924.

⁷⁰⁰ *First Report of the Commissioner-General, 15 December 1922 – 15 January 1923* (Geneva, 1923) which contains a letter from Seipel to Zimmerman on this subject, 16-17. On Norman's outrage see Otto Niemeyer to Arthur Salter, 27 December 1922, LNA S107, Sir A Salter, No. 4 Austria.

⁷⁰¹ Resolution of the League of Nations' Council, 12 March 1924, in Annex IX of *The Fifteenth Report of the Commissioner-General, 15 March 1924 – 15 April 1924* (Geneva, 1924), 23, emphasis in the original. See also ÖSA, NPA 235.

⁷⁰² On the appeal by the government to the League of Nations in March 1924, see ÖSA, NPA 236 and also the *Arbeiter-Zeitung*, 9 March 1924.

reconstruction plan is simply impossible'.⁷⁰³ Eventually, in September 1924, the government had to concede to an extension in the period of Zimmerman's control far beyond the originally envisaged two years. The desire to prevent this control being indefinitely prolonged led the League to make concessions to the Austrian position, and a higher budget than anticipated in the League's programme was permitted. Zimmerman was also defeated in his attempt to heavily limit the use of the loans for productive investments, although the amounts allowed for this purpose were modest.⁷⁰⁴

The Austrian government scored at least a partial victory in this case. They did not get the removal of Zimmerman's control nor the budget level that they had requested, but Zimmerman's desire to keep to the letter of the original agreement was overridden.

Nathan Marcus argues that the reason that the League's scheme for Austria did not produce more positive results was that it was not continued for long enough and nor was it propagated with sufficient vigour.⁷⁰⁵ Extending control further than 1926 was simply something that was unacceptable to both Austria and the League, however. 1926 already represented a two-year extension, and it was not politically feasible within Austria to prolong control: the League was very concerned about the increase in the *Anschluss* movement that their presence seemed to be causing, as Marcus acknowledges.⁷⁰⁶ Nor was continued control at this stage something that the League would have welcomed. They wished to be able to prove Salter's point that the League was completely opposed to any measures that sought 'to destroy the sovereignty of the assisted State'.⁷⁰⁷ As Endres and Fleming say, 'national autonomy was considered paramount prior to 1939'.⁷⁰⁸ The principle of the sovereignty of member states was still, at least theoretically, of central importance as a principle within the League. Whilst

⁷⁰³ AZ, *ibid.*

⁷⁰⁴ See *Financial Reconstruction of Austria – Agreements Approved by the Council on September 16th 1924* (Geneva, 1924). This agreement modified the scheme. The Draft Report of the Financial Committee of the League of Nations, 15 September 1926, LNA R519, details of how a part of the loan was used for productive investment: by this date, 230.6 million gold krone out of 568.7 million gold krone.

⁷⁰⁵ Marcus, *Credibility, Confidence and Capital*.

⁷⁰⁶ See Berger, 'The League of Nations', 81, and Marcus, *Credibility, Confidence and Capital*, 241.

⁷⁰⁷ Salter, 'General Survey', 82.

⁷⁰⁸ Anthony Endres and Grant Fleming, *International Organizations and the Analysis of Economic Policy 1919-1950* (Cambridge, 2002), 11.

the League loan programmes, at least temporarily, did encroach upon sovereignty (and probably needed to do so in order to obtain the requisite foreign support to stabilise the currency and stimulate lending once again), after this had occurred, the League were very keen to restore Austrian sovereignty. Respected economists Walter Layton, the British editor of *The Economist*, and Charles Rist, a French economist who had previously produced a report on Austria, were, therefore, deployed to Austria to report favourably upon conditions and prospects for the country, as a way of facilitating and justifying the withdrawal of the League, and creating a sense that the programme was successful.⁷⁰⁹

The impact of the League's scheme on national politics – viability and autonomy

If the reconstruction programme made little contribution to political stability between the various political groupings in Austria, it had a rather mixed impact upon the prospects for the future independent survival of the country – even though, as seen in Chapter Two, this was the rationale that underlay the whole scheme. Much of the opposition to the Geneva Protocols, as we have seen, focussed around concerns about Austrian sovereignty and foreign control, and in this regard, the Protocols represented in some respects a paradox. In attempting to ensure Austrian *lebensfähigkeit* and prevent Austria being absorbed by other powers, Austria's sovereignty was severely encroached upon. In order to access the funds that it seemed to need to be able to survive and obtain the support of the international financial and diplomatic community, Austria had to bind itself to certain currency, budgetary and administrative measures, and to acquiesce to the external oversight of the Commissioner-General. Thus, the survival of independent Austria was dependent upon its submission to external influence and partial control – a strange kind of *Selbständigkeit* that did little to create a durable sense of the possibilities of Austrian autonomy within the country itself.

Seipel, not a supporter of *Anschluss*, wished to see independent Austria survive and thrive, and regarded the League's programme as key to stabilising the country, and

⁷⁰⁹ Their report: Walter Layton and Charles Rist, *The Economic Situation of Austria* (Geneva, 1925).

then building legitimacy for the state, both within and without Austria. Seipel acknowledged in a speech to the League assembly in early 1923 that the Austrian people were apprehensive about the presence of a League controller in Vienna, but asserted that the Austrians ‘love their independence and freedom’, and that in order to secure these ‘they want their economy reformed’.⁷¹⁰ Seipel, who knew that this speech would be widely reported in the Austria press, sought to present the international control and encroachment upon Austrian sovereignty in terms of economic imperatives: for him the League scheme was necessary for future Austrian viability.

Seipel expressed his hopes in this regard elsewhere. In private correspondence with the Christian Social *Landeshauptmann* (Provincial Governor) of Salzburg Province, Dr. Franz Rehrl, for example, who was also a supporter of an independent Austria,⁷¹¹ Seipel was hopeful about the positive impact that the loan issue would have.⁷¹² He wrote to Rehrl that the success of the loan issue ‘will form a benchmark for our reputation abroad, and [create] the degree of self-respect that we owe our young State and ourselves’.⁷¹³ For Seipel, the League programme was key to the process of state and nation formation that he was at that time engaged in. In his letter, Seipel urged Rehrl to do what he could to promote the programme for these very reasons. Seipel’s efforts were supported by promotional material produced by the finance ministry, which attempted to create optimism about the viability and possibilities for the future of the new country. A poster relating to the internal bond issue of 30 December 1922 that was sent to the *Landesregierung* (regional government) of Upper Austria, for example, depicted a young dynamic looking man exhorting a down-cast and weary older man ‘Don’t think about the past! Gaze into our future!’⁷¹⁴

⁷¹⁰ Rede vom Bundeskanzler Seipel vor dem Völkerbundrat in Paris am 1. Februar 1923, ADÖ, *Band 5 – Unter der Finanzkontrolle des Völkerbundes*, doc. 733, 71-75.

⁷¹¹ And later, unlike many Christian Social politicians, a defender of the democratic ideals of the First Republic as well as an opponent of the Nazis.

⁷¹² Dr Rehrl was detained by the Nazis following the failure of Operation Valkyrie in 1944, of which he was aware, until the end of the Second World War. The conditions of his imprisonment wrecked his health and he died in Salzburg in 1947.

⁷¹³ Dr Ignaz Seipel to Dr. Franz Rehrl, Landeshauptmann von Salzburgerland, 9 June 1923, Salzburg Landesarchiv, Salzburg (SLA), Rehrl-Brief.

⁷¹⁴ Plakat: Nicht an Vergangenes Denken! In die Zukunft Unser Blick! 8% Goldanleihe, 30 December 1922, OÖLA.

Figure 2. 'Nicht an Vergangenes Denken!'



In the event, the future that was partially created by the Geneva programme and loan issue was not in fact the Elysium implied by this poster. The reform programme contributed in some respects to creating stability and an autonomous future for the Republic, and reduced the chances of *Anschluss* or any other move to amalgamate Austria or parts of Austria with other states, but it also added to processes that worked to undermine the stability of the new state, to the detriment of nation- and state building. Additionally, the tension caused by having a foreign controller overseeing the reform programme and government activities added not only to suspicions from the press and public about Geneva, but ultimately led the Christian Social government itself, who had sought the League's assistance, to attempt to reduce the impact of Commissioner-General Zimmerman's powers, and ultimately to encourage his withdrawal.

For John Deak, Seipel's work with the League was part of a process of reform and restructure in post-imperial Austria which saw Seipel first take an instrumental role in

stabilising the political situation immediately post-war, in cooperation with Otto Bauer and the SDAP, and then working for financial stability and the reform and rationalisation of the state.⁷¹⁵ Peter Becker gives partial support for this view in his examination of administrative reform in Austria.⁷¹⁶ However, the effects of the programme worked both constructively and destructively upon the prospects for successful state-building in Austria. On the one side, the reform programme produced a rationalisation of the Habsburg-era bureaucracy through the reduction in the numbers of civil servants and government ministers, amendments to some aspects of the responsibilities of provinces and central government, and the introduction of a streamlined and more efficient administrative structure.⁷¹⁷ So, as Deak describes, Seipel's policies dismantled the 'administrative vestiges of the Habsburg Monarchy', and '(forged) a new, decentralised republic'.⁷¹⁸ However, as Deak acknowledges, the rationalisation process had a doubled-edged effect, and in some respects undermined support for the Republic and attempts at political consolidation. One issue was that, making large numbers of the civil servants, who provided continuity with the old regime and who were often Christian Social supporters, redundant, was not a recipe that generated support for the new order. Socialist leader Karl Renner thought that it would have been best to maintain the imperial bureaucracy and reform it more gradually, in order to maintain stability and generate legitimacy for the new state, but this is not what occurred.⁷¹⁹

Examination of the position of war veterans in this kind of process is illuminating. Ke-Chin Hsia reveals that the moves to integrate war veterans into the new society through the provision of war pensions, medical facilities and the work of organisations such as the *Zentralverband der österreichischen Kreigsbeschädigten* (roughly – the Central Association of the Austrian War-Damaged) were critical in creating stability in

⁷¹⁵ Deak, 'Ignaz Seipel', 44–45; although Seipel always struggled to work with Bauer: he was more comfortable with the moderate Renner.

⁷¹⁶ Peter Becker "...dem Bürger die Verfolgung".

⁷¹⁷ Ibid.

⁷¹⁸ Deak, 'Dismantling Empire', 126.

⁷¹⁹ Deak, 'Dismantling Empire', 131.

the new state at its inception and in providing a modicum of legitimacy for it.⁷²⁰ *Zentralverband* members, who were associated with the wider SDAP movement, identified with the new state. The reform programme, however, undermined the position of war veterans through cuts to pensions and service provision. The work of the League can hardly have helped to promote veteran support, and this in turn was detrimental to attempts to consolidate the new state.

As part of the expansion in the role of the state in social provision that had occurred after the First World War, the predicament of war victims was recognised in *Invalidenentschädigungsgesetz*⁷²¹ of April 1919. This law, the first to be enacted amongst the combatant states, was pushed through by the Social Democrats, who at this time shared office with the Christian Social Party. The SDAP hoped the scheme would lay the foundations for a more comprehensive social security system. It was also a means of engendering in veterans and other war victims a sense of identification with, and support for, the new state. Veterans had not been disarmed, and were often psychologically troubled.⁷²² Their reintegration into society and their acceptance of the new state was important if republican Austria was to survive. The new law provided the wounded with a pension entitlement calculated upon the degree of loss of earnings that their disability had produced, and widows in certain circumstances were entitled to a pension of up to 50% of the maximum of their husband's pension.⁷²³ The bureaucratic apparatus governing the system never functioned very effectively, but it was undermined at the time of the introduction of the League programme, when its provisions were reduced in the case of many war victims to a payment so small that in the words of Pawlowsky and Wendelin, a 'compensation law was transformed into a provision law'.⁷²⁴ Subsistence was all that was now offered for war wounded and for war widows and their dependents, who were only entitled to half of the amount of

⁷²⁰ Ke-Chin Hsia, 'A Partnership of the Weak: War Victims and the State in the Early First Austrian Republic', *Contemporary Austrian Studies* 19, *From Empire to Republic – Post-World War I Austria*, 205, 213.

⁷²¹ War Disability Compensation Law.

⁷²² See Peter Melichar, 'Die Kämpfe merkwürdig Untot: K.u.K. Offiziere in der Ersten Republik', *Österreichische Zeitschrift für Geschichtswissenschaften*, 9/1 (1998), 51-84. See also Maureen Healy, 'Civilising the Soldier'.

⁷²³ For more details, see Pawlowsky and Wendelin, 'Government Care', 174.

⁷²⁴ Ibid, 180.

others, or not even that. Pawlowsky and Wendelin argue that at a time of constrained budgets, war victims were increasingly regarded as a burden. The association of the *Zentralverband* with the SDAP may have also meant that the Christian Socials, in power without SDAP support by the time of the League scheme and the budget cuts, may have felt less inclined to maintain payments to war victims. Their interests could not be entirely over-looked, however, as the main organisation representing them, the *Zentralverband*, was a powerful nation-wide mass-membership organisation with, by 1922, 200,000 members, a third of whom were war widows. Thus, some degree of pension provision for war victims did remain, albeit in much reduced form from that originally conceived.⁷²⁵ In taking steps that undermined the provision for war wounded, however, the government reduced any loyalty that war victims and veterans might have felt with the new state.

The extent to which the *Zentralverband* was opposed to the reductions in provision for veterans, and the potential danger that this created for the state was revealed when health services for veterans were suppressed on 23 February 1923. Special military hospitals were abolished, as were some care homes for veterans, and cuts were also made to the provision for disabled soldiers' education. These were moves to which the *Zentralverband* objected strongly. The organisation wrote angrily to Secretary General Eric Drummond warning that veterans who 'have faced death on every front for four years, are not afraid to brave the armed forces of order in defence of their elementary rights' and asking if 'the League of Nations... for the sake of saving a few gold *Kronen*, really intends to rob us of our hospitals and homes for our soldiers?'⁷²⁶ This letter reveals the resentment of veterans about the cuts to their services, and that the veterans' organisation was prepared to threaten violence and insurrection if the interests of its members were threatened, something that they did not actually do, but which pointed to the inadvisability of reducing expenditure associated with veterans, when many were armed, and potentially volatile.

⁷²⁵ Ibid, 182-183.

⁷²⁶ Central Union of the National Organisation of Austrian Disabled Soldiers and Soldiers' Dependents to the Secretary General of the League of Nations, undated, LNA R519.

The issue of the war veterans is just one part of the story of variegated responses to and effects of the programme for Austrian reconstruction, and whilst cuts to provisions for war veterans fed into the hostility that the SDAP movement generally had for the scheme, by the time of Commissioner-General Zimmerman's withdrawal from Austria in mid-1926, it might have appeared that through reforms to the state and with the restoration of a greater degree sovereignty to the Austrian government, the work of the League had contributed to the long term prospects for stability in Austria, despite the tensions that had existed between the Commissioner-General and the government, and between the SDAP and the Christian Socials. However, examination of responses to and effects of the programme at provincial level creates quite a different picture.

The impact of the scheme on the politics of the provinces

A significant and overlooked aspect of the League's project for Austrian reconstruction is its effects on Austria's federal political system, and in turn the constraints that this system placed on the scheme. Austria's federal regions, the *Länder*, had a long tradition of autonomous identity and local administration, and the 1920 constitution awarded them considerable autonomous powers over tax raising and service provision. Elected parliamentary assemblies headed by *Landeshauptmänner* (Governors) for each of the nine regions were established.⁷²⁷ In the uncertain conditions of immediately post-war and post-imperial Austria, not all regions were definitely committed joining the new Austrian national entity. Just as a supra-state identity in the shape of pan-Germanism was attractive to many in the post-war years, so localism in these regions, the old Habsburg Crownlands, also had a powerful appeal.⁷²⁸ The rhetoric of 'self-determination' was applied by some regional politicians to their own lands, and

⁷²⁷ The *Länder* of Austria were (and are) Wien (Vienna), Niederösterreich (Lower Austria), Oberösterreich (Upper Austria), Salzburg, Burgenland, Vorarlberg, Kärnten (Carinthia), Tirol (the Tyrol) and Steiermark (Styria).

⁷²⁸ John Boyer, 'Silent War and Bitter Spring – the Revolution of 1918 in Austria', Austrian History Yearbook, 34 (2003), 1-56 and Walter Goldinger 'Das Werden der österreichischen Bundesverfassung aus der Sicht des Historikers', in Heinz Schäffer (ed.) *60 Jahre Bundesverfassung* (Salzburg, 1980).

Voralberg and the Tyrol even gave serious consideration to full independence.⁷²⁹ The old Crownlands had to be invited and coaxed to accede to new Austria, and thus their concerns about Viennese domination had to be addressed. Between 1918 and 1920, the worry of the regions, who were almost exclusively politically Christian Social,⁷³⁰ was that they would be subjugated by Socialists in central government in Vienna. They feared being ‘held hostage by an alien, unsympathetic government in Vienna that had the potential to violate their prerogatives and rights of self-determination’.⁷³¹ But as we shall see, the scheme for Austrian reconstruction, and the actions of the *Landesregierung* of Vienna, altered the terms of this conflict significantly. The City of Vienna itself had been awarded the status of a *Land* and not just that of a municipality in the 1920 constitution, in a compromise that was worked out between the Christian Social Party and the SDAP. This left the *Land* of Lower Austria, which had contained Vienna, securely under Christian Social control, whilst urban Vienna was a strongly SDAP city. The city merged its municipal and regional assemblies and governments, and having failed, after 1920, to secure national power, set about exploiting their regional powers to attempt to create in Vienna their model society: this was ‘Red Vienna’.⁷³²

With respect to the League’s programme, the federated structure of Austria made a significant difference to the impact that the programme had on Austria. In consequence of this, tensions were exacerbated between the regions and central government. This caused relations to be strained within different factions of the Christian Social Party itself, and between the government and one *Land* in particular – Vienna –, thus increasing the divisions between the SDAP and the Christian Socials. The devolved powers that the Austrian *Länder* possessed limited the government and the League’s ability to fully implement their programme. Ultimately, the conflict between central government and the City of Vienna was to end in 1934 with the suppression of Austrian

⁷²⁹ In 1919, the Tyrol had declared independence from Austria, although it did not then implement this. In April 1921, a plebiscite was held in the region in which 98.6% of the population voted for *Anschluss*. See Barbara Jelavich, *Modern Austria – Empire and Republic 1800-1980* (Cambridge, 1987), 159-160.

⁷³⁰ Municipalities had some of their own powers within the regions, and some of these urban areas, such as Wiener Neustadt, Graz and Linz, were strongly SDAP.

⁷³¹ Boyer, ‘Silent War’, 33.

⁷³² See Helmut Gruber, *Red Vienna – Experiment in Working-Class Culture 1919-1934*, (Oxford, 1991) and Jill Lewis, ‘Red Vienna – Socialism in One City, 1918-27’, European History Quarterly 13/3 (1983), 335-355.

social democracy during the Austrian ‘civil war’, but the attempt to implement the League’s strictures revealed the ideological differences the two main parties in stark relief, and in this way contributed to the polarisation of Austrian politics at this time.

In deciding upon a federal structure, the new constitution continued with aspects of Habsburg constitutional arrangements. The states had a certain degree of autonomy over social, housing and educational policy, and had the powers to raise their own taxes. They were also entitled to part of national tax revenue as laid down by the *Ertragsanteile* – the system that determined the allocation taxes. All of this gave the Federal States considerable powers to pursue policies contrary to the letter and the spirit of the League’s scheme, and was a major hindrance to Zimmerman’s attempts to ensure his own control and oversight. The extent to which the *Länder* possessed autonomous powers and were not bound by the terms of the Geneva Protocols did not seem to immediately occur to the members of the Financial Committee, as their discussions as they formulated the scheme did not touch upon this point.⁷³³

The constitutionally-determined powers of the *Länder* gave the League and Commissioner-General Zimmerman a number of headaches. As we saw in Chapter Two, a key part of the League’s programme was the insistence on a lower level of expenditure by the state. A combination of the powers that the regions possessed, and pre-ordained proportion of national taxation that the *Ertragsanteile* granted them, gave the *Länder* considerable room for manoeuvre. The higher than expected overall tax-take post-1922 meant that by 1924, *Länder* were receiving much greater sums from central government than had been anticipated. Zimmerman felt that all extra tax raised should go towards national debt reduction, but neither he nor the government had the power to force the regions to relinquish their share of tax revenue for this purpose. An early attempt by the Federal government to take complete control of one part of the revenue, the Customs Decree of 11 December 1922, was struck down by the

⁷³³ See LNA S107, Sir A Salter, No. 4 Austria, for the Financial Committee deliberations.

Constitutional Court, having been contested by the City of Vienna.⁷³⁴ Indeed it was from the SDAP-dominated government of the City of Vienna that the work of the League received its largest challenge: the powers of the regions were such that the City of Vienna had scope for autonomous action which was fully exploited.⁷³⁵

The finances of Vienna give an indication of the impact that higher taxes and higher tax revenues had. Despite the City's huge investment in housing, education, public services and cultural projects, Vienna actually ran a budgetary *surplus* of 600 milliards *Kronen* in 1923.⁷³⁶ Through maintaining a high level of taxation, and investment in local services and cultural activities, the SDAP were able at a local level to oppose the strictures of the 'Geneva Bondage Treaty' and implement a local socialist agenda that challenged both the liberal economic and financial orthodoxies of the League, and the conservatism of the Christian Socials. Indeed, by 1925, the Viennese government was widely regarded as 'the best organised and most powerful Socialist body in the world'.⁷³⁷ And all occurred this right under the nose of the Commissioner-General, in the city in which he lived, and at a time when Austria was supposed to be demonstrating to the world its financial rectitude and prudence.

After the first year of the implementation of the League's programme, the issue of the powers and level of taxation and spending in the *Länder* gradually came to the fore. Otto Bauer seems to have realised early on that the reform plan had implications for the powers of the provinces, interrupting Finance Minister Kienböck in the course of speech to the Bundesrat in November 1922 to accuse him of having 'taken the tax sovereignty of *Länder* away!'⁷³⁸ Kienbock denied this, and to a large extent he was at this stage correct, as constitutional arrangements made it hard to reform the

⁷³⁴ *The Fourth Report of the Commissioner-General*, 15 March 1923 – 15 April 1923, (Geneva, 1923), Annex VI, Extract from the 'Neue Freie Presse', 23 March 1923 (translation from the German), 19-20.

⁷³⁵ See LNA D.V./P.V./1-8 on Vienna taxes.

⁷³⁶ The figure of 600 milliards Kronen from a document: Communicated by the Austrian Minister enclosed to O. Niemeyer from the Foreign Office, 17 November 1924, TNA T160/60, 2073/17.

⁷³⁷ According to Alan Leeper: letter from Leeper to Chamberlain, Vienna, 6 March 1925, TNA T160/60, 2073/20.

⁷³⁸ Stenographisches Protokoll 149, Sitzung des Nationalrates der Republic Österreich, Freitag, den 24 November 1922, VGA Karton 49, Mappe 2.

Ertragsanteile or restrict the powers of the regions. However, the government did attempt to reduce the tax receipts that local authorities obtained where they could, but in the case of the Customs duties, were ultimately unsuccessful.

The issue of the powers of the regions was not tackled in the initial phase of programme, and indeed, as Zimmerman and others pointed out, it had been an overlooked aspect in the Geneva Protocols, something that Zimmerman called the ‘main defect’ of the agreement.⁷³⁹ By 1924, as various key elements of the Protocols were in place (the Bank of Issue, tighter control of the money supply, cuts in national expenditure and in the numbers of civil servants), attention turned towards persuading the regions to agree to reforms to their powers and reductions in the amount of national taxation that they received. It was not just Zimmerman and the League who sought this: the Austrian government wished for greater powers in relations to the regional governments. As foreign minister Dr. Grünberger reported to British diplomat Edward Keeling: ‘it had long been obvious that the financial relations established by the Constitution were eminently unsatisfactory, and the Government who would have hesitated to bring up the matter of their own accord were delighted to have their hand forced’.⁷⁴⁰ There is support here for Deak’s contention that Seipel sought to use the League’s financial reconstruction plan as a means of completing the process of transition from the Habsburg system, and thus as a means of State building.⁷⁴¹ This also served to increase the power of central government, something that Seipel sought in order to enhance his own power, according to Gulick.⁷⁴² The desire to clip the wings of the regions was also likely motivated by a desire to restrict the autonomy of specifically the socialist Viennese municipality. The government attempted to negotiate a reduction on taxation and powers with the *Länder*, but to no avail. The *Länder* were resistant to attempts to reduce their share of the *Ertragsanteile* and reluctant to submit their budgets to oversight by the national government and the Commissioner-General,

⁷³⁹ See Alexander Loveday to Sir Arthur Salter, 29 May 1924, LNA S110, 2/19/2 Austria. See also in the same file Per Jacobson’s Memorandum on the taxable capacity of Austria, 9 June 1924. He concluded that some taxes in Austria should be reduced or abolished.

⁷⁴⁰ Reported by E. Keeling to Ramsay MacDonald, 26 September 1924, TNA T160/60, F 2073/17.

⁷⁴¹ See Deak, ‘Dismantling Empire’.

⁷⁴² Gulick, *From Habsburg to Hitler*, 166-167.

or grant the government a veto over their budgets.⁷⁴³ According to Zimmerman, the problem was that the ‘spirit of conciliation shown by the Government has not been sufficiently appreciated by certain provinces and communes’.⁷⁴⁴ His judgement, however, failed to take account of the history of autonomy of the regions, and how fragile the ties uniting Republican Austria could be.

By 1924, no general agreement on reforms of centre-provincial relations had been agreed, and a wider group of ‘experts’ and their supporters, associated with the Financial Committee and the British treasury, were alarmed by the failure to reach a settlement with the *Länder* on this issue. Ambassador Franckenstein reported to Austrian Foreign Minister Grünberger in 1924, upon the occasion of a visit by Zimmerman to Britain, for example, that the Treasury shared his view that the overall level of taxation in Austria was too high, and that it was the intransigence of local authorities that was primarily responsible. For Finance Committee member and treasury official Sir Otto Niemeyer, savings and reforms should be carried out in Austria ‘as long as the sun shines’ and the stance of the provinces inhibited this.⁷⁴⁵ By 1924, the issue was of primary importance to the Financial Committee, who said in their report in September, on the occasion of the announcement of the revised terms of the Geneva agreement, that ‘the financial stability of Austria cannot be considered to have been attained until the financial relations between the State and the Provinces have been thoroughly reformed’.⁷⁴⁶ Dr. Grünberger reported to a British diplomat following a trip to Geneva that it was his belief as well as Seipel’s that such a reform ‘would do more than anything else to restore confidence in Austria’s financial and economic future’.⁷⁴⁷ The government, backed by Zimmerman and the League, took action wherever they were able to reduce the monies received by the *Länder* by, for example, reducing and then abolishing subsidies centrally granted for local services and the payment of

⁷⁴³ See A. Loveday to Arthur Salter, 8 September 1924, LNA S110 2/19/3.

⁷⁴⁴ *The Thirteenth Report of the Commissioner-General*, 15 December 1923 – 15 January 1924 (Geneva, 1924), 3-4, contains details regarding the government’s attempts to reform the *Etragsanteile*.

⁷⁴⁵ Dr. Franckenstein to Dr. Grünberger, 12 March 1924, ÖSA NPA 235.

⁷⁴⁶ Joint League of Nations Report by the Financial Committee and the Commissioner-General, 15 September 1924, LNA S110, 2/19/3.

⁷⁴⁷ E. Keeling to Ramsay MacDonald, 26 September 1924, TNA T160/60, F2073/17.

officials.⁷⁴⁸ They also switched some of the civil servants based in the regions from federal to provincial employees. Until 1925, all the *Länder* resisted any even temporary measures to reduce their powers, and the administration of Vienna was particularly opposed.

Figure 3. Map showing the Austrian Provinces.



But was not just in Vienna that the government and the League encountered resistance to their policies, and the government continued to struggle to achieve their aims. The autonomous powers of the *Länder* were a relic of the Habsburg system, and the provinces were proud of their powers.⁷⁴⁹ Following the negotiations that preceded the announcement of the revised terms of the Protocols in September 1924, *Landeshauptmann* Rehrl of Salzburg province was particularly agitated at the failure of the League to consult the regional governments about their views. He had previously been sufficiently positive about the League programme to arrange a visit of Commissioner-General Zimmerman to Salzburg,⁷⁵⁰ but now he wrote to all other provincial governors, with the exception of the SDAP *Bürgermeister* of Vienna (who had an equivalent role to that of the *Landeshauptmänner* elsewhere), objecting strongly to the fact that the Financial Committee had, on their visit to Vienna, neglected to consult the provinces. He pointed out that various 'chambers, organisations and associations' had been consulted but not the 'representatives of the autonomous entities'. Rehrl was particularly concerned about the way that the *Länder* had been overlooked, as he felt

⁷⁴⁸ See The Final Report of the Work of the Provisional Delegation in Vienna, January 1923, LNA S101, 79/4/4.

⁷⁴⁹ See Akers Douglas to Chamberlain, 21 Nov 1924, NA, T160/60 2073/18.

⁷⁵⁰ On Zimmerman's official visit to Salzburg in autumn 1923, during which he was accompanied by League official and economist J. van Waldré de Bordes, see SLA, Rehrl-Brief, 1923/5097/5098/0607/0615.

that ‘as the result of such negotiations’ the tax policy of Austria would be taken in a ‘decisive direction... in favour of the federal government’. Rehrl proposed that the *Landeshauptmänner* tell the Federal government that ‘when it makes commitments elsewhere on the initiative of foreign experts, the representatives of States should be given the opportunity to offer their opinion’.⁷⁵¹ Rehrl’s correspondents, who were all Christian Socials (or their Tyrolean equivalents), all supported his call, albeit with varying degrees of enthusiasm. The *Landeshauptmänner* of the Tyrol and Upper Austria expressed their ‘complete agreement’ and ‘full endorsement’. The governor of Burgenland agreed with Rehrl ‘with joy’ and worried that the League wished to ‘destroy *Länder* autonomy’. The governor of Lower Austria (who was based at that time in Vienna) offered to discuss the issue with Seipel, although the governor of Vorarlberg was less concerned, regarding the issue as ‘not so tragic’.⁷⁵² This exchange of letters reflects the conflict over states’ rights that had rumbled on since the early days of the League’s programme.

The tone of at least some of Rehrl’s correspondents, such as those from the Tyrol and Upper Austria, reflects how seriously these regional leaders took the issue of provincial power. It had, after all, only been a few short years before that the Tyrol had sought to form an independent government – for a time after the war the Tyrol’s ambitions for autonomy had been sufficiently pronounced for it to maintain an independent embassy in Bern.⁷⁵³ By the time that Rehrl initiated his exchange of letters with other *Landeshauptmänner*, the issue of reform to the powers and finances of *Länder* in relation to the central Austrian state was considered to be of upmost priority by Zimmerman and the League, as we have seen.

The regions were dominated by the Christian Social Party, and the dispute over provincial power was to cause divisions within the Party. Seipel negotiated intensely in

⁷⁵¹ Schriftwechsel mit den Landhauptleuten, 5 September 1924, SLA, Rehrl-Brief, 1924/0813.

⁷⁵² Schriftwechsel mit den Landhauptleuten, reply from Tirol, 12 September 1924; reply from Oberösterreich 13 September 1924; reply from Burgenland, 13 September 1924, reply from Nieder-Österreich, 18 September 1924, reply from Vorarlberg, 17 September 1924.

⁷⁵³ Gulick, *From Habsburg to Hitler*, 88.

autumn 1924 with regional leaders, such as Rehrl, to attempt to get the regions to accept lower budgets and less powers. In November 1924, Seipel attempted to force agreement. He resigned and made his return to the Chancellorship conditional on agreement on the issue of federal-provincial relations. He summoned provincial leaders to Vienna and sought agreement on the issues of tax distribution, constitutional reform of the regions' partial fiscal autonomy and further reforms of areas where there was duplication of central and local bodies.⁷⁵⁴ His gambit failed, and the Seipel government was then replaced by another Christian Social – Pan-German coalition, but this time one that represented much more strongly the rural and regional elements of the Christian Social Party.

Zimmerman mourned the loss of Seipel, Kienböck and Grünberger, writing that 'they will go down to posterity as the patriots who in 1922 saved Austria on the brink of disaster, who determined that she should live, and who devoted the best of their energies to her salvation'.⁷⁵⁵ Seipel, who was a Vienna-based Christian Social, was replaced by Rudolph Ramek, a parliamentary representative from Salzburg. The Christian Socials in the regions at this point had won out against Seipel and the attempts by the League to reduce their autonomy and jurisdiction. Thus the tensions between the central Austrian State and the regions, occasioned to a significant extent by the League's programme, contributed to divisions within the Christian Social Party and served to increase conflict between Austria's central power, based in Vienna, and its regions.

In this sense the League's programme did nothing to further the chances of creating a unified Austrian state. One problem that the 'experts' on the Financial Committee had not explored in much depth at the time of the Geneva Protocols in October 1922 was the political implications of their programme with regards to the federated structure of

⁷⁵⁴ See *The Twenty-Third Report of the Commissioner-General*, 15 October 1924 – 15 November 1924 (Geneva, 1924), 1-3.

⁷⁵⁵ *The Twenty-Fourth Report of the Commissioner-General*, 15 November 1924 – 15 December 1924 (Geneva, 1924), 2.

Austria. The financial and economic principles that the Financial Committee and their supporters, such as Montagu Norman, promoted, were essentially considered by these figures to trump any other realities or political principles. Although it was considered necessary that regional power be curtailed in order to successfully implement the programme, the assumption at first was that this could, and would, be achieved.⁷⁵⁶

Furthermore, the League's insistence on the centrality of bringing the provinces more fully under the control of the central government brought moderate Christian Socials who had been enthusiastic about the League's programme, such as *Landeshauptmann* Rehrl, into conflict with the League and into opposition with its diktats. As we have seen, Rehrl had been involved in promoting the programme, and yet in September 1924, he orchestrated opposition to those from the League or central government who would ignore the Austrian states' rights. The conflict also, temporarily at least, strengthened the hand of the rural element of the Christian Social Party, and saw Seipel replaced with one of these figures as Chancellor from November 1924.

Seipel, the major political figure, along with Finance Minister Victor Kienböck, associated with the League's project, was out of power. His attempts to bring the regions to heel could be interpreted as being part of the process of attempted state construction that Deak identifies.⁷⁵⁷ For the League, however, the issue was not so much about where political power lay in Austria, as about the implementation of policies that they regarded to be critical elements of the plan. In the previous chapter we saw how in the Tyrol, for example, there was support for job creation measures to deal with unemployment, and not just from the SDAP.⁷⁵⁸ In Styria, the provincial assembly had voted for extra expenditure for relief for the unemployed.⁷⁵⁹ These were

⁷⁵⁶ See the Geneva Protocols: League of Nations, 'Protocols Containing the Scheme for the Financial Reconstruction of Austria, Elaborated by the Council of the League of Nations and Signed at Geneva on October 4th 1922', *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926), 137-150.

⁷⁵⁷ See Deak, 'Dismantling Empire'.

⁷⁵⁸ Stenographische Berichte den Tiroler Landtages I. Periode, VII. Session vom 17 Nov. 1924 bis 7 März 1925, TLA, 367-368.

⁷⁵⁹ Stenographische Berichte des Landestages Steiermark I, 1920-1923, Sitzung 38, 21 Dezember 1922, Landesarchiv Steiermark, Graz (LAS).

measures that were completely inimical to the aims and beliefs of Zimmerman and the Financial Committee. Furthermore, these League representatives wished the provinces to receive a lower tax take. As we shall see, they also objected particularly strongly to the local taxes raised in particular in Vienna. Thus, the League sought to reform the powers and status of the *Länder* less because they were concerned *per se* about the distribution of power within the Austrian state and more because they were keen to ensure that the principles underlying the League's programme would be properly enacted. Finally, under the Ramek administration in early 1925, the provinces outside of Vienna agreed to crucial reforms, including that they submit their finances to the oversight of a national audit office, cut some overlapping administrations, and that for a period of two years they accede to a government veto over fiscal measures, but the SDAP only allowed the measure to pass in return for the preservation of greater autonomy for the City of Vienna administration.⁷⁶⁰

In Vienna, the SDAP administration had been alarmed from the start about the potential effect that the reform programme could have on their powers and their projects. SDAP finance chief Hugo Breitner as early as 1922 expressed the worry in the regional assembly that the programme might hinder the ability of the city government to enact the 'large social and cultural tasks' that were necessary in the city.⁷⁶¹ Ultimately, the primary focus of concern for the government and the League became the powers and the policies of the City of Vienna.

The main worry that Zimmerman, the Financial Committee and their allies consistently expressed was that the tax level in Austria was too high. The head economist at the League's intelligence section, Alexander Loveday, stated in a memo that in his view the level of taxation should work out at no more than 14%, or 105 gold *Krone* per capita.

⁷⁶⁰ See *The Twenty-Sixth Report of the Commissioner-General*, 15 January 1925 – 15 February 1925 (Geneva, 1925), 1 and the 27th report, 1-2. This period was eventually extended up until 1930: see *The Thirtieth Report of the Commissioner-General*, 15 May – 25 June 1925 (Geneva, 1925), 1-2.

⁷⁶¹ Hugo Breitner speaking at a meeting of the Gemeinderat der Stadt Wien als Landtag, Landtag, Stenographischer Bericht 1922, Protokoll der öffentlichen Sitzung vom 14 November 1922, Wien Staats-und Landes Archiv, Vienna (WStLA), Landtag, B3/2. Ex-wörtliches Protokoll.

For 1924, the projected level was 116 gold *Krone*.⁷⁶² Loveday's view was typical of the League's attitude. In a report by the Austria Committee in 1925,⁷⁶³ for example, grave concern was expressed about the level of taxation in Austria, which the Committee linked to the 'financial relations between Bund⁷⁶⁴ and local authorities'. They commented on 'the harmful effects of a system which may involve the local authorities receiving more than they have counted upon, and thus practically inviting them to increase their expenditure'.⁷⁶⁵ In this, the Committee was clearly united with the Financial Committee (who commented in early 1925 on the 'strain' taxation in Austria placed 'on the economic life of the country')⁷⁶⁶ in their belief in the need for small state with limited functions and limited taxation. The League Committees were not just concerned that too high a proportion of national taxes was going to the regions (although they were undoubtedly concerned about this), but they also objected to the extra taxation that was levied at a local level by the City of Vienna. The League was preoccupied with the City of Vienna, in particular, as the main source of difficulties. The Austria Committee stated that 'the problem of local taxation is eminently a problem of Viennese taxation' and that, they were 'distinctly of the opinion that taxation in Vienna is too high and that it has serious repercussions on economic development'.⁷⁶⁷ It was thus the perception of the Finance Committee and the others at the League who were advised by them, such as the Austria Committee, that the level of taxation in Vienna was excessive. Lack of support for state provision of the kind of social, welfare, housing and educational services that Vienna City Council provided partly motivated their opposition.

It is ironic that the positive developments that Zimmerman and the other League visitors to Vienna reported (as seen in the previous chapter in Salter's glowing account

⁷⁶² Memorandum by Alexander Loveday, 1924, LNA S110, 2/19/2, Austria.

⁷⁶³ The Austrian Committee was a sub-committee of the Council of the League. They tended to always act on the advice of the Financial Committee, as we have seen.

⁷⁶⁴ 'Bund': i.e., the central state.

⁷⁶⁵ Report of the Sub-Committee on the fiscal system, and especially on the relations between the Bund and the Local Authorities, undated but approximately 1925, LNA D.V./P.V./1-8, D.V.32.

⁷⁶⁶ Extract from the Report of the Financial Committee to the League, February 1925, Annex VIII, *The Twenty-Sixth Report of the Commissioner-General*, 15-16.

⁷⁶⁷ Ibid.

of conditions in mid-1924, when he commented upon ‘the standard of comfort, the health and happiness of her people’), actually partly resulted from the schemes of the municipal authorities of Vienna, to which they objected. Whilst, of course, currency stability had in some respects assisted with this situation, a contributor to the comfort, health and happiness of the people of Vienna by 1924 was not the Zimmerman, the League scheme nor central government, but the work of the City government, who had resisted League calls to reduce tax and invested at the very point that, according to the Financial Committee, they should have been cutting.⁷⁶⁸ Indeed, the Financial Committee and Zimmerman frequently deplored the policies of Vienna and its tax level whilst also reporting upon the positive conditions in that City. Without the work of the City government, the effects of the deflationary aspects introduced by the League’s scheme would likely have been worse, as the extent of the construction and investment programmes introduced by the City government had a stimulating effect, on, for example, the construction industry.

The most significant and most visible part of the SDAP’s schemes for the City of Vienna were their mass housing programmes. Vienna’s housing problems predated the war – in 1910, for example, overcrowding was already rife and the average dwelling accommodated 1.24 people per room.⁷⁶⁹ The influx of people from other parts of the old Empire occasioned by defeat and the end of the monarchy increased the strain. The photographs of Bruno Frei focussed specifically on one group’s experiences, Galician Jews who had fled to Vienna during or at the end of the war. According to Erika Weinzierl, a large number of such migrants arrived in Vienna at this time.⁷⁷⁰ Poverty-stricken and discriminated against, these refugees in what had been their own land, often resided in overcrowded and inadequate dwellings, as his scene ‘The family of Cantor Josef Schruber, who fled from Galicia, in Vienna, 1920’ shows:

⁷⁶⁸ Arthur Salter, Interview with NFP, 22 June 1924. 2.

⁷⁶⁹ Allan Janik and Stephen Toulmin, *Wittgenstein’s Vienna*, (New York, 1973), 50. The Viennese population more than quadrupled between 1850 and 1910. See also Charles O. Hardy, *The Housing Program of the City of Vienna* (Washington, 1934).

⁷⁷⁰ Erika Weinzierl, ‘The Jewish Middle Class in Vienna in the Late Nineteenth and Early Twentieth Centuries’, *Center for Austrian Studies Working Paper 01-1* (October, 2003), 2.

Figure 4. Bruno Frei, *Die aus Galizien geflüchtete Familie des Kantors Josef Schruber in Wien, 1920.*⁷⁷¹



Along with influxes of such immigrants, problems with housing were exacerbated by the reduction in real incomes that had occurred during the First World War, which made rent payments difficult.⁷⁷² The rent control introduced by Imperial Decree in 1917 had the effect of halting the construction of private residential developments, contributing to the severe housing shortage after the war. Temporary dwellings sprang up on the edge of the city.⁷⁷³

With housing conditions and the affordability of housing a major concern in Vienna, the local authorities focussed particular attention on provision in this area. The housing developments of Vienna reflected a vision not only for humane and decent housing but also a wider utopian idea of a model socialist society. Housing schemes included medical facilities, crèches, social and cultural facilities and sometimes schools. These developments reflected the socialists' *Bildungsvereine* ideal of a high-minded cultural socialism that transcended the merely material, and created a new working class of

⁷⁷¹ Österreichische National Bibliothek, Vienna. The dwelling is described as *Elendsquartier: Unmöblierter Raum* (Slum: unfurnished room).

⁷⁷² According to Reinhard Sieder, real incomes fell between 60 and 90% during the war. Reinhard J. Sieder, 'Behind the Lines: working class family life in wartime Vienna', in Richard Wall and Jay Winter (eds.), *The Upheaval of War – Family, Work and Welfare in Europe 1914-1918* (Cambridge, 1988), 117.

⁷⁷³ See Wolfgang Maderthaner, 'Von der Zeit von 1860 bis zum 1945' in Peter Csendes and Ferdinand Opll (eds.), *Wien, Geschichte einer Stadt – Band 3: von 1790 bis zur Gegenwart*, (Vienna, Cologne and Weimar, 2006), 355-357.

dignity, culture and moral rectitude.⁷⁷⁴ Their vision was to unite communities around communal services and cultural improvement, as well as to restore the family unit that had been so undermined by the war. In this respect they were conservative in their approach: they were not seeking to overturn, or even greatly modify, the family as the basic unit of society. Flats were designed for individual family units, which would then form the wider communal society. In the words of Gruber ‘decent housing became the cornerstone of the SDAP’s project to create “*ordentliche Arbeiterfamilie*”, a phrase connoting not only orderliness but also decency and respectability’.⁷⁷⁵

Despite the somewhat overlapping aims of the Christian Socials and the SDAP with respect to the need for the restoration of the family post-war, the SDAP’s methods for achieving this through raising taxation to provide funds for socialised housing and services, conflicted with the ideology of those in charge of national government in Austria, and specifically, conflicted with the aims and methods of the League’s programme for Austrian reconstruction. Hugo Breitner, the Finance chief for the City of Vienna, designed a sharply progressive system of taxes on expensive properties and on luxuries, in which, for example, approximately the most expensive 0.5% of rental properties in Vienna provided 45% of the revenue from residential taxation.⁷⁷⁶ Hotels, restaurants, patisseries, concert venues and other leisure spots were also hit. There was also an 8.5% tax levied on banking transactions.⁷⁷⁷ The proceeds of these taxes, together labelled the ‘Construction tax’, were directed to pay for the erection of housing developments and their associated services, such as health centres, kindergarten, and, in keeping the SDAP cultural vision, cultural and social facilities, such as theatres.⁷⁷⁸ In taxing luxuries in this manner, ‘purtitanical’ Breitner also, as Wolfgang Maderthaner points out, created a kind of moral economy of taxation, in which his

⁷⁷⁴ See Anton Rabinbach, *The Crisis of Austrian Socialism From Red Vienna to Civil War 1927-1934* (Chicago, 1983), 7.

⁷⁷⁵ Gruber, *Red Vienna*, 46.

⁷⁷⁶ Maderthaner, ‘Von der Zeit’, 343.

⁷⁷⁷ See Report of the Sub-Committee on the fiscal system, and especially on the relations between Bund and Local Authorities, LNA D.V./P.V./1-8, D.V.32. The levy was known as the *Fürsorgeabgabe* – welfare levy.

⁷⁷⁸ For Breitner’s policies see Maderthaner, ‘Von der Zeit’, 350-358 and also Siegfried Mattl, *Wien im 20. Jahrhundert* (Wien, 2000). For Breitner’s account of his own policies see, Hugo Breitner ‘Finanz- und Steuerpolitik der Stadtverwaltung’, in *Das Neue Wien – Städtwerk herausgegeben unter offizieller Mirwirkung der Gemeinde Wien, Band I* (Wien, 1926), 179-190.

targets were clearly the undeserved wealth of those ‘speculators and war profiteers’ whose expenditure, according to Otto Bauer, so offended the masses of Vienna in this post-war period.⁷⁷⁹ The first major housing developments began in early 1922, just at the same moment that the League’s programme began to come into effect.

Figure 5. Vienna housing development on Possingergasse, Auf der Schmelz, Vienna, built 1922–1923.



The housing of Vienna stood as a tangible physical repudiation of, and challenge to, the policies of the government and the League. Constructed from money collected from taxation that the government, their allies and League considered to be excessive and even ‘*Steuersadismus*’ (tax sadism) inflicted on the people of Vienna, the buildings were all adorned prominently with the slogan ‘*Erbaut von der Gemeinde Wien*’ ('built by the Community of Vienna'). Later, in a move that deployed the housing developments as propaganda for the City of Vienna’s work, the source of funds for the construction was appended to the buildings, as can be seen on a development on *Pilgramgasse*, Vienna whose slogan reads ‘built by the Community of Vienna in the years 1925 and 1926 from the proceeds of the Construction Tax’.⁷⁸⁰ Breitner’s taxation policies were innovative, and well publicised. Indeed, such was the level of visceral vitriol that they provoked from the SDAP’s opponents, that to promote them was probably a necessity for the party. Breitner gave speeches on his work and taxation policies, such as in 1926,

⁷⁷⁹ Maderthaner, ‘Von der Zeit’, 343. Otto Bauer cited by Maderthaner, 351.

⁷⁸⁰ The Wohnbausteuer covered about 40% of the costs of construction.

'Kapitalistische oder Sozialistische Steuerpolitik' ('Capitalist or Socialist Tax Policy'), which were then publicised by the SDAP via pamphlets.⁷⁸¹

Figures 6 and 7. Housing development on Pilgramgasse in Vienna.



Hugo Breitner, labelled by the *Neue Freie Presse* as a '*Finanzpolitischer Savonarola*', is a very interesting figure in the story of post-Imperial Austria. He was a former banker, who had moved in the highest levels amongst the kinds of financial elites who were very supportive of the League's work, and he now directed his energies towards putting the creation of a socialist utopia on a sound financial footing. He worked from 1900-1909 at the Austrian *Länderbank*, where from 1909-1918 he was managing director. Austrian banks, as discussed in the previous chapters, had very direct control over

⁷⁸¹ Eine Rede von Stadtrat Hugo Breitner (Wien, 1926), in VGA, Lade 19, Mappe 62, B, Breitner, Hugo, Politische Material.

many Austrian industrial enterprises, and Breitner worked particularly to reorganise and reconstruct the firms attached to his bank.⁷⁸² From 1918-1932 he was Comptroller and Housing Commissioner of the City of Vienna and Secretary of the Treasury of the Region of Vienna, and from 1932-1934, President of the Savings Bank of the City of Vienna.⁷⁸³ Breitner, who was of Jewish origin, as were many senior bankers and many senior members of the SDAP, was a rare example of someone who crossed both the worlds of banking and radical socialism. As was so often the case with both bankers and SDAP leaders, anti-Semitism sometimes characterised the attacks he suffered at the hands of his opponents. Most notoriously, Christian Social leader of the far right paramilitaries, the *Heimwehr*, Prince Ernst von Starhemberg, told a gathering of his followers in Heldenplatz, the main central public space in Vienna in 1930, that 'the head of this Asiatic [Breitner] must roll in the dust!'.⁷⁸⁴ Ultimately, Breitner, his wife and two daughters fled Austria at the time of the 1938 *Anschluss* to Florence, Paris, New York and then ultimately to Clairemont, San Diego, where Breitner died in March 1946.

The housing developments that Breitner's tax arrangements helped to pay for represented, then, a physical rejection of the central government and League's plans for low taxation and reduced powers for the *Länder*. As we have seen, Breitner realised from the start that the government's reform plan might come into conflict with the aims of the SDAP administration in Vienna.⁷⁸⁵ The scheme at *Pilgramgasse* was constructed immediately following the period when the pressure from the League for Austria to reform its federal structure to reduce the powers of the *Länder* (and specifically Vienna), was most intense. One of the most architecturally and culturally

⁷⁸² On the links between Austrian banks and Austrian industry see Peter Eigner, 'Banking-Industry Networks: The Austrian Experience, 1895-1940, in Philip L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918-1994* (Aldershot, 1997), 91-114.

⁷⁸³ NFP, 24 November 1932, cited by Maderthaner, 'Von der Zeit', 353. See Breitner's personal statement attached to a leaflet about a series of lectures that he gave in 4 October – 1 November 1938 in New York City for the American National Public Housing Conference on the subject of 'How the City of Vienna Built 80,000 Houses in the Post-War Decade', VGA, Lade 19, Mappe 62, B, Breitner, Hugo, Politische Material.

⁷⁸⁴ See, "Breitner Steuern", finanzierten das 'rote Wien', in *Unsere Generation*, February 1996, in VGA, Lade 19, Mappe 62, B, Breitner, Hugo, Politische Material.

⁷⁸⁵ Hugo Breitner speaking at a meeting of the Gemeinderat der Stadt Wien als Landtag, Landtag, Stenographischer Bericht 1922, Protokoll der öffentlichen Sitzung vom 14 November 1922, VStLA, Landtag, B3/2. Ex-wörtliches Protokoll.

significant developments, *Rabenhof* (see figures 8, 9 and 10 below), was commenced during 1926, the final year of Zimmerman's reign as Commissioner-General. The construction of the most famous and iconic of all of Vienna's public housing developments, the *Karl-Marx-Hof*, the scene of the 1934 'civil war', was only commenced in 1927, after the end of the Zimmerman period, but many further examples of the construction of these developments prior to the end of Zimmerman's work as Commissioner-General can be found in a glossy book produced by the Viennese local authorities to celebrate, explain and also propagandise their work, *Das Neue Wien* (1926). This work, along with the prominent position of the slogans attached to buildings announcing their construction date and the means by which they were paid for, seem to be not just an attempt by Vienna City authorities to celebrate their own work, but an attempt also to repudiate the policies of their government, and also of those from Geneva. Ultimately, the housing developments of Vienna, and the means by which they were paid for, represented an articulation of an alternative mode of reconstruction to the League's more orthodox prescriptions, and in 1920s Vienna, the two 'reconstruction' narratives were in competition, and in conflict.

Figures 8, 9 and 10. Rabenhof, Vienna, including a health centre.





Conclusions

An examination of the political impacts of the scheme for Austrian financial reconstruction reveals the extent to which this financial and economic programme had political consequences in terms of the processes of nation- and state-building, and in terms of the ideological conflicts and disputes over federal powers. The financial committee had not given very much consideration to the impact of their proposals, but as they specialised in finance, and not in politics or state (or nation) building, this is hardly surprising. The oversight does perhaps point to the fact that the Austrian

Committee and the Council ought not to have delegated so much of the programme design to the Financial Committee's technical 'experts', but recognised that there were wider political implications of the scheme that needed serious consideration. Despite the general aims of Austrian stability and independence, the 'political' aspects of the programme were considered in the rather limited terms of negotiating the release of liens, negotiating with Seipel and persuading the SDAP to at least acquiesce to the scheme. It may have been assumed by the League that the desired state building elements of the programme would follow from the successful implementation of the financial, fiscal and administrative reforms contained in the programme, and in-depth analysis of the effects that these would have on the wider political situation was not made. Some political aspects of the programme for Austrian reconstruction, such as the use of an Enabling Act, set an unhelpful precedent in the new Republic, one that was not helpful for future stability or the entrenchment of Austrian democracy. The on-going conflict and tensions between the federal government and the provinces about the provincial powers served to increase centre-regional tensions, increase disputes within the Christian Social Party, and create hostile feeling towards the League and its work.

Ultimately, the reforms created forces that helped to delegitimise and destabilise the new state at the same time as reforming and rationalising the remnants of unwieldy Habsburg structures, such as the civil service or the relations between regions and the federal state. These processes were not separate: what might work to rationalise and stabilise in one sense might undermine and unsettle in another, as this chapter reveals. The question of the process of nation-building in the embryonic state also arises: that is, the impact of the programme upon the question of Austrian independence and the possibility of *Anschluss*. Ultimately, independent Austria did not remain in existence but was incorporated into the Third Reich in 1938. The disagreements and conflict that the adoption and implementation of the programme for Austrian reconstruction produced, deepened the tensions and ideological polarisation between the SDAP and the Christian Socialist party. The League's scheme was not by any means the only factor in this development, but by setting out a path for Austria that was in such clear opposition to

the desired direction of the SDAP, the programme did increase conflict. Furthermore, the contrast between the strictures of the League's programme and the completely different agenda pursued by the SDAP administration in the City of Vienna created an alternative model of reconstruction that challenged and was in opposition to the work of the League.

As with the economic effects of the Geneva Protocols, the political impact of the League's scheme had complex effects. The programme was intended to help Austria to survive as an independent country, and although, by creating a degree of confidence and stabilising the currency, in some respects the League's work assisted in the continued survival of the country, it also exacerbated some of the tensions and conflicts in Austrian politics and society which over the longer term reduced the chances that Austria would develop along harmonious or stable lines. Thus, the programme worked to simultaneously enhance and reduce the possibilities of a durable future for Austria.

Chapter Six

Conclusion: Austrian Financial Reconstruction – Afterlife and Post-Mortem

*'There is a radical instability in our world order'*⁷⁸⁶

'If even the Credit-Anstalt cannot be relied on, everything in Austria must be rotten'

Sir Eric Phipps, a British Diplomat in Austria in 1931⁷⁸⁷

The Austrian Financial Reconstruction scheme was seen by many of those who supported it, as we saw in Chapter Two, as a means of supporting the post-First World War peace settlement and promoting European stability. As a method of financial restructuring, it became a template for further reconstruction in Europe, as this chapter explores. The programme had a questionable effect on Austrian stability, however, and by 1931, Austria was at the centre of a banking crisis which had very detrimental effects on the global financial and economic position. This chapter explores the aftermath of the League's programme and its longer term effects, and the consequences of this for Austrian and European stability. I argue that many of the developments of the 1920s occasioned by the scheme for Austrian financial reconstruction produced longer-term effects that contributed negatively to the political and economic problems of 1930s.

In the spring of 1931, Zoltan Hajdu, a director of the Viennese bank *Creditanstalt* (CA), refused to sign off the bank's accounts and demanded that the CA properly assess the value of its assets. The bank, an august institution with a grand neo-classical headquarters on the Ring in Vienna, was founded in 1855 by Anselm von Rothschild in order to finance the expansion of the railway network of Austro-Hungary. It had come to hold a dominant and integral position in Austria banking and thus in Austrian industry, which was closely intertwined with, and heavily dependent upon, the banking sector. By 1931, the directors of *Creditanstalt* had known for some time that the

⁷⁸⁶ Says the character of Father Rothschild in Evelyn Waugh's strangely prophetic 1930 novel, *Vile Bodies*, written in 1929, published in 1930.

⁷⁸⁷ Cited by Aurel Schubert, *The Credit-Anstalt Crisis of 1931* (Cambridge, 1991), 11.

balance sheets that they were submitting were false, and that the value of the bank's losses were far greater than they had acknowledged.⁷⁸⁸ Hajdu, apparently influenced by his recent religious conversion, was no longer prepared to maintain the deception.⁷⁸⁹ When a new balance sheet was established, it revealed that the Bank was carrying 140 million *Schillings* worth of losses. Despite the fact that this was still a vast underestimation of the true extent of *Creditanstalt*'s liabilities, the bank was, according to these figures, insolvent.⁷⁹⁰

After the First World War, various problems beset this giant 'superbank'⁷⁹¹, by far the largest financial institution in Austria since it had absorbed the failing *Bodenkreditanstalt* Bank in 1929.⁷⁹² Now the losses of the bank that was in the words Aurel Schubert 'too big to fail but too big to save',⁷⁹³ threatened to topple the Austrian and ultimately European banking systems, with potentially immensely destructive consequences for the European and world economy.⁷⁹⁴ On 8 May 1931, CA directors approached the Austrian government and the National Bank and revealed the bank's position.⁷⁹⁵ Despite a general preference against direct government intervention, the central importance of CA to Austrian banking and Austrian industry left the government little choice but to attempt to help. On 11 May, CA's position and the government's

⁷⁸⁸ See Iago Gil Aguado, 'The Creditanstalt Crisis of 1931 and the Failure of the Austro-German Customs Union Project', *The Historical Journal* 44/1 (2000), 206.

⁷⁸⁹ See Harold James, *The Creation and Destruction of Value – The Globalization Cycle* (Cambridge, Mass. and London, 2009), 77.

⁷⁹⁰ Ibid, 76. Creditanstalt had 52 million Schillings of losses on credits: 28 million on industrial participations and 60 million relating to the takeover of *Bodencreditanstalt* that CA had essentially been forced by the government to undertake. The losses, bad enough though they were, did not actually represent anything like the true position of CA, who, it is now calculated, was in actual fact carrying losses of 900 million Schillings: see Gil Aguado, 'The Creditanstalt Crisis', 211.

⁷⁹¹ Aurel Schubert, *The Credit-Anstalt Crisis*, 8.

⁷⁹² *Bodencreditanstalt* (BCA) was the second largest bank in Austria. If CA had not taken on BCA in 1929, BCA would have gone bankrupt. Taking on BCA increased the size of CA by 50%: see Dieter Stiefel, 'The Bankers' View': Austria's Economic and Political Development and the Role of the Banks', in Gerald D. Feldman and Peter Hertner (eds.), *Finance and Modernization – A Transnational and Transcontinental Perspective for the Nineteenth and Twentieth Centuries* (Farnham, Surrey, 2008), 12.

⁷⁹³ Aurel Schubert cited by Peter Coy, 'Lessons from the Credit-Anstalt collapse', 11 April 2011, accessed 26 August 2015 at http://www.bloomberg.com/bw/magazine/content/11_18/b4226012481756.htm#p1

⁷⁹⁴ For a summary of the events in Austria, see Schubert, *The Credit-Anstalt*, 7–18.

⁷⁹⁵ The latter two can hardly have been entirely surprised by CA difficulties, as they were aware of the bankrupt position of the *Bodencreditanstalt* before it merged with CA, and complicit with covert financial transfers of dubious legality undertaken to attempt to maintain the solvency of CA post-1929. See Gil Aguado, 'The Credit-Anstalt', 199–221.

plan to support the Bank were announced publicly.⁷⁹⁶ The measures that the government could take were completely insufficient, however, and rapidly ‘vanished into thin air’: CA’s acknowledged losses alone exceeded the entire Austrian national budget.⁷⁹⁷ Panic spread as CA’s estimates of the scale of its losses increased week by week. In Austria there was a run on the CA and other Viennese banks, and then a run on the *Schilling* and capital flight. The Bank of International Settlement and the Bank of England stepped as lenders of last resort, and ultimately the government turned once again to the League for assistance in obtaining another loan.⁷⁹⁸ All of these measures failed to halt the banking crisis until 1934, by which time Austrian democracy had ceased, and the level of unemployment was entrenched at the ‘catastrophically high’ level that it was to remain until 1937.⁷⁹⁹

The situation in Austria in May 1931 triggered banking runs and banking collapses across central Europe. In June and July there was a disastrous run on the German banks, followed in early autumn by banking crises in London (which in consequence came off the gold standard at this point) and in the United States.⁸⁰⁰ It turned out that the weakness at the heart of the Austrian financial and economic system – that is, the black hole that was its banking sector – posed a great threat to global economic and political stability. The unravelling of Austrian banking and financial stability in the early 1930s exacerbated and prolonged the worldwide depression, and deepened the European political crisis that was to culminate in world war and genocide. In this sense, it is the view of some historians that the 1931 banking crisis is of greater importance in explaining the collapse of European order at the end of the 1930s than the events of 1929.⁸⁰¹

⁷⁹⁶ Schubert says that ‘about 69 percent of all Austrian limited companies did their business through the Credit-Anstalt, and about 14 percent were very deeply in debt to the company’, *The Credit-Anstalt*, 10. For more on the importance of CA to Austria, 10-11.

⁷⁹⁷ Stiefel, ‘The Bankers’ View’, 12.

⁷⁹⁸ For an account of the League’s return to Austria, see Peter Berger, *Im Schatten der Diktatur: die Finanzdiplomatie des Vertreters des Völkerbundes in Österreich, Meinoud Rost van Tonningen 1931-1936* (Vienna, 2000).

⁷⁹⁹ Felix Butschek, ‘Präkeynesianismus in Österreich’, *Wirtschaft und Gesellschaft* 19/2 (1993), 172.

⁸⁰⁰ See Schubert, *The Credit-Anstalt*, 4.

⁸⁰¹ See, for example, James, *The Creation and Destruction*, and Patricia Clavin, *The Failure of Economic Diplomacy – Britain, France and the United States, 1931-36* (Basingstoke and London, 1996).

In what way were the events of 1931 connected with the League programme of 1922 – 1926, and what do they suggest about the effectiveness and efficacy of the programme and the principles that underlay it, and the role of the ‘experts’ who had designed it? Did the measures taken to alleviate the problems of the early 1920s create the conditions that caused the later crisis? This chapter draws together conclusions on these questions, reflects upon the nature and effects of the project for Austrian reconstruction, and argues that the programme was intrinsically connected to Austria’s later woes. Although the problems with Austrian banking ran deep and were various, the solutions offered to Austria in 1922 operated counter to the chances of Austrian or European peace and stability.

This chapter first examines the afterlife that the programme had in the 1920s, as its apparent success bred other similar League programmes and strengthened and institutionalised the EFO within the League. In many ways the Austrian programme was a template for much of the international financial diplomacy that followed, and thus the non-League schemes to which its principles were applied, such as the Dawes Plan and the loan made by J. P. Morgan to France of 1924, are also examined. These programmes had considerable success in dealing in the short-term with the currency and fiscal problems of post-First World War Europe. This chapter argues that the very measures that appeared to be successful in many ways at first were, however, creating or exacerbating trends and developments that undermined long-term stability. This chapter then explores the links between the programme of 1922-1926 and the problems faced by the Austrian economy and its industrial/ banking sector in the late 1920s and early 1930s, before examining the difficulties experienced by the European and world economy more generally. The effects on Austria’s political scene, its social and political divisions, and the ways in which the League in some respects exacerbated these are then considered. I also examine the ramifications of all of this for Europe and the world at large. This chapter shows the links between economic and financial matters and politics, and also the connections between regional, national and

international situations, and concludes by drawing together the main themes of this thesis around ideology, experts and internationalism.

Developments in international financial diplomacy – League programmes

The programme for Austrian financial reconstruction was supposed to rehabilitate the Austrian financial position and currency. As we have seen, by 1931, these were both once again fragile. In the initial aftermath of the launch of the programme in Austria, however, it appeared to be a resounding success, as the currency stabilised, short- and long-terms loans were successfully floated, and budget equilibrium was achieved. Given that, as revealed in Chapter Two, it was widely believed that without the scheme, Austria would have disintegrated in some way and thereby destabilised the new Europe and the post-war order, this appeared to be not just a victory for financial recovery from the war for Austria, but also an important step on the path to European peace and prosperity. The programme seemed to be a vindication of the work and potential of the League and of international financial diplomacy. In Austria, the pro-government *Reichspost* reported in 1924 that ‘the first great practical success of the League of Nations will be inextricably linked with the Austrian restoration work’.⁸⁰² It was in this context that the EFO was institutionalised as a permanent part of the League structure in 1924,⁸⁰³ and the organisation and its financial committee commenced upon further work in the area of financial reconstruction: the Austrian project ‘reflected great prestige on the financial committee’.⁸⁰⁴ For Maurice Fanshawe, who in 1925 wrote a very favourable account of the early activities of the League, Austria was a ‘test case’ of the EFO’s work.⁸⁰⁵ And it was not just the work of the League that appeared vindicated: it was also the specific set of economic and financial values that underlay the Austrian programme, the principles explored in Chapter Three of this thesis. According to Fanshawe, the experience of Austria demonstrated the efficacy of the principles

⁸⁰² *Reichspost*, 26 September 1924, 3.

⁸⁰³ See Patricia Clavin, *Securing the World Economy – The Reinvention of the League of Nations* (Oxford, 2013), 33.

⁸⁰⁴ Robert Boyce, *British Capitalism at the Crossroads 1919-1932 – A study in politics, economics, and international relations* (Cambridge, 1987), 42.

⁸⁰⁵ Maurice Fanshawe, *Reconstruction: Five Years of Work by the League of Nations* (London 1925), 135.

expounded at the Brussels conference in 1920.⁸⁰⁶ Arthur Salter concurred: the Austrian scheme ‘tested and proved.... The principles laid down at... Brussels in 1920 and Genoa in 1922.’ It occupied, ‘therefore, a position of great importance both in the theory and the practice of financial restoration’.⁸⁰⁷

Following this apparent resounding success, the EFO and its financial committee embarked upon further projects. Arthur Salter was to have a central role in what followed, and, as a member of the secretariat rather than a part of the Financial Committee, his key role in designing the project represented something of a shift from the Austrian programme.⁸⁰⁸ Events in Austria acted as an inducement to Hungary to approach the League. Salter recounts how, after the start of the League’s work in Vienna and in ‘the sure promise it gave of a successful result’, an appeal for assistance arrived from Hungarian Prime Minister Count Bethlén for a similar scheme for Hungary.⁸⁰⁹ The Hungarian move was also partly at the instigation of Montagu Norman, whom the Hungarians had approached with respect to the prospects of a loan.⁸¹⁰ Salter was despatched to Budapest by the Financial Committee and a programme (designed by Salter) was adopted to provide currency stability, a balanced budget and loans for Hungary. There were some modifications in comparison with the Austrian programme in that, ‘after the success and the great reputation (the Austrian scheme) had... won’, guarantees were no longer required to create the requisite confidence in investors.⁸¹¹ Furthermore, Salter innovated somewhat and produced a new mechanism whereby Hungary’s repayments would be adjusted depending upon the condition of world

⁸⁰⁶ Ibid., 124: to wit: ‘there is clear evidence that, in so far as European States have recovered, financially or economically, their recovery has been due, to no small extent, to the fact that they have put into practice the principles laid down at the Brussels Conference’.

⁸⁰⁷ Arthur Salter, ‘General Survey’ in League of Nations, *The Financial Reconstruction of Austria – General Survey and Principal Documents* (Geneva, 1926), 85.

⁸⁰⁸ Given the close co-operation of the committee with its secretariat in the Financial Section, however, it should come as no surprise that Salter acted in this capacity.

⁸⁰⁹ Arthur Salter, *Slave of the Lamp*, 100. For details of the League programme in Hungary see *Principles and Methods of the League of Nations*, 29–32. Also, Arthur Salter, ‘The Reconstruction of Hungary’, address delivered at Chatham House, 22 May 1924, cited by Clavin, *Securing the World Economy*, 30.

⁸¹⁰ Robert Boyce, *Crossroads*, 43. According to Boyce, Norman ‘insisted’ that the Hungarians approach the League.

⁸¹¹ Ibid., 101.

prices: this was a measure designed to assist with currency stability.⁸¹² The Commissioner-General was this time an American, fulfilling an ambition of the French government that they had failed to realise in the case of the Austrian programme.⁸¹³ In addition, the powers of the Commissioner-General were much less than in the Austrian case.⁸¹⁴ This was, according to Robert Boyce, the result of Montagu Norman's influence,⁸¹⁵ but it may have also reflected the fact that, whilst Hungary was irredentist on the matter of post-First World War borders, there existed no equivalent concern about Hungary to the fears about the possibility of *Anschluss* that influenced the shape of the Austrian programme.⁸¹⁶ Moreover, the League may have wished to prevent the kind of trenchant opposition that had occurred in Austria partly as a result of the perception that the country was treated as a League 'protectorate', with Zimmerman a 'dictator'.⁸¹⁷

In the Hungarian case, although there were modifications on control and sovereignty and the loan repayments, the fundamental economic and financial principles and prescriptions – the centrality of the gold standard, the importance of balanced budgets – did not alter. Even without guarantees, the loans for Hungary were successfully floated and the League's programme adopted, producing, compared with Austria, 'more rapid success.'⁸¹⁸ Hungary was stable and solvent by 1924. Subsequently, in the light of the apparently positive results in Austria and Hungary, Salter and the Financial Committee conducted work assisting in obtaining loans and providing financial and currency advice to Bulgaria (from where Salter received the summons of King Boris and use of his royal train in 1926), as well as Estonia and Danzig.⁸¹⁹

⁸¹² Ibid., 101; and Arthur Salter, *Memoirs of a Public Servant* (London, 1961), 181. A 'transfer committee' oversaw the level of repayments from Hungary.

⁸¹³ The Commissioner-General was Jeremiah Smith Jr. See Zoltán Peterecz, *Jeremiah Smith, Jr., and Hungary 1924-1926: The United States, the League of Nations and the Financial Reconstruction of Hungary* (Verlag Versita, 2013), 71.

⁸¹⁴ See Patricia Clavin, *Securing the World's Economy*, 30, for details of the powers of the Commissioner-General.

⁸¹⁵ Robert Boyce, *The Great Interwar Crisis*, 159.

⁸¹⁶ For more on the Hungary see Peterecz, *Jeremiah Smith, Jr., and Hungary 1924-1926*.

⁸¹⁷ For opposition to the League's scheme on these grounds, see, for example, *Arbeiter-Zeitung*, 25 September 1924, 1.

⁸¹⁸ Salter, *Slave of the Lamp*, 263.

⁸¹⁹ See *Principles and Methods of the League of Nations*, 20-23 and Salter, *Slave to the Lamp*, 102.

The work of the EFO now seemed firmly entrenched, but the confidence that League involvement had initially engendered became counter-productive, perhaps partly of the rather humiliating loss of control that Austria had experienced in return for League assistance. League loans were now associated, Salter said, with ‘countries who were down and out’.⁸²⁰ Poland, Serbia and Romania ‘whilst profiting from the technical expertise gained in the League experience’ all negotiated loans independently in the late 1920s, and instituted their own reforms.⁸²¹

In Austria, however, the dire circumstances that followed the announcement in May 1931 of *Creditanstalt*’s position resulted ultimately in a need to return to the League for further assistance. In July 1932 a similar programme was launched as part of the Lausanne Protocols. These were, says Berger ‘nothing more than a reprint of the many formatted Geneva Protocol disc of 4 October 1922’.⁸²² The formula laid down by the original League programme in the early 1920s was still the one to which the League’s Financial Committee turned. This might be thought to reveal the efficacy of the principles and programme laid down in the 1922 protocols, but in fact, as we shall see, it might be better viewed as unimaginative adherence to ineffective solutions.

Developments in international financial diplomacy – non-League programmes

The principles of budget equilibrium and budget cuts established in the Austrian case were also applied to financial schemes outside of the League’s remit. Following the speculative attack on their currency, for example, (mentioned in Chapter Four) the

⁸²⁰ Salter, *Memoirs*, 182.

⁸²¹ Ibid. Patricia Clavin says of this development that after the League interventions in Austria and Hungary, ‘its internationalism was perceived as much as a threat as a support to national sovereignty. It prompted first Salter in 1930, and later Loveday and Stoppani in 1931, to wonder whether the role of oversight was a poisoned chalice’, *Securing the World Economy*, 72.

⁸²² Berger, *Im Schatten*, 20. Although as Berger points out, the principles were not always adhered to by Rost van Tonningen: see ‘The League of Nations and Interwar Austria: Critical Assessment of a Partnership in Economic Reconstruction’, in Günter Bischof, Anton Pelinka and Alexander Lassner (eds.), *The Dollfuss-Schuschnigg Era in Austria: A Reassessment*, *Contemporary Austrian Studies* 11 (New Brunswick and London, 2003), 73-93.

French government sought a loan from J. P. Morgan in 1924. Despite being a League member, France had neither need nor desire to seek a loan via League auspices, but the loan from Morgans was only forthcoming when Poincaré agreed to tax and spending cuts.⁸²³ France did not have to resort to the international assistance offered by the League to raise this loan, but its agreement to these terms reflected its ‘vulnerability and dependence upon foreign capital’.⁸²⁴ Despite this, France had much more flexibility to manoeuvre than Austria, and kept off the gold standard at this stage, and when it did go back on gold in 1928, set its currency at such as value in relation to gold as to encourage gold flows into the country.⁸²⁵

As we saw in Chapter Two, the League’s work in Austria was partly supported by some international bankers as they hoped it would be a prelude to a plan for German financial reconstruction. In the case of the financial and monetary problems of Germany, however, the League could, of course, offer no direct assistance. Germany, whose inflationary difficulties became profound in 1923 in the context of the Ruhr crisis, was not yet a member of the League.⁸²⁶ Despite this, continuities existed between the League’s financial work, as inaugurated by the League’s scheme for Austria, and the international financial work carried out under the auspices of the Reparations Committee in Germany from late 1923. The Committee asked Charles Dawes, an ‘ebullient Chicago banker’⁸²⁷ to head a *Sachverständigenausschuss* (Expert Committee) to draw up a plan to provide currency and price stability and a loan and reparations settlement for Germany. In terms of the principles and mechanisms instituted as part of the Dawes Plan, and (at least behind the scenes) some of the personnel, there were continuities. Sir Arthur Salter once again had a key role (along with Josiah Stamp)⁸²⁸ in the design of the programme. Salter’s contribution was not acknowledged even in his memoirs, as it was supposed to be secret, given that the

⁸²³ Peter Jackson, *Beyond the Balance of Power – France and the Policy of National Security in the Era of the First World War* (Cambridge, 2013), 434.

⁸²⁴ Ibid., 434.

⁸²⁵ See Barry Eichengreen, *Golden Fetters – The Gold Standard and the Great Depression 1919-1939* (Oxford and New York, 1995), 183.

⁸²⁶ See Conan Fischer, *The Ruhr Crisis 1923-1924* (Oxford, 2003).

⁸²⁷ Boyce, *Crossroads*, 55. Charles Gates Dawes, 1865-1951.

⁸²⁸ Industrialist, statistician, taxation expert and former civil servant (1880-1941).

League should not have been involved.⁸²⁹ His role, closely associated with the Financial Committee as he was, reveals how the EFO was considered, post the Austrian programme, to be a repository of ‘expert’ knowledge. It also demonstrates the way that the Financial Committee’s secretariat, here in the person of Salter, was trusted as much as the actual members of the Committee to deliver the correct economic and financial prescriptions.

There were both differences and similarities between the Dawes Plan and the Austrian programme. Along with the fact that the League could not officially be involved in a loan and reconstruction plan for Germany, another difference with the Austrian (and Hungarian) situation was that claims for reparations for Austria had been postponed.⁸³⁰ In Germany, the issue of the level and timing of the repayment of reparations was a central element in the events that had led to the French and Belgian invasion of the Ruhr and to hyperinflation.⁸³¹ This was a complicating factor for Charles Dawes and his experts. Interestingly, as German currency commissioner (and later President of the *Reichsbank* and Nazi Economics Minister),⁸³² Hjalmar Schacht, pointed out, as in the Austrian case, the German currency was restored to stability through the introduction of the *Rentenmark* currency *before* the work of the Dawes Committee commenced, perhaps demonstrating once again the role that a sense of confidence could have in creating a climate of external currency stability that then helped to produce internal price stability.⁸³³ Schacht, perhaps not the most reliable of witnesses, even went so far as to suggest that a substantial part of the work of the Dawes Committee ‘had already been accomplished’ before they arrived in Germany.⁸³⁴ In the event, however, the

⁸²⁹ Steven A. Schuker, *The End of French Predominance in Europe – the Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill, North Carolina, 1976), 180 and also Boyce, *Crossroads*, 55, footnote 67.

⁸³⁰ See A.J.P Taylor, *The Origins of the Second World War* (London, 1961, 1991).

⁸³¹ See Fischer, *The Ruhr Crisis 1923-1924*.

⁸³² Hjalmar Horace Greeley Schacht (1877-1970) had been a banker prior to 1923. He was Reichsbank President 1923 – 1930 and 1933-1939, and Economics Minister 1934-1937.

⁸³³ Hjalmar Schacht, *Confessions of the Old Wizard – the Autobiography of Hjalmar Horace Greeley Schacht*, trans. Diana Pyke (Boston, 1956, reprinted Westport, CT, 1974), 193. The collateral backing up the *Rentenmark* was the entire landed property of Germany. Schacht takes the credit, perhaps not unreasonably, for restoration of the German currency for himself.

⁸³⁴ Ibid., 193. Schacht comments that the Dawes Committee felt that ‘the impression must not be allowed to get abroad that in this important matter the work of the Dawes Committee was superfluous’.

Rentenmark was only a short-lived legal tender, as the Dawes Committee (with Schacht's full support) worked on the creation of a gold-backed currency. The Dawes Committee also proposed the by now familiar measure of the creation of an independent bank of issue: that is, a central bank, with considerable gold and foreign currency reserves, the funds for which were to be provided by international loans.⁸³⁵ The budgetary principles expounded were low taxation and minimal state expenditure domestically, although there was less rhetoric around austerity than in the case of the Austrian programme.⁸³⁶ This may have reflected Salter's role in drafting the plan, or Germany's greater standing in the negotiations than Austria's, or the fact that the issue of reparations (and in turn war debts owed to the United States),⁸³⁷ complicated the situation with respect to Germany.

Various measures of control were instituted as part of the Dawes Plan, such as a structure in the new bank which ensured that there was a balance of management and executive control between German and foreign representatives, and the appointment of a Commissioner of Controlled Revenue.⁸³⁸ The form of control created was not as extensive as that seen in Austria. Whilst the Dawes Plan did see the German government acquiesce to reparations repayments, it also marked a restoration of Germany's diplomatic position. The powers of foreign representatives did not override those of German executives, but matched them, and at the London Conference at which the Plan was formally agreed by the various powers involved, the German government had equal status to other powers for the first time since the war.⁸³⁹ Overall, there was continuity between the Austrian and German projects in terms of the overarching principle of international financial cooperation in the service of the peace settlement, the attempt to make the post-war order more workable and enduring, as well as in the ideas and ideologies that underpinned the projects (gold

⁸³⁵ See Harold G. Moulton, *The Reparation Plan* (New York and London, 1924), 10. See also Das Bundesarchiv, Berlin-Lichterfelde (BA), Deutsches Reich, Weimarer Republik, R1501/105721 and R43-1/265, Londoner Konferenz: Dawes Plan; R43-1/273, Stellungnahmen zu den Ergebnissen des Londoner Protokolls und Durchführung des Dawes Plan, and R1501/105721, London Konferenz.

⁸³⁶ Moulton, *The Reparation Plan*, 11. Moulton outlines the principles underlying the Dawes Plan.

⁸³⁷ Which had been postponed in the Austrian case.

⁸³⁸ For more details, see Moulton, *The Reparation Plan*, 46-50.

⁸³⁹ Schuker, *The End of French Predominance*, 179. See also Schacht, *The Old Wizard*, 230.

standard, balanced budget and so on), and some of the ‘expert’ input from those who were considered to have the technical knowledge to enact such programmes.

The Dawes Plan did not provide the kind of comprehensive solution to the reparations problem – which would have been to postpone or cancel their repayment entirely – that some, Montagu Norman for example, hoped for. This was not yet politically acceptable, particularly to the French government. Whilst Dawes represented in many ways a defeat for Poincaré’s aggressive strategy for the curtailment of German power, and the era of ‘French predominance’ might have been over, French power was not an entirely spent force, as would be seen in its actions in relation to Austria in 1931, described later in this chapter.⁸⁴⁰ However, reparations commitments were scaled back as part of Dawes. According to Peter Jackson, the Dawes Plan was a ‘far-reaching revision of the entire reparations regime’.⁸⁴¹ And, as in the Hungarian scheme, a transfer mechanism was created to attempt to ensure that the reparations payments did not become unmanageable for Germany.⁸⁴² Even without a comprehensive reparations settlement, the Dawes Plan appeared successful, as in the Austrian case. Indeed, the scale of funds that flowed to Germany helped minimise post-stabilisation recessionary conditions, although, as in Austria, unemployment was a persistent problem.⁸⁴³ A loan of 800,000,000 gold marks was floated in August 1924, and the *Reichsmark* was made convertible into gold and stabilised at the same rate to the dollar (4.2 *Reichsmarks*) that it had had before the war.⁸⁴⁴ The new independent central bank was established, and by the end of October 1924, Owen D. Young, agent to the Dawes Committee, informed the Committee that they could announce that ‘all the conditions contained in the Experts’ Report have been fulfilled’.⁸⁴⁵ There was a very positive reaction to Dawes at the time – Dawes graced the cover of Time Magazine and was

⁸⁴⁰ Schuker identifies the Ruhr invasion and its consequences as *The End of French Predominance in Europe*.

⁸⁴¹ Jackson, *Beyond the Balance of Power*, 435. Dawes entailed a payment schedule of 64 years (i.e. until 1988), and low initial annuities of 1 billion *Reichsmark*, rising to 2.5 billion by 1928-9.

⁸⁴² See Salter, *Methods*.

⁸⁴³ Although it was not as bad in Germany as in Austria.

⁸⁴⁴ Clavin, *The Great Depression*, 49.

⁸⁴⁵ See Owen D. Young to the Reparation Committee, 30 October 1924, BA Deutsches Reich, Weimarer Republik, R1501/105721.

awarded the Nobel Peace Prize for 1925 for his work.⁸⁴⁶ As Robert Boyce writes, the Dawes programme was regarded as ‘a tremendous victory for the internationalist cause’.⁸⁴⁷

The praise that greeted the Dawes Plan was mirrored in the positive evaluation of the Austrian programme that persisted even after the collapse of European economic and political order in the 1930s. The principles, design and effects of the Austrian programme, and thus, by extension, the other similar schemes that followed, were not held to be responsible or even linked to what followed. W. M. Hill, writing in 1946 in the context of post-Second World War reconstruction, regarded the Austrian scheme as a ‘milestone in the post-war process of economic recovery and political consolidation in Europe’, and stated that ‘no one could... predict that it would all collapse in 1931.’⁸⁴⁸ For Hill and Alexander Loveday, head of the Financial Section of the EFO from 1931,⁸⁴⁹ ‘international work’ conducted by ‘international officials’ had offered a real prospect of peace and stability in the interwar period. Things had gone wrong when, regrettably, this promising financial and economic internationalism had been abandoned in favour of narrow and destructive nationalistic forces.⁸⁵⁰ For these internationalists, the connections between the reconstruction work of the 1920s and the autarky and destruction that followed was not at all evident. However, the internationalist schemes promoted by the League in the 1920s, and those non-League programmes such as the Dawes Plan whose design reflected the principles seemingly vindicated in the League’s work in Austria, in some respects created the conditions that resulted in the devastating crises of the 1930s. Both the Austrian reconstruction programme and the Dawes Plan contained elements that were actually undermining European stability whilst they appeared to be saving it, in terms of adherence to gold standard ideas that restricted policy responses, and the encouragement of credit flows from America. The

⁸⁴⁶ *Time Magazine*, 14 December 1925. Dawes was awarded the Nobel Prize jointly with Austen Chamberlain.

⁸⁴⁷ Boyce, *The Great Interwar Crisis*, 57.

⁸⁴⁸ W. M. Hill, *The Economic and Financial Organisation of the League of Nations: A Survey of Twenty-Five Years' Experience* (Washington, 1946), 15.

⁸⁴⁹ Loveday contributed the preface to Hill’s volume.

⁸⁵⁰ See Loveday’s introduction to Hill, IX. Loveday talks explicitly of the need to draw lessons in reconstruction for the situation in 1946.

latter was a more evident feature of the Dawes Regime, partly because of the need to find some way to finance reparations payments, but it was also a feature of the Austrian landscape after its stabilisation, and post-Dawes.⁸⁵¹ The credit flows to Austria turned out to be very problematic, something that M. Dubois, Chairman of the Financial Committee in 1925, realised.⁸⁵² One issue was that the loans were short-term. All of this was part of the climate whereby, in Robert Boyce's view, European instabilities did not reduce but actually increased during the 1920s, despite the apparent improvements in conditions created by international financial cooperative efforts such as Dawes and the Austrian scheme. By 1927, the European situation and the interwar order was destabilised, even if it did not outwardly appear to be so.⁸⁵³

Destabilising financial and economic developments: Austria

Austria had particular difficulties in the interwar period which made them both more vulnerable to inter-war problems, and a source of them. They had long-standing debt issues, which were worsened by the conditions that followed the implementation of the financial reconstruction scheme. One difficulty was the extent to which the interests of industry and the interests of banking were synonymous. As outlined in Chapter Four, banks had extensive industrial interests and very close ties with the industrial sector, often on a very personal level, as bank directors also sat on the boards of the companies which their banks partially owned.⁸⁵⁴ These connections originated in nineteenth century Austro-Hungarian industrialisation, but the inflation and then the deflation that followed after the introduction of the League's programme acted both to strengthen these links and to increase the banks' industrial interests, as until 1925 they

⁸⁵¹ Austria was the second largest recipient of foreign loans in this period and the highest recipient per capita. See Nathan Marcus, *Credibility, Confidence and Capital: Austrian reconstruction and the collapse of global finance, 1921-1931* (New York University, 2012), 147 and Charles H. Feinstein and Catherine Watson, 'Private International Capital Flows in Europe in the Inter-War Period', in Charles H. Feinstein (ed.), *Banking, Currency, and Finance Between the Wars* (Oxford, 1995), 94-130.

⁸⁵² See Dubois's statement about Austria to the Council on 10 September 1925, contained in Annex X of *The Thirty-Third Report of the Commissioner-General*, 15 August 1925 – 15 September 1925 (Geneva, 1925). He was concerned about Austria's great dependence on short-term foreign credit.

⁸⁵³ Boyce, *The Great Interwar Crisis*: 'while the world was relatively peaceful and prosperous in the 1920s the essential conditions of stability actually diminished rather than increased', 426.

⁸⁵⁴ Stiefel, "The Bankers' View", 6, and Peter Eigner, 'Banking-Industry Networks – the Austrian Experience, 1895-1940', in Philip L. Cottrell (ed.), *Rebuilding the Financial System in Central and Eastern Europe, 1918-1994* (Aldershot, 1997), 91-114.

invested even more substantially in industrial concerns.⁸⁵⁵ The banks engaged heavily in the phase of stock market speculation immediately after the commencement of the League's programme, speculation seeming to be, according to Stiefel 'the only lucrative business' in Austria post-war.⁸⁵⁶ Furthermore, banks were directly involved in supporting some of the new investment concerns that developed in the wake of the League programme. So, for example, the backers of the hydroelectric scheme developed in the Tyrol were predominantly Austrian bankers.⁸⁵⁷ Having embarked upon this policy, the banks became embroiled in attempts to support the industrial concerns that they owned or had invested in. The Austrian industrial sector stagnated during the interwar period and performed less well than other sectors of the economy, and in the context of the post-stabilisation situation, a wave of industrial and banking mergers occurred, as in the example of the *Steirer* Bank seen in Chapter Four.⁸⁵⁸ Banks absorbed essentially bankrupt entities, and much of the post-war expansion in the banking sector was eradicated. The poor economic performance of some of the large Austrian industrial concerns in the 1920s, and their level of indebtedness, generated instability in the banking sector that was so closely aligned to it. The debts of the largest car producer in Austria, the *Steyrwerk*, contributed to a significant extent to undermining the position of the *Bodencreditanstalt*, who were very involved in the company.⁸⁵⁹ The ultimate result of this process was *Creditanstalt*'s incorporation of the massive, and massively indebted *Bodencreditanstalt*, a merger CA was essentially compelled to undertake by Chancellor Schober, with, according to his own account, a 'machine gun rather than a pistol' in hand.⁸⁶⁰

These problems were papered over with an unsustainable credit expansion between 1927-1929, which produced in 1929 an illusion of recovery. GDP reached 105.1% of its

⁸⁵⁵ Fritz Weber, 'Universal banking in interwar Central Europe', in Harold James, Hakan Lindgren and Alice Teichova, *The Role of Banks in the Interwar Economy* (Cambridge, 1991), 19-25.

⁸⁵⁶ Stiefel, "The Bankers' View", 10.

⁸⁵⁷ See *Tiroler Wasserkraftwerke – Aktiengesellschaft – Rechenschafts Bericht 15 Juli – 31 Dezember 1924*, in Tiroler Landesarchiv, Innsbruck, (TLA), Nachlässe Franz Stumpf, Karton 3, Pos. 10.

⁸⁵⁸ Alois Mosser and Alice Teichova, 'Investment behaviour of industrial joint-stock companies and industrial shareholding by the Österreichische Credit Anstalt: inducement or obstacle to renewal and change in industry in interwar Austria' in Harold James et al, *The Role of Banks in the Interwar Economy*, 122-157.

⁸⁵⁹ Weber, 'Universal Banking', 22. Steyrwerk's debts exceeded the share capital of BCA.

⁸⁶⁰ Martin Kitchen, *The Coming of Austrian Fascism* (London, 1980), 91.

level in 1913 (1913 being 100).⁸⁶¹ 1929, the same year that *Creditanstalt* fatefully absorbed *Bodencreditanstalt's* 60 million *Schilling* losses, was to record the best economic performance of the First Republic. By 1933, GDP was at 81.5% of the 1913 level.⁸⁶² One problem was that much of the lending did not go into productive investment but went to try to help with balance sheets and maintaining the gold standard. Peter Berger makes the point that the original long-term loan arranged via the League in 1923 corresponded almost exactly with the amount of gold and foreign currency that was removed from the Austrian National Bank by the Nazis in 1938.⁸⁶³ But a fundamental problem for Austria was the lack of sufficient markets. As seen in Chapter Four, the Austrian balance of trade situation remained dire throughout this period. Trade with the former Empire did not recover to anything like its former levels. Trade barriers remained. And the United States, massively in surplus during the 1920s, was prepared to lend money in vast quantities to Europe, but not to open up its markets sufficiently to provide the export markets that European economies so desperately needed for economic growth and for obtaining foreign currency.

Following the BCA-CA merger, the unsustainable indebtedness of Austrian banks increased, and even the position of the National Bank was undermined, as it covertly sought to prop up CA with a complex system of cross-deposits. By May 1931, The National Bank was much weaker than it outwardly appeared, something that its directors were well aware of.⁸⁶⁴ Ultimately, the Bank was not able to manage the CA crisis, and the government was compelled to take over the full liabilities of CA. At this point, the old issue of Austrian *Lebensfähigkeit* came to the fore once again. The black hole at the heart of Austrian banking was taken on by the Austrian republican state, a fragile entity whose viability had always appeared questionable.⁸⁶⁵

⁸⁶¹ Stiefel, "The Bankers' View", 8.

⁸⁶² Ibid.

⁸⁶³ Peter Berger, 'The Austrian Economy 1918-1938', in Herbert Matis (ed.) *The Economic Development of Austria since 1870* (Aldershot, 1994), 263.

⁸⁶⁴ Aguado, 'Credit-Anstalt', 206.

⁸⁶⁵ In 1934, independent Austria was threatened with German takeover. By 1938, with Hitler and Nazi Germany in a much stronger position, the German takeover was successful and widely welcomed. *Anschluss* and the decisive repudiation of not just Versailles, but also the Geneva protocols governing the League's work in Austria from October 1922, finally occurred.

Austria's position was worsened by the end of the inflow of funds prior to the Wall Street Crash, followed by the collapse of US demand and the withdrawal of foreign money that followed.⁸⁶⁶ In early 1931, Austria sought to solve its overseas export problem through a proposal for an Austro-German customs union, reviving once again the prospect of *Anschluss*. This move was completely opposed by Pierre Laval's government in France, who, along with the Czech and Italian governments, protested that the customs union proposal was a breach of the 1922 Geneva Protocols that governed the original scheme to financially reconstruct Austria.⁸⁶⁷ British foreign secretary Arthur Henderson, whilst not participating in this joint protest, referred the matter to the Council of the League of Nations, who in turn sent the matter to the Permanent Court of International Justice in The Hague. The court ruled in September 1931 that the customs union scheme was indeed not permitted by the Geneva Protocols.⁸⁶⁸ Diplomatic pressures and the fear caused by rumours of possible military intervention by France and Czechoslovakia in spring 1931 did not cause the Austrians to abandon the project.⁸⁶⁹ It was the banking, financial and monetary crisis triggered by the announcement of the CA position that gave the French government, in particular, the means that they required to force Austria to drop the idea of Austro-German customs union. Whilst historians in the main no longer accept that the French deliberately engineered the crisis in Austria,⁸⁷⁰ Aguado shows how they did consciously exacerbate the flight on the *Schilling* by withholding and withdrawing funds from Austria. The Austrian-based but French controlled *Länderbank* withdrew between two and three million *Schillings* per day. Furthermore, French support was important in obtaining the 150 million *Schillings* worth of Bonds that the Austrian government had obtained permission to place from the Committee of Control of the original League programme, but on 16 June, the French demanded a halt to the customs union project

⁸⁶⁶ See Weber, 'Universal Banking'.

⁸⁶⁷ See Gil Aguado, 'Credit-Anstalt', 204.

⁸⁶⁸ See ibid. Aguado also cites Fritz Weber, *Vor dem Grossen Krach*, 532. The Court's decision was not binding, however.

⁸⁶⁹ Aguado, 'Credit-Anstalt', 209-210. Aguado does not think that the rumours reflected real French or Czech plans.

⁸⁷⁰ See ibid., and also Stiefel, 'The Bankers' View' and Weber, 'Universal Banking'.

and that Austria once again accept League of Nations' control.⁸⁷¹ The Austrian government had little choice but to acquiesce. Once again, as had occurred as part of the Geneva Protocols in October 1922, the financial difficulties of Austria were used as leverage to prevent *Anschluss* via the mechanism of the League's financial reconstruction work. In Austria, and partly as a result of the League's earlier work, France was (with allies such as Czechoslovakia) still able to maintain the post-First World War settlement. And with the Lausanne Protocol of 15 July 1932, Austria's full return to the auspices of the League was confirmed.⁸⁷²

A further and related difficulty for Austria was the effect that attempting to adhere to the gold standard regime had. The Austrian scheme 1922 can be regarded as the first significant move towards re-establishing the gold standard after the First World War (see Chapters Three and Four). This entailed maintaining fixed currency values, backed up by gold (and / or reserves of a foreign currency that was tied to gold), central bank independence, and prioritising monetary stability above all else in financial and economic matters. In Austria, as elsewhere, the 'gold standard mentality' played a very detrimental part in causing, then amplifying, the crisis, and in restricting the options to respond.⁸⁷³ In the case of the crisis of Austrian banking presaged by the insolvency of CA, the Austrian national bank responded by attempting to ensure monetary stability. They were concerned about the run on the *Schilling* which made its gold-parity value no longer credible. Thus, they stemmed the desertion of the *Schilling* and lured gold back to Austria 'at the request of... its foreign advisor and foreign creditors', and raised the discount rate (bank rate) to ten per cent.⁸⁷⁴ As Charles Kindleberger memorably put it, this was a bank rate that was sufficient to 'draw gold from the moon'.⁸⁷⁵ Counter-productively, the value of the *Schilling* held until 1933. At this stage, a problem with the

⁸⁷¹ Aguado, 'Credit Anstalt', 211-213.

⁸⁷² Berger, *Im Schatten*, 20.

⁸⁷³ See most notably, Barry Eichengreen, *Golden Fetters – the Gold Standard and the Great Depression* (Oxford, 1992) and Barry Eichengreen and Peter Temin, 'The Gold Standard and the Great Depression', *Contemporary European History* 9/2 (July 2000), 183-207.

⁸⁷⁴ Aurel Schubert, 'Torn Between Monetary and Financial Stability – An Analysis of Selected Episodes of Austrian Central Banking History', in Gerald D. Feldman and Peter Hertner (eds.), *Finance and Modernization – A Transnational and Transcontinental Perspective for the Nineteenth and Twentieth Centuries* (Farnham, Surrey, 2008), 70. The discount rate is known in Britain as the bank rate.

⁸⁷⁵ Cited in *ibid*.

doctrine of central bank independence was clear. The high bank rate, which encouraged saving and had a deflationary effect on the economy, was opposed by the Minister of Finance as well as the Chamber of Labour in Austria, but they were powerless to prevent it.⁸⁷⁶

Destabilising developments in the wider world – debt, credits and markets

These problematic developments were a factor not just in Austria, but also elsewhere. Amongst the issues were a lack of markets, and the way in which the solutions of the 1920s – the gold standard regime, the expansion of credit – contributed to the creation of the subsequent crisis. The Dawes Plan, designed in the wake of the apparent success of the Austrian and Hungarian programmes, and whose elements reflected the principles established by the Austrian scheme, was to ultimately prove a destabilising force. The confidence engendered by the enactment of the plan, and the large quantity of surplus funds in the United States, created a torrent of lending into Germany.

Hjalmar Schacht described this phenomenon, recounting how ‘it was impossible to pass the Adlon Hotel, Unter den Linden, without being buttonholed by some financial representative who would enquire whether there were no business or municipal concern to whom he could offer a loan’.⁸⁷⁷ As Zara Steiner points out, the German economy and the efficacy of the whole structure created by Dawes came to rely on the ‘continuing flow of American money’.⁸⁷⁸ Montagu Norman reflected this when he spoke of ‘The Dawes Machine which dominates German life’.⁸⁷⁹ In 1924, 2.9 billion Reichsmark flowed into Germany, whilst in total by 1930, the post-Dawes Plan (and Dawes’s successor in 1929, the Young Plan) foreign lending into Germany totalled 17.4 billion Reichsmarks.⁸⁸⁰ Arthur Salter, like Hjalmar Schacht, blamed reckless and excessive lending post-Dawes for the problems that later resulted in German dependence and unsustainable indebtedness, rather than the agreement per se,

⁸⁷⁶ Schubert, *ibid.*

⁸⁷⁷ Schacht, *The Old Wizard*, 204.

⁸⁷⁸ Zara Steiner, *the Lights that Failed – European International History, 1919-1933* (Oxford, 1995), 241.

⁸⁷⁹ Boyce, *British Capitalism at the Crossroads*, 59.

⁸⁸⁰ See Niall Ferguson, *Paper and Iron – Hamburg Business and German Politics in the Era of Inflation, 1897-1927* (Cambridge, 1995), 451-453.

writing that the Dawes Plan ‘brought prosperity and the prospect of peace to the whole of Western Europe for five years from 1924 to 1929’, and that the banking collapse was caused by inter-governmental debts and ‘reckless and irresponsible loans by American banks’, without connecting these two things.⁸⁸¹ Albrecht Ritschel, in contrast, has shown the difficulties that the reparations and transfer regime caused for Germany, and how the Dawes Plan, despite its apparent success, increased the financial problems that Germany had: the credit flows into Germany were unsustainable and ultimately destabilising.⁸⁸²

One issue specific to Germany that did not apply to Austria was the issue of reparations. Even though steps were taken in the Dawes mechanism to try to reduce the extent to which reparations payments, which were required to be in hard currency, created a drain on the German economy (by stipulating that a large proportion of sums paid should then be reinvested in Germany), a situation still resulted where, in effect, reparations were being paid for via foreign loans.⁸⁸³ In Austria, where reparations payments were suspended, the issue of the indebtedness of corporations and banks was just as critical, as we have seen,⁸⁸⁴ and hyperinflation had reduced available capital. This points to the fundamental problem in both Germany and Austria: the disruptions to trade caused by the war and the absence of markets post-war. Thus, the loans that followed financial reconstruction into these countries and others in Europe were only concealing for a time the underlying economic problems, whilst also increasing the fundamental instability in the system. In a situation of American surpluses in the 1920s, it made sense for US money to be lent to Europe, as occurred in the period of rapid credit expansion in Austria between 1927 and 1929.⁸⁸⁵ But this

⁸⁸¹ Salter, *Slave*, 263-264 and Schacht, *The Old Wizard*, 202.

⁸⁸² Albrecht Ritschl, *Deutschlands Krise und Konjunktur: Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre 1924-1934* (Berlin, 2002), 104-141. See also Clavin, *Securing the World Economy*, 322.

⁸⁸³ See Gerald Feldman, ‘The Reparations Debate’, *Diplomacy and Statecraft* 16/3, 489.

⁸⁸⁴ See Chapter Four.

⁸⁸⁵ Weber, ‘Universal Banking’, 19-25. Weber explains how only a few large concerns in Austria were able to obtain foreign financing, but that the large indebtedness created ‘unsolvable difficulties’ (22). Austrian banks channelled cheap foreign finance towards large industrial companies, but these loans were often short-term, and the projects they were for unsound. Furthermore, more profitable concerns were lumped with high bank

move only made sense if measures were taken to provide markets that would enable European economies to grow sustainably. Instead, the financial flows were often directed to unproductive sources (balance sheets; maintaining reserves to support a credible gold standard; the concealment of other debt, as in the case of BCA-CA), and even where there were productive investments, without sufficient markets, indebtedness just grew. US tariffs, already unhelpful to European exporters, were raised in May 1929 following the election of Herbert Hoover, a step that rendered the European dependence upon US capital even more unsustainable.⁸⁸⁶

We have seen how the move towards financial reconstruction in Europe in the 1920s inaugurated by the League's programme for Austria helped with some immediate problems, such as currency stability, but sowed the seeds for later problems of excessive indebtedness, unstable cash flows, and deflationary policies, whilst failing to resolve other problems, such as the absence of sufficient markets, and the destabilising effect very large corporations could have. In Austria, the League's programme produced in some respects recessionary conditions, whilst not providing a solution to underlying distributional conflicts and absence of markets. As we saw in Chapter Five, the League's programme in Austria also generated some sources of political instability even as it reduced others, and it is to the longer term significance of these developments that we now turn.

Political problems – Austria and the wider world

The League's Austrian programme, by assisting in the creation of a stable currency and the end of hyperinflation, helped to restore Austrian credit-worthiness and create an increased sense of Austrian viability. However, the implementation of the programme also increased destabilising political developments in Austria, as tensions between the centre and the regions were exacerbated, most notably between central government (supported by the League) and the socialist administration of Vienna increased. As seen

charges, in an attempt by the Viennese banks to 'pass on the low returns and losses of the bad clients' (23). In defence of the bankers, they were attempting to keep the Austrian industrial sector afloat.

⁸⁸⁶ See Boyce, *Before the Last Great Depression*, 6.

in Chapter Five, the SDAP adopted a very different approach in tackling the problems of the post-First World War Austria. Theirs was a high tax, high spending regime, which focussed upon the development of infrastructure and services. As Eichengreen points out, an underlying source of inflationary problems in post-war Europe could be regarded as being a distributional conflict whereby the central government did not want to impose, or found it too politically difficult to impose, sufficiently high taxes to deal with their indebtedness and budgetary requirements.⁸⁸⁷ The policies of Breitner (described in Chapter Five), had the advantage of not just attempting to reduce social conflict via service provision (which as we saw in Chapter Four, was a move that could have helped to increase the legitimacy and stability of the new Republic), but also of meeting expenditure requirements via luxury taxes. Thus, to a significant extent, those who profited from the speculative period in Austria were compelled to pay for the development of the new society envisaged by the SDAP. The League's programme stood in many respects in opposition to the work of the SDAP in Vienna, and despite the SDAP's cooperation to some extent with the work of the League – for they did not want to be the 'gravediggers' of the Republic⁸⁸⁸ – the path that the SDAP followed provided a possible alternative model of reconstruction to that of the League. Furthermore, the League's programme, by reducing services and implementing *Abbau*, or austerity, undermined support for the fragile Republic, already lacking in legitimacy, as shown in Chapter Four. In this respect, the League programme, by adding to social and political conflicts in Austria, reduced the stability of Austria and the wider European settlement.

The formal ending of the League's programme in Austria occurred in mid-1926, although a low level of oversight remained through the continued presence of the League's agent Rost von Tonningen. The scheme, through exacerbating the conflict between central government and the SDAP in Vienna, had contributed to the deepening of political tensions in Austria. The programme of austerity and the high

⁸⁸⁷ Barry Eichengreen, *Golden Fetters - The Gold Standard and the Great Depression, 1919-1939*, (Oxford, 1992), 126.

⁸⁸⁸ Berger, *Im Schatten*, 20.

level of unemployment also increased the divisions within Austria. The *Anschluss* movement had shown renewed vigour, and so did the *Heimwehr* – the paramilitary fascist organisation that sought to end democracy in Austria and defeat the left, once and for all –, and the *Schutzbund*, the SDAP's paramilitary force, which was established in 1923.⁸⁸⁹ Increasingly in 1926-1927 the *Heimwehr* came into direct confrontation with the SDAP, the *Schutzbund* and the working class left-wing in general. The events of 1927, where the Palace of Justice in Vienna was set on fire by SDAP supporters, provoking a brutal police response, was a grim turning point on the path towards the end democracy in Austria. Following this time, Seipel, in power as Chancellor once again from October 1926 until May 1929, was increasingly anti-democratic in his rhetoric. He spoke of 'true democracy', by which he meant right-wing authoritarianism.⁸⁹⁰ Seipel was increasingly supportive of the *Heimwehr*, speaking out on their behalf, and facilitating links between them and economic interests in Austria.⁸⁹¹ He also engaged in moves to undermine the position of parliament, and centralise power.⁸⁹² Ultimately, political violence rose, parliament was suspended, and the SDAP smashed during the 'civil war' in February 1934.⁸⁹³ Austrian democracy was destroyed by many factors, and its foundations were perhaps never very strong. Its main supporter, the SDAP, were bitterly opposed by a large part of the country – and the SDAP anyway did not develop a broad enough base of support to ultimately be able to defend themselves.⁸⁹⁴ Many of its inhabitants felt that the country lacked legitimacy and identity, and some were prepared to use violence to promote the Republic's destruction. Its economy had been massively disrupted by the war, and the defeat and loss of empire were traumatic, along with episodes like hyperinflation. Developments in

⁸⁸⁹ Elements of the Christian Social party were increasingly semi-fascist in their outlook, if fascism is taken to mean anti-democratic beliefs, a desire to see the left violently smashed, and support for an authoritarian, anti-Semitic and militaristic society. See Tim Kirk on definitions of fascism in the Austrian context, 'Fascism and Austrofascism', in *The Dollfuss-Schuschnigg Era in Austria: A Reassessment*, *Contemporary Austrian Studies* 11 (New Brunswick and London, 2003) 10-31.

⁸⁹⁰ John Deak, 'Ignaz Seipel (1876-1932) Founding Father of the Austrian Republic', in Gunter Bischof, Fritz Plasser and Eva Maltschnig (eds.), *Austrian Lives – Contemporary Austrian Studies* 21 (New Orleans, 2012), 53.

⁸⁹¹ See Charles A. Gulick, *Austria from Habsburg to Hitler*, 801, for example.

⁸⁹² Berger, *Im Schatten*, 18.

⁸⁹³ The National Socialist Party of Austria were not really an influential political force in Austria until after the Nazis' accession to power in Germany. In 1928 they had only 4,400 members in Austria. By 1933 they had 43,000 members. See Jelavich, *Modern Austria*, 197.

⁸⁹⁴ See, for example, Geoff Eley, *Forging Democracy – the History of the Left in Europe* (Oxford, 2002), 213-214.

Austria were multifaceted and complex, but the League programme, in not sufficiently considering the political and social effects of its work, did very little to assist in the long term survival of the Republic.

Ideology, the experts and internationalism

The consequences and afterlives of the League of Nation's scheme for Austrian financial reconstruction were multifarious. As we have seen, the 'success' of the programme was questionable, or at least mixed, but the appearance of success in terms of currency and price stabilisation and the floatation of loans saw the model of Austrian reconstruction used in further 'League loans', such as that to Hungary. The League was now regarded as a repository of financial and economic expertise and was called upon to advise on these matters, as in Estonia. In this sense, the Austrian project appeared to be a victory for economic and financial internationalism and institutionally, the EFO's prestige grew, as it appeared to have proved its worth. In this context, the EFO was made a permanent part of the League's apparatus. However, it was the orthodox economic and financial principles that under-pinned the programme and not just the internationalist structure of the League that appeared vindicated, and its principles manifested in programmes outside of the League's remit, such as in the Dawes Plan of 1924, and in the terms of the loan granted by J. P. Morgan to France in the same year. Whilst resolving some of the short-term problems that recipients faced, many of these programmes created or entrenched the policies and developments that were to underlie the coming crisis: the Great Depression. The Austrian scheme generated overseas capital for the country, as notoriously did the Dawes Plan for Germany. The influx of capital mainly served to conceal the huge problems of war debt, an absence of markets, and weak and overstretched banks, however. Indeed, by borrowing American money whilst the Americans did not open up to European markets, both Austria and Germany left their industrial sectors exposed and vulnerable, and particularly in the case of Austria, further weakened the already chronically overextended banking sector, which crashed with disastrous consequences in 1931.

Furthermore, by entrenching the gold standard orthodox values, the reconstruction and loan schemes of the 1920s severely hampered room for manoeuvre when it came to dealing with economic and financial problems from 1928, both ideologically, and practically, in that (for example), League of Nations' strictures limited Austria after the Lausanne loan of 1932.⁸⁹⁵ The idea behind central bank independence (seen as important for monetary credibility and the gold standard), as expounded by its proponents, such as Montagu Norman, was that it prevented meddlesome and detrimental 'political' interference in monetary matters. It is the contention of this thesis that economic, financial and social acts are always political, however, and this can clearly be seen in the example of Austria in the early 1930s. As Harcourt puts it in relation to the City of London in 1925, the return to the gold standard in Britain was supported strongly by the City which 'as ever, deluded itself that what was optimum for it was also in the national interest'.⁸⁹⁶ Central bank independence gave one sector of the economic, financial and social system the power to attempt to impose its solutions, its ideology and its conception of its own interests.⁸⁹⁷ The opposition of key figures and organisations within Austria to the Austrian National Bank's policy, along with the 'pre-Keynesian' discussions that Butschek uncovers in Austria at this time, and the very different strategies of the City of Vienna administration and at times other regional administrations in Austria, show that alternatives were not just conceivable, but fairly widely held.⁸⁹⁸ The point was that those in the position to determine these key policies had not shifted their viewpoint from their 'back to 1914' mentality.⁸⁹⁹

⁸⁹⁵ Although the principles of the League's programme of 1932 in Austria were breached at times in practice, see Berger, 'The League of Nations'.

⁸⁹⁶ G. C. Harcourt, *On Skidelsky's Keynes and Other Essays* (Basingstoke, 2012), 26. In the words of Patricia Clavin, 'in the eyes of bankers and politicians, what was good for the gold-standard was good for the interests of the economy': Clavin, Great Depression, 45. Clavin writes that there was little recognition of the impact of the policy regime needed to maintain the gold standard.

⁸⁹⁷ Whether the Austrian National Bank or the City of London were right in thinking that the gold standard regime best suited their interest is in some respects a moot point. They believed that it did (despite the social and political unrest that resulted, which it might be argued could be in no one's interests).

⁸⁹⁸ In Innsbruck, for example, job creation measures were taken in 1925: see Chapter Four. Some involved in Geneva-based international organisations also had an alternative perspective such as Albert Thomas and Ludwik Rajchman: Clavin, *Securing the World Economy*, 75.

⁸⁹⁹ Felix Butschek, 'Präkeynesianismus'. See also Beth A. Simmons, *Who Adjusts? – Domestic Sources of Foreign Economic Policy During the Interwar Years* (Princeton, 1994).

The related, but not always connected doctrine of austerity – the prioritisation of balanced budgets, deficit reduction, ‘cuts’ and so on, was also a feature of the Austrian programme: indeed, as Chapter Three showed, rhetoric about this seemed to predominate in discussions on the scheme for Austrian reconstruction. It was this path that J. P. Morgan insisted France follow when they granted their loan, and it was contained within the Dawes Plan, although the flow of money into Germany post-Dawes off-set the effects of this. The Austrian programme involved a reduction in the role of the state in Austria, and a reduction in the level of service provision by the central state. This was something that the political right in Austria, along with the banking community and industrial sector, wished to see, and the League’s programme helped to advance this agenda. All of this increased social and political divisions in Austria, and in many respects worked to undermine the very chance for peace, stability and independence for Austria that it was supposed to help secure.

Furthermore, neither the League programmes, nor the Dawes Plan, resolved the fundamental economic problems of Europe. Indeed, the whole edifice created by these programmes made Europe more dependent upon US lending, and upon a continuing flow of US lending, something that created deep instability in the system. To get Europe going again via capital flows in many ways made sense, but with the failure to resolve the question of war debts, the consequent absence of an effective resolution to the issue of reparations payments due from Germany, and the lack of markets caused by protectionism from the US and also between the former countries of the Habsburg Empire, the capital flows just promoted long-term instability. In the case of Austria, failure to get on top of inflation might be regarded as a distributional conflict, and the League programme, whilst it did ultimately allow somewhat higher expenditure than that envisaged, helped to reinforce the notion that the sensible, ‘technical’, non-political, expert choice was to go for a reduction in the role of the state, and that social costs, such as unemployment, were an unavoidable, if regrettable, consequence of this. In the circumstances of the 1920s, as Teichova and Matis argue, higher taxation and greater state intervention might have provided a more effective response to some of

these problems than strategies of inflation, followed by strategies of austerity and gold standard doctrines.⁹⁰⁰

The renewed League programme for Austria in 1932 did not provide any shift in perspective, perhaps surprisingly.⁹⁰¹ In the case of Germany, Karl Borchadt has argued that Heinrich Brüning, the ‘hunger Chancellor’ so often criticised for his deflationary policies 1930-1932, had very little room for manoeuvre: thus his policies were the only option and in that sense inevitable.⁹⁰² Ritschel has provided support for this view in that the reparations regime imposed in connection with the Young Plan of 1929 constricted Brüning’s options.⁹⁰³ In the case of Austria, those imposing the decisions were the Austrian National Bank, backed up by the Financial Committee of the League of Nations. The policy responses were the choice of the governor and these external ‘internationalist’ agents.⁹⁰⁴ Indeed, the judgement that Harcourt makes about the delusions of the City of London could also be applied internationally to the transnational financial group represented in the Austrian (and other similar) examples. In some respects, the thinking in the EFO in the face of the Depression had shifted by the early 1930s, with less orthodox and more flexible ideas emanating from Henry Strakosch and even Basil Blackett.⁹⁰⁵ Arthur Salter talked at this time of the ‘intolerable waste and intolerable injustice of laissez-faire, laissez-aller’.⁹⁰⁶ In 1932, however, there was not yet much evidence of these kinds of ideas in connection with Austria, despite some growing awareness within the League that economic doctrines must consider

⁹⁰⁰ David F. Good, ‘The State and the Economy in Central and Eastern Europe’, in Alice Teichova and Herbert Matis (eds.), *Nation, State, and the Economy in History* (Cambridge, 2003), 135.

⁹⁰¹ Berger, *Im Schatten*, 20.

⁹⁰² Knut Borchadt, ‘Zwangslagen und Handlungsspielräume in der großen Weltwirtschaftskrise der frühen dreißiger Jahre: Zur Revision des überlieferten Geschichtsbildes’, *Jahrbuch der Bayerischen Akademie der Wissenschaften* (Munich, 1979), 85-131.

⁹⁰³ Albrecht Ritschl, *Deutschlands Krise und Konjunktur: Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre 1924-1934* (Berlin, 2002).

⁹⁰⁴ Butschek, ‘Präkeynesianismus’, 172 and 180.

⁹⁰⁵ On Basil Blackett see Eichengreen and Temin, ‘The Gold Standard’ 207. Blackett, as we saw in Chapter Three had been a stalwart austrian in connection with the first scheme for Austrian reconstruction. On Henry Strakosch, see Patricia Clavin and Jens Wilhelm Wessels, ‘Another Golden Idol? The League of Nations’ Gold Delegation and the Great Depression, 1929-1932’, *The International History Review* 26/4 (December, 2004), 765-795.

⁹⁰⁶ Salter cited by Anthony Endres and Grant Fleming, *International Organizations and the Analysis of Economic Policy 1919-1950* (Cambridge, 2002), 13.

their effect on ordinary people.⁹⁰⁷ As Berger writes, at this point Austria's 'economic policy made a full turn back to the League of Nations strategy'.⁹⁰⁸ The League imposed in their new programme for Austria the same policies, which helped to entrench Austria's difficulties. In the sense that these policies were promoted by League representatives, they, like the requirements of the Young Plan, could be regarded as external impositions that drastically reduced Austria's room for manoeuvre. However, it was the National Bank who, before the League's renewed involvement, insisted upon following a deflationary course in 1931. Here once again, we see how a transnational group of financiers and bankers (including those in Austria) shared a set of values around monetary matters.

In the 1920s, these values were often promoted through the EFO's financial committee and its secretariat and in other similar circumstances, such as during the Dawes Plan, by 'experts'. Experts often are regarded as impartial and apolitical providers of technical knowledge. Experts also often believe this characterisation of themselves, as Montagu Norman, a deeply political figure, appears to have.⁹⁰⁹ As Clavin points out, EFO bureaucrats held on to the notion that they were broadly apolitical until the mid-1930s.⁹¹⁰ Economic and financial policies have a political basis, however, and often involve political choices. They also often reflect someone's interests, or at least, their perception of their interests. The notion of expertise can sometimes mask the promotion of a certain ideology. In the case of the EFO's work in Austria, the policies promoted reflected the beliefs of a transnational group of bankers and financiers about the proper operation of finance, fiscal policy and economics. The sense that experts have special, privileged, complex, technical knowledge helps to create a mystique around their work that gives it a certain saliency and power.

⁹⁰⁷ According to Clavin, Salter and his colleagues believed that 'since the Wall Street Crash, discussion in the Economic and Financial Committees had become 'more real'', i.e. they considered the effects upon human misery, *Securing the World Economy*, 73.

⁹⁰⁸ Berger, 'The Austrian Economy', 266.

⁹⁰⁹ Evidence for this can be found, for example, in BOE OV28/52 – Austrian Rehabilitation, 28 May 1921 – 15 March 1922.

⁹¹⁰ Clavin, *Securing the World Economy*, 75.

The EFO's work in Austria can also be characterised as reflecting internationalist developments in the era after the First World War. It was an international effort, involving international cooperation between various countries, with transnational officials and delegates working through an international organisation to promote internationalist values. And, certainly, the financial committee and the EFO worked in the post-war period to promote an open and liberal international economy, and attempted to assist in the restoration of these conditions in the very difficult circumstances of post-war Europe – the Austrian project was part of this programme. Through promoting international cooperation, and an open, liberal economy, this kind of economic internationalism might seem progressive. However, as with the strain of internationalist economic thinking that Robert Boyce identifies in Britain in the interwar period,⁹¹¹ this was internationalism that was not necessarily progressive in that the interests and beliefs of the finance sector predominated. Furthermore, this form of economic internationalism failed to recognise some of the post-war developments that made its desire to 'return to 1914' less efficacious, developments such as the growth of democracy and democratic sentiment, the greater power of labour, the disruptions to the mechanisms that had allowed the gold standard to work effectively in the pre-war period, and protectionism.⁹¹² It also failed to address some of the specific challenges in Austria, such as how to deal with regional power. Perhaps it is too much to expect all of this to have been taken into account, or even for those responsible at the time, in what were undeniably very difficult and unique circumstances, to have been aware of all of these developments. It is legitimate, however, to point out that what occurred did not effectively respond to some of the post-war realities and difficulties in Austria, and in the world's economic and financial system.

In addition to arguing for the importance of the scheme for Austrian financial reconstruction for Austrian and wider European history, this thesis makes a contribution to the histories of the League of Nations, financial and economic internationalism, and also economic and financial ideas and notions of 'expertise'. I add

⁹¹¹ Boyce, *British Capitalism at the Crossroads*.

⁹¹² See Simmons, *Who Adjusts?*

more depth to the analysis of the circumstances in which the League came to launch the programme for Austrian reconstruction (Chapter Two), by exploring the motivations for the involvement of the British and French states, and by examining the reasons why financial interests such as the Bank of England and J. P. Morgan and Co. were supportive of the programme. This analysis elucidates the complex circumstances and motives that led to the adoption of the scheme, deploying material from a wide range of archival sources from London, Paris and Geneva. My research adds to histories of post-First World War internationalism by demonstrating that the ‘internationalism’ that motivated the adoption of the programme in Austria party operated in the service of the diplomatic interests of certain powers. These interests included a desire to uphold post-war borders and prevent Austro-German *Anschluss*. The governments, diplomats and officials of particularly France but also Britain (whose support was critical if the project was to be successfully launched) perceived the maintenance of independent Austria be in their interests. They were also motivated to some extent, I argue, by notions of the desirability of the continued existence of Austrian ‘civilisation’. Furthermore, the support of a transnational financial elite was crucial to launch the scheme, and this group were motivated in part, as explored in Chapters Two and Three, by a wish to restore the pre-war economic and financial values that they regarded as crucial to prosperity: this was their form of internationalism.

In these chapters, I identify the Financial Committee of the League of Nations as having the most critical input into the nature of the programme, and demonstrate that the experts were not neutral: they represented certain interests, who had certain ideologies, and these were promoted through the League of Nations’ programme. The technocrats may have sometimes regarded themselves as politically neutral, but financial and economic programmes always involve political choices. In Chapter Four and Five, I analyse the impact of the programme on Austria and thus the consequences of these choices. The archives of the recipients of international work are sometimes overlooked when analysing this work, but in these chapters I draw upon a diverse range of archival and other material. There were some positive developments in terms of ending hyperinflation and obtaining foreign loans. A major contribution of my thesis is

to show some of the effects upon regional politics in Austria, and material from regional archives is deployed. I also show how the League's programme was in many respects detrimental to the process of state- and nation formation in Austria, and in this sense, did not assist with the promotion of longer-term European stability.

In order to fully understand the effects of international financial and economic programmes, the social and political impacts must be considered, and the effects on the populace of Austria taken into account. The League was not often very concerned about these matters, but I argue that they are of central importance in assessing the effectiveness (or otherwise) of the programme. My research in Chapters Four and Five demonstrates widespread problems with unemployment, and some of the negative effects politically and socially that cuts to services could have. I reveal effects of this and reactions to it in the regions, and how tensions between the centre and regions were exacerbated. I also demonstrate how the SDAP in Vienna created a completely alternative model of reconstruction to that of the League and demonstrate the overlooked interaction between the League's work and that of the administration in Vienna.

This thesis demonstrates the complex factors that underlay the genesis of the scheme for Austrian reconstruction, and refutes any simplistic claims about the operation of idealistic motivations in international affairs in the 1920s. It also shows that whilst the role of some of the leading powers, such as France and Britain, was important in supporting and launching the scheme successfully, the role of transnational financiers and bankers was also critical, and central to the design of the programme. This thesis makes the case that in investigating the nature and effects of such international programmes, a broad view of the impacts must be considered, taking into account the political and social effect of outcomes such as unemployment. Regional and local situations must also be assessed, along with national situations. In the Austrian case, this thesis reveals that regional reactions and centre-provincial tensions were a central part of the story. In the complex and fragile situation in which Austria found itself in the 1920s, the implementation of a programme of financial reconstruction that it was

hoped would assist in the prospects for Austrian viability and durability created a situation whereby the very measures that were regarded as promoting stability, such as administrative reform and the encouragement of foreign lending, sowed the seeds of later problems. Ultimately, a programme necessitated by the effects of the First World War, that was partly a product of the peace settlement and that was motivated in part by a desire to regain some of what had been lost in Europe as a result of the war, worked in some respects to exacerbate the difficulties that would lead to crisis in Austria and in Europe in the 1930s. The attainment of durable state and nation building in Austria would have to wait for another time, after another war.

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