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The Austrian Sanierungswerk, 1922-1926

by

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Abstract

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In May, 1922, Austria seemed to be on the verge of disintegration. Spiraling inflation had not only wrecked the country's economy but had also destroyed the Austrian people's desire to maintain their national identity. In fact, a union between Germany and Austria had been fore¬stalled only by the bellicose attitude of the Allied Powers.

In mid-May the Pan-Germans decided to risk war rather than endure the unbearable economic conditions any longer. In order to bring about the Anschluss, they announced their willingness to form a coalition with the Social Democrats. Ignaz Seipel, however, persuaded the German nationalists to abandon their dangerous Anschluss policy by proposing the establishment of a bank of issue. When he was unable to get financial backing from private sources, he unsuccessfully sought financial assistance from the Allied governments. He then resorted to diplomatic blackmail by pursuing a "vigorous foreign policy" that brought Europe to the brink of war. In order to prevent an armed conflict, the Allies agreed to loan Austria $125,000,000, provided that the Austrian government allow the League to exercise financial control over the country for two years. Although Seipel readily accepted these conditions, the Social Democrats rejected them outright.

Although economic necessity eventually forced the socialists to accept the League's terms, they constantly attacked Seipel's
administration. Consequently, when the French invasion of the Ruhr threatened the existence of his government, Seipel showed no hesitancy in using the **Sanierungswerk** as a means of strengthening his political base of power.

Following his reelection as chancellor in October, 1923, Seipel decided to bring the **Sanierungswerk** to an end. He discovered, however, that the French wished to prolong League control as a safeguard against the Anschluss. To justify their unilateral extension of League control, the Allies resorted to the subterfuge of pretending the Austrian budget was not balanced on a sound basis. Seipel responded to this trickery by introducing a bill that would have given the federal government a larger share of the provincial revenues. When his own party refused to support his proposal, Seipel resigned. He was succeeded by chancellor by Rudolf Ramek.

Ramek's refusal to enact Seipel's revenue bill provided the Allies with a convenient excuse for maintaining their control over Austria. The League refused to even consider withdrawing its control until after Hindenburg's election to the German presidency in 1925. Since the French considered Hindenburg's victory an effective guarantee against the Anschluss, they recommended that the **Sanierungswerk** be terminated at once. Although the British and Italian governments opposed such a move, they yielded to French pressure and voted to abolish League control. On June 30, 1926, the League's less than honorable relationship with Austria finally came to an end.
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CHAPTER I

THE FLIGHT FROM THE KRONE, 1918-1922

The Sanierungswerk, or the League of Nations' financial administration of Austria from 1922 until 1926, is one of the most controversial topics in the history of the first Austrian republic. For the most part, the historical debate centers around one man—Ignaz Seipel, Austrian chancellor from May, 1922, until November, 1924, and from October, 1926, until April, 1929. One school insists that Seipel's abuse of the plenary power conferred on his government by the Geneva Protocols paved the way for the destruction of Austrian democracy. Another group maintains that Seipel's Sanierungswerk was essential for the preservation of the Austrian state.

This tendency to treat Seipel strictly as a traitor or as a savior has led to an oversimplification of the Sanierungswerk. The chancellor's defenders and accusers seem compelled to prove that the man was always one and the same. Such an attitude makes it possible for a person to overlook Seipel's shift to an authoritative outlook during his second administration. By the same token, a person can suddenly discover incipient elements of totalitarianism in the first chancellorship. The failure to distinguish between Seipel's two governments has given most people a false impression of the Sanierungswerk—a misconception that has been strengthened by the tendency
of most historians to make League control synonymous with Seipel. In order to develop a proper perspective of the League's financial administration of Austria, a person must also study the roles of Karl Renner, Otto Bauer, Michael Mayr, Johann Schober, Rudolf Ramek, and Alfred Zimmerman. An individual must realize, moreover, that the Sanierungswerk was in the making four years before Seipel took office and lasted over a year and a half after his fall from power.

The purpose of this thesis is to fill a gap in the history of the first Austrian republic by writing a balanced account of the Sanierungswerk. In order to achieve this goal, the financial rehabilitation of Austria has been viewed in the broadest possible sense. Thus this paper is more than a simple economic narrative. It is also a study in the domestic politics of Austria and international diplomacy.

Austria's financial problems of the twenties originated in World War I. The Habsburg monarchy literally disintegrated in the last chaotic days of the upheaval. On October 5, 1918, the union of all Slovenes, Croats, and Serbs in an independent state was proclaimed. Two days later the Galician Poles severed their ties with Vienna. On October 27 the National Council of Prague seized power from the imperial authorities and established a Czecho-Slovak Republic. On November 12 the German representatives of the Viennese Provincial Assembly proclaimed the existence of the German-Austrian Republic. The Austrian Republic, however, was intended only as a makeshift.
As soon as hostilities ceased between the Allies and Germany, German-Austria was to become an integral part of the German Republic. Meanwhile, it was necessary to create some form of provisional government. Accordingly, administrative power was temporarily vested in the Council of State until a constituent assembly could be assembled in January, 1919.

The most pressing problem of the new government was that of obtaining food, clothes, and fuel for the residents of Vienna. The Allies refused to permit provisions to pass through their naval blockade. Moreover, trade with the succession states of the monarchy was impossible. In an effort to protect their newly acquired freedom, Yugoslavia, Hungary, and Czechoslovakia immediately erected a number of tariff walls. Since the peace treaty had not yet been signed, it was impossible to enforce the customs laws, for there was no way of determining when goods passed over nonexisting or disputed borders. Instead of temporarily waiving the collection of tariffs, the succession states imposed an embargo on all imports.\(^1\) Although this action produced serious repercussions throughout the entire Danubian basin, the effects on Austria could hardly have been more disastrous. Unable to obtain the basic essentials of life from the German-Austrian provinces, the 1,841,326 inhabitants of Vienna were confronted with

conditions of semi-starvation.  

Austria's food problems were further complicated by the creation of national currencies in each of the succession states. For a time the opposition of the Allies had prevented Yugoslavia and Czechoslovakia from creating their own mediums of exchange. However, on January 8, 1919, the Yugoslav government ordered its treasury to stamp the word "Jugoslavia" on all Austro-Hungarian banknotes circulating within the country. A month later Czechoslovakia took similar action. To prevent an influx of unstamped notes from other areas, Austria had her own banknotes overprinted in March. There was an immediate decline in the exchange rate of the Austrian krone—a fact of vital importance to a country that was at least momentarily dependent upon foreign imports.

The economic blockade of Austria lasted until the armistice was signed on November 11, 1918. Herbert Hoover immediately wanted to loan the Austrian government money with which it could buy food through the American Relief Administration, but he was prevented from so doing because the Lodge Amendment to

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his agency's appropriation prohibited granting credit to former enemies. President Wilson, however, overcame that obstacle by allocating $5,000,000 from his unrestricted funds to buy food for Austria in December, 1918. Wilson further circumvented the Lodge Amendment by loaning Great Britain, France, and Italy $16,000,000 each on the condition that they lend the money to Austria. Despite Wilson's generosity, many Austrians would, nonetheless, have died of starvation or exposure if they had not received packages of food and clothing from private charities throughout the world. Altogether, from the armistice until the signing of the Treaty of Saint Germain on September 10, 1919, Austria received $103,075,200 worth of food and clothing.

The food crisis had forced the provisional government to postpone elections for the constituent assembly until February 16, 1919. At that time the Social Democrats secured 72 seats; the Christian Socials, 69; the German Nationalists, 26; and all other parties, 3. It was significant that the Social Democrats won an overwhelming majority in Vienna, while the Christian Socials triumphed in the rest of the country. It is also important to note that the Christian Socials did not

5 Ibid., Vol. III, p. 115.
compose a unified bloc. The agrarian wing of the party, which totaled 23 members, was led by Rudolf Ramek, while the Vienna, or Reichspost, wing, which numbered 43 representatives, was led by Ignaz Seipel.7

The election brought to the forefront those individuals who were destined to play such a crucial role in the later Sanierungswerk. Of the Social Democrats, Karl Renner and Otto Bauer were the most important. Renner, the son of an impoverished farmer, earned a law degree from the University of Vienna by working his way through school. After graduation, he established a reputation as one of the leading theorists of the Austrian Social Democratic Party. His conception of Marxism solely as a pragmatic doctrine, however, made it easier for him to succeed as a politician. He won his first elective office in 1907 and quickly established his political stature in the party.8

Bauer, also of a humble origin, was one of the founders of the socialist publication Der Kampf. More doctrinaire than Renner, Bauer was frequently a caustic, outspoken critic on issues or policies of which he disapproved. He was appointed to his first political office in 1904, when he became secretary


of the Social Democratic Party. His rise in the ranks of his party was not due to his personal qualities but to his close friendship with Viktor Adler. In spite of his political shortcomings, Bauer established an outstanding reputation as a theorist.9

In the Christian Social camp, Ignaz Seipel emerged as the outstanding figure. Like Renner and Bauer, Seipel was the son of a commoner. At the age of twenty-three he was ordained as a Catholic priest. In 1909 he was appointed professor of moral theology at the Catholic theological seminary at Salzburg and from 1917 to 1918 he held a similar position at the University of Vienna. In 1916 he published his theory of government in Nation und Staat. Seipel was first introduced to politics during his professorship at Salzburg by Heinrich Lammasch, one of Austria's most renowned scholars of international law. In October, 1918, when Emperor Karl entrusted Lammasch with control of the government, Seipel became Minister for Public Works and Social Welfare. In the elections for the constituent assembly Seipel was elected by the patricians and tradesmen of the first district of Vienna.10

9Bauer's own writings provide the best insight into his philosophy. See, for instance, the latest edition of his Die österreichische Revolution (Vienna: Verlag der Wiener Volksbuchhandlung, 1965).

Rudolf Ramek, a provincial agrarian from Salzburg, was another noteworthy Christian Social. Ramek was an advocate of Anschluss and was a strong federalist.\textsuperscript{11} Unlike Renner, Bauer, and Seipel, however, he had never published a treatise on the ideal form of government.

The constituent assembly met for the first time in March, 1919. Renner was elected first chancellor of the Austrian Republic. The assembly reaffirmed the thesis that German-Austria was an integral part of the German Republic, after which it devoted its attention to the framing of a constitution. A debate immediately developed over the issue of centralism versus federalism. Each party advocated the type of government which it felt would best serve its own interests. The Christian Socials wanted a federal government with a bicameral legislature, since they believed that this would be the best means of compensating for the Social Democratic control of Vienna. For the opposite reason the socialists advocated a highly centralized government with power vested in a unicameral legislature.\textsuperscript{12}

After eighteen months of heated arguments, the constituent


assembly finally completed its work on October 1, 1920. Austria was to be a federal state composed of eight provinces: Vienna, Upper Austria, Lower Austria, Styria, Carinthia, Tyrol, Salzburg, and Vorarlberg. There was to be a bicameral legislature. Representation in the Nationalrat, or lower house, was to be based on proportional representation. The powers of the upper house, or the Bundesrat, whose members were to be chosen by the provincial diets, were to be confined to a suspensive veto. Although the constitution provided for a president, real power was vested in a chancellor.  

While the constituent assembly decided what form of government Austria was to have, the Allies debated the country's international status at Saint-Germain. In spite of Renner's arguments that Austria should be considered as one of the successor states, the Allies agreed among themselves that the Austrian Republic should be designated as the legal successor of the Habsburg monarchy and thus legally held responsible for the acts of its predecessor. The Allies then proceeded to dictate the terms of the peace settlement. The union of Austria and Germany was forbidden without the consent of the League of Nations. Austria was not even allowed to use the word "German"

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13 Federal Law No. 1, October 1, 1920, in Bundesgesetzblatt für die Republik Österreich, 1920, pp. 1-19.

14 Karl Renner, "In Behalf of Austria," The Living Age, Vol. CCCII (July, 1919), pp. 74-76.
in her official title. Austria's boundaries were drawn with little regard to either the principle of self-determination or the country's economic needs. Certain clauses, moreover, placed great restrictions on Austria's economic freedom. Austria could enter a customs union with Hungary or Czechoslovakia but not with any other power. The Austrian government, moreover, was to grant the most favored nation clause without reciprocity to all the Allied and Associated states for a period of five years. Finally, Austria was to indemnify the Allies for their losses in the war.\(^{15}\)

When the peace conference had completed its works, it was debatable whether or not the truncated state was viable. The coal mines of Bohemia and the oil fields of Galica were gone. In fact, the republic retained only 0.5% of the coal mines of the monarchy.\(^{16}\) The provinces were capable of producing only one-third of the country's food supply.\(^{17}\) On the other hand, the state retained important iron deposits and had an untapped source of power in its rivers and streams. In addition, the

\(^{15}\)For the provisions of the Treaty of Saint-Germain discussed above, see articles 27, 120, 179, 206, 220, 222, and 232. The text can be found in Naval War College, International Law Documents: The Treaties of Peace with Austria and with Hungary and Protocols and Declarations Annexed Thereto (Washington: Government Printing Office, 1933), pp. 19-183.


country had numerous tourist attractions. To some observers it seemed unlikely that a country with a population of six and one-half million people could support a capital of nearly two million inhabitants. Other commentators pointed out, however, that if the city could maintain its position as the financial center of the Danubian basin, then Vienna could bring a degree of prosperity to the entire country.

Hope for Austria's survival existed only in the minds of foreigners. The average Austrian citizen considered the situation hopeless. Under normal conditions, their country might possibly survive as a kind of Switzerland, but conditions were not normal. In February, 1919, potatoes were rationed at the rate of one pound per week and candles at the rate of one per month per family. Several wards in the Viennese hospitals were closed because there was insufficient coal for adequate heating.\(^{18}\) The economic crisis had reached the point where the government was forced to trade twenty locomotives for one hundred carloads of potatoes and twenty-three carloads of eggs.\(^{19}\) Starving workers butchered a policeman's horse on the streets for food.\(^{20}\) A year later conditions were only


slightly improved. Children from two to six received a maximum of one-half cup of milk per day. Anyone beyond the age of six did without. There was still no sugar, and the daily ration of bread was only 6 ounces. In the preceding twelve months the number of people on government relief had increased from 162,104 to 178,553.

The government had done all within its power to provide for its citizens' needs. The state had passed legislation granting benefits to the unemployed. In fact, by December, 1921, over half of the government's total expenditures was for food subsidies. The prices of all commodities sold by the state agencies, moreover, were frozen in spite of the rapid inflation that was sweeping the country. Finally, the government had added workers to its payroll to the extent that it employed 10% of the population. Despite all the government's actions, however, conditions continued to worsen.

As the situation deteriorated the Republic itself seemed on the verge of disintegration. On December 6, 1919, the

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24 Ibid., p. 104.
provincial council of Vorarlberg passed a resolution requesting
the Austrian government to recognize Vorarlberg's right of
self-determination and to submit the question of self-
determination either to the Supreme Council in Paris or to
the League of Nations. Five days later the Tyrolese diet
empowered the provincial council to negotiate with the
Vienna government in the hope that the latter might obtain
the consent of the Supreme Council in Paris for the incorporation
of Tyrol in an economic union with the German Republic.

The Allies were unalterably opposed to the separatist
movements. Clemenceau wrote Renner:

The Allied and Associated Powers consider that, if
the forces of dissolution should triumph in any one
of these matters, such separation would involve the
risk of causing the complete disintegration of the
Austrian State and the destruction of the equilibrium
of Central Europe. They desire, therefore, to leave
no room for doubt as to their will to uphold in their
integrity all clauses, territorial or otherwise, of
the Treaty of Saint-Germain and to require their
strict execution.

The Allied decision emphasized Austria's dilemma. "The
land of continuous famine" was a country that could neither
live nor die. The country seemingly lacked the resources to
survive, and every effort to join with another country was
vetoed by some power or another. France opposed Anschluss

27 Ibid., December 11, 1919, Abendblatt, p. 1.
28 Clemenceau to Renner, Paris, December 16, 1919, Le Temps,
December 18, 1919, p. 4.
29 Joseph Redlich, "Austria: A World Problem," The New
with Germany, and the Little Entente rejected the concept of a Danubian confederation. With every other avenue of escape blocked, the possibility of a Bolshevik revolution seemed more and more likely.

Renner was determined to prevent a communist uprising. To supplement the millions of dollars that his administration was spending on bread subsidies and unemployment benefits, he decided to seek external assistance. He appointed George Franckenstein ambassador to Britain and gave him specific instructions to devote his time to the task of procuring foreign aid.\(^3\)

Franckenstein first approached the British government on October 7, 1920. In a conversation with Lord Curzon, the Austrian ambassador stressed the plight of his country and the urgent need for a loan. Curzon expressed the sympathy of his government but explained the difficulty of granting privileged treatment to former enemies. Six days later Franckenstein personally presented his request to King George. The British sovereign stated that he knew of Austria's terrible condition and was sure that his country would do all it could to help the Austrian people.\(^3\)

Before any concrete promises of financial assistance developed from the Curzon-Franckenstein talks, Renner fell from power. In an election held on October 17, 1920, the


\(^{31}\)Ibid., pp. 223-225.
Christrian Socials won 85 seats in the Nationalrat; the Social Democrats, 69; the German Nationalists, 28; and the other parties, 1.\(^2\) Ignaz Seipel emerged from the elections as the most powerful person in Austria. He was, however, reluctant to assume the office of chancellor since a cleric had never before held such a lofty position. He preferred to direct affairs, instead, from the obscure position of party chairman. The office of chancellor was entrusted to Michael Mayr.

Since Renner's ouster as chancellor had put an abrupt end to the Curzon talks, Franckenstein wired Mayr for new instructions. The new chancellor immediately advised him to continue his efforts to obtain a British loan. Although he was unable to revive the Curzon talks, the Austrian ambassador did convert The Times to the Austrian cause.\(^3\)

The possibility of external assistance suddenly presented itself from an unexpected source--the Austrian Section of the Reparations Commission. William Goode, chairman of the commission, warned the Allies that it was "impossible for Austria to continue to exist without external assistance."\(^4\) If a five or six year financial aid program were instituted immediately, however, then it was possible that "Austria

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might eventually become self-supporting and cease to be a
menace to the political and economic stability of Central
and Eastern Europe." In order to restore the Austrian
economy Goode and his associates proposed the following:
a foreign loan of $250,000,000; the establishment of a Bank
of Issue; an internal loan guaranteed by the Entente Powers;
the assurance of an additional 200,000 tons of coal monthly;
the development of Austria's water power; a new customs system;
increased production of potatoes; a non-partisan budget committee
to reduce government spending; the reduction of the army to
5,000 men; cooperation between labor and management to increase
production; and the management of monopolies and state-owned
enterprises by private capital.

At first the prospects of the Allies' guaranteeing such
a large loan were rather dim. Riots which occurred in Vienna
on December 1, however, led to a change of attitude. France
announced on January 16, 1921, that her representatives at
the upcoming Allied conference would support a loan of $250,000,000
to the Austrian government. Alarmed by the indifference of
the rest of the Allied governments, Goode predicted the collapse
of Austria if aid failed to materialize and warned the powers

35 Ibid.
36 Ibid., pp. 318-322.
of the danger of Bolshevism or Anschluss.\textsuperscript{38} A week later Pope Benedict XV pleaded with the powers to save the Austrian people from "impending disaster."\textsuperscript{39}

On January 26 the Supreme Council discussed the Austrian problem. Lloyd George stated that he was opposed to the Goode Scheme, because he did not believe that the proposal offered a basic remedy to Austria's economic problems. After careful consideration the Allies shelved the plan and appointed a committee to find a more practical solution to Austria's troubles. After a brief study of other alternatives, the committee suggested that the Allies adopt a scheme devised by Louis Loucheur, which envisioned the creation of a private company with a large capital to undertake the economic development of Austria under the supervision of the Allied powers.\textsuperscript{40} As the first step toward attracting the necessary private capital for such a venture Great Britain, France, Italy, and Japan agreed to release their liens on Austrian assets for a period of years. After much haggling over other details, the plan was dropped.

Having recognized the futility of trying to devise any plan that would be acceptable to all the Allied Powers, the

\begin{footnotes}
\item[38] Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, p. 17.
\item[39] Ibid.
\item[40] Pasvolsky, Economic Nationalism of the Danubian States, p. 113.
\end{footnotes}
Supreme Council referred the Austrian question to the League of Nations. On March 28, 1921, the League's Financial Committee assembled to discuss the matter. Two recommendations grew out of the meeting. First, the succession states should be encouraged to accept some form of an integrated economy. Secondly, the Austrian government should be permitted to issue gold bonds on the security of the country's mines, forests, tobacco monopoly, and customs receipts.\(^1\) The League also decided to send a group of experts to Vienna to study Austria's financial condition.

The League's attempt to solve Austria's financial problems went very smoothly until mid-April when Vorarlberg announced its attention of conducting a plebiscite on the question of Anschluss with Germany. France immediately announced that she would not extend any assistance to Austria unless the Austrian government put an immediate end to the agitation for Anschluss.\(^2\) As an outgrowth of the French threat, the British and Italian ministers declared that their governments would not support any plan to aid Austria that did not include France.\(^3\)

Since Mayr did not wish to jeopardize Austria's chances of receiving financial assistance from the League, he tried

\(^1\) The \textit{New York Times}, March 27, 1921, p. 2; and March 29, 1921, p. 2.
\(^2\) Ibid., April 16, 1921, p. 2.
\(^3\) Ibid.
to prevent the plebiscite from taking place. His efforts, however, were to no avail. On April 25 98% of the electors of Vorarlberg voted for union with Germany.\textsuperscript{44} When Styria announced plans for a similar plebiscite on July 3, the French created a furor that culminated in Mayr's resignation.\textsuperscript{45} He was succeeded as Austrian chancellor by Johann Schober, police commissioner of Vienna.

Fortunately for Austria, the Financial Committee of the League ignored the Vorarlberg incident. On May 1, J. A. Salter, chairman of the Financial Committee, informed the Austrian government that the League was prepared to sponsor an Austrian loan if certain conditions were met. First of all, the Austrian government was to institute any financial reforms that the League deemed necessary, and secondly, it was to pledge the country's immovable property as security for any assistance. Finally, it was to be understood that any loan was contingent upon the Allied Powers' releasing their liens on Austrian assets.

Although the Christian Social administration tentatively accepted the League plan, the government refused to make a definite commitment until the plan was endorsed by the Pan-Germans and the Social Democrats.\textsuperscript{46} When both parties rejected

\textsuperscript{44}Ibid., April 26, 1921, p. 25.
\textsuperscript{45}Ibid., June 3, 1921, p. 3.
\textsuperscript{46}Ibid., May 5, 1921, p. 2.
the League's conditions, the Christian Social government submitted a plan to the Financial Committee that was acceptable to both the Pan-Germans and the Social Democrats. The League was to guarantee a minimum credit of $90,000,000 which was to be used for food credits and to create a bank of issue. In return, the Austrian government would secure the loan by mortgaging all public and private reality in the country. The administration promised, moreover, to reduce its food subsidy program and to introduce new taxes.

At first the League Council was skeptical about the Austrian counterproposal. If the Danubian country was not viable, the League did not wish to invest such a large sum in a hopeless undertaking. The fear of Austrian collapse was dispelled, however, when the League's own financial experts reported that the country had much hidden wealth, especially in the Vienna exchange market. Reassured about Austria's financial status, the League approved the revised plan and submitted it to the Supreme Council for that group's endorsement.

Once the League had secured the sanction of the Allied Powers for the proposed Austrian loan, the Financial Committee undertook the difficult task of freeing Austrian assets of all

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48 Ibid.
49 Ibid., May 29, 1921, Sec. II, p. 8.
liens. By June 1, 1921, Poland, Rumania, Yugoslavia, and the United States were the only powers that had not yet suspended their liens on Austrian property.\footnote{Ibid., May 29, 1921, Sec. II, p. 8.} All of the League's efforts to secure the cooperation of Washington, however, were to no avail. The difficulty stemmed from the fact that the United States was still technically at war with Austria, since the Senate had refused to ratify the Treaty of Saint-Germain which contained the Covenant of the League of Nations. On August 13 chancellor Schober reported to his foreign affairs committee that the United States was unable to set in motion the legislative machinery necessary to waive reparation and other claims against Austria.\footnote{Ibid., August 15, 1921, p. 4.} With the realization that all hope of financial assistance from the League was gone, the krone speculators panicked. The exchange value of the krone fell to 600 to the dollar.\footnote{Ibid., June 27, 1921, p. 19. Pre-war parity was five to the dollar.}

Although Schober was discouraged by the apparent collapse of the League plan, he refused to believe that Austria's situation was completely hopeless. In fact, he was halfway convinced that it was possible to save Austria even without any foreign aid. He stated that perhaps the Austrian people had made their country appear "too badly off to the rest of the world."\footnote{Neue Freie Presse, July 29, 1921, Morgenblatt, p. 1.} By reducing expenditures and increasing taxes,
the government might yet restore the country's financial stability. A start toward that end had been made during the negotiations with the League. At that time food subsidies had been reduced while customs duties and the freight and passenger rates of the railroads had been increased by 100%; tobacco prices, by 100-125%; and postal rates, by a substantial margin.\textsuperscript{54} When Schober proposed further reductions in the bread subsidies, the Social Democrats, however, accused him of taking food from the mouths of women and children.\textsuperscript{55} The increasing frequency of such charges eventually culminated in the appointment of Dr. Alfred Gürtler, noted Austrian economist, to the position of finance minister.

Gürtler immediately outlined a new economic program. He advocated economic agreements with the succession states, new measures to end currency speculation, an end to food subsidies, a reorganization of the civil service, the operation of all state industries at a profit, and, finally, an increase in taxes.\textsuperscript{56} Gürtler's legislative program, however, fared no better than previous ones. The Pan-Germans and Social Democrats joined forces to prevent its enactment.

With the collapse of his domestic program, Schober once more sought foreign assistance. His first success came on

\textsuperscript{54}The New York Times, July 25, 1921, p. 16.
\textsuperscript{55}Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, p. 76.
\textsuperscript{56}Ibid., pp. 88-89.
September 3 when he secured a loan of $1,740,000 from Switzerland.\(^{57}\) In less than a month's time Schober, however, had spent the Swiss francs and was frantically searching for new credits. In the hope of obtaining a loan of $13,000,000 from Great Britain, Schober revealed that the Austrian state was prepared to offer its famous collection of Gobelin tapestries as security for any new assistance.\(^{58}\) At that time the krone stood at 2500 to the dollar.\(^{59}\)

When aid from Great Britain was not immediately forthcoming, the Austrian government turned to Czechoslovakia. On December 16 the two powers signed the Treaty of Lana, which stipulated that Prague was to loan the Austrian state $10,000,000 and was to increase its coal shipments to Austria. As concessions on her part Austria accepted a reaffirmation of her borders and agreed to a self-denying Anschluss clause.\(^{60}\) When Schober presented the document for ratification, the Pan-Germans and Social Democrats vehemently denounced the treaty, for the two parties were convinced that Anschluss was the only real avenue of escape from the economic crisis. When the treaty was ratified in spite of all their efforts, the Pan-Germans

\(^{57}\)Ibid., p. 78; The New York Times, September 5, 1921, p. 15. By September 1 the krone had dropped to 800 to the dollar.


\(^{59}\)The New York Times, December 19, 1921, p. 27.

\(^{60}\)Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, pp. 95-101.
went into permanent opposition to the Schober government.

Undaunted by the fact that he now headed a minority government, Schober continued to work for new loans. On January 31, 1922, Britain granted Austria a loan of $8,600,000. To ensure the best possible use of the money, London sent George Young to Vienna to supervise its spending.\(^1\) In February the British loan was supplemented by French and Italian promises of $5,000,000 and $4,875,000 respectively.\(^2\)

In spite of the new credits the krone fell to 3500.\(^3\) Schober immediately revealed plans to raise alcohol taxes and tobacco and salt prices, as well as postal, telegraph, and telephone rates. He also reported that he intended to collect tariffs in terms of gold crown to ensure a meaningful source of revenue from the customs receipts.\(^4\)

All of Schober's efforts were to no avail. The value of the krone continued to drop. A Swiss cinema presented each of its patrons with either a hundred, thousand, or ten thousand krone bill.\(^5\) A soap peddler promoted his product by wrapping it in krone notes.\(^6\) Dr. Eduard Beneš of Czechoslovakia

\(^{1}\)Ibid., p. 108.

\(^{2}\)Neue Freie Presse, February 17, 1922, Abendblatt, p. 1.


\(^{4}\)Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, p. 110.

\(^{5}\)The Times (London), May 15, 1922, p. 9.

\(^{6}\)Ibid., March 31, 1922, p. 11.
suggested that "probably the best thing that could happen to Austria would be for her to go bankrupt and repudiate her currency.... It is a drastic solution, but probably the only way out of the pit into which Austria has sunk."\(^6\)

In a last desperate effort to save Austria, Schober spent April and May negotiating with the Allied powers at Genoa. The conference opened on an inauspicious note. Beneš stated: "I do not believe in any sort of international agreement for unifying customs or currency reconstruction among the succession states. Each state must work out its own problems, both internal and external.... Each country must protect its industries and its agriculture."\(^6\) There was still hope for financial assistance, however, for the United States had only recently authorized the release of its liens against Austrian assets. Tired of the incessant demands of the Austrian government, the Allies, moreover, were conducive to any proposal that might permanently establish the stability of the Austrian economy.

Any possibility of financial assistance, however, was suddenly destroyed by a political upheaval in Austria. When Gürtler proposed that certain duties be raised \(^42\%\), the Pan-Germans expressed their willingness to form a coalition government with the Social Democrats. Seipel acted immediately to

\(^{67}\) *Ibid.*, April 12, 1922, p. 12.

prevent such an eventuality. His efforts finally culminated in the re-creation of the Pan-German-Christian Social alliance that had collapsed in January. The price for the support of the German Nationalists was high—Schober was to resign.69

When Seipel assumed the position of chancellor on May 29, 1922, Austria's position seemed hopeless. The value of the krone was 10,000 to the dollar.70 By comparison, the Austrian currency was worth less than the American continental notes or the French assignats.71 Moreover, the possibility of foreign assistance was virtually nil, for France, Great Britain, Italy, and Czechoslovakia had repeatedly stated that economic aid on their part would be forthcoming only if Schober continued as chancellor.72 Under the circumstances Austria's collapse seemed to be only a matter of time.

69Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, pp. 98-100.


72Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, p. 105.
By the time Seipel announced the formation of his cabinet on May 29, 1922, most observers had concluded that Austria was not viable. A small but increasing number of newspapers and journals expressed the opinion that the only way for the Austrian state to solve its financial problems was through union with Germany. Other publications believed that the salvation of Austria could be attained only through some form of Danubian confederation. Few, if any, periodicals believed that Austria could continue to exist in her present form.

Aside from the Allied leaders, one of the few individuals who still believed in the preservation of Austrian independence was Ignaz Seipel. The priest-chancellor opposed the Anschluss because he believed that Austria still had a mission to perform in Southeastern Europe and because he did not wish to see Catholic Austria annexed to Protestant Germany.¹ Although his attitude toward the Anschluss later underwent a drastic change, Seipel was definitely opposed to union with Germany.

when he became chancellor. On May 31 he stated that regardless of whatever form the state assumed in the future "the German people in Austria...must live and we who are flesh of its flesh and blood of its blood must do everything which stands in our power that it may live."3

In spite of the economic situation, Seipel was confident that the Austrian nation could live once his proposed legislative program was enacted. His suggestions included foreign aid, currency control, and a balanced budget. To end deficit spending, Seipel intended to increase federal revenues, institute an austerity program, operate all state-owned businesses at a profit, and eliminate all unnecessary civil servants. To halt the depreciation of the krone, Seipel wanted to transfer the responsibility of printing and circulating new currency from the federal treasury to an independent bank of issue.4

Once he had secured legislative approval for his bank of issue, Seipel had to obtain the necessary capital to endow the financial institution. Under normal circumstances the govern-


4Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, pp. 134-135.
ment could simply have appropriated the necessary funds, but the Nationalrat could not allocate money that did not exist. As a result, Seipel had to seek financial backing from private sources. The Austrian chancellor first tried to secure a loan from $35,000,000 to $45,000,000 from J. P. Morgan and Co. After carefully considering the available facts, Morgan informed Seipel that he was unable to sponsor an Austrian loan. Unruffled by the American rejection, Seipel turned to the Viennese bankers. When they also refused to underwrite his bank of issue, he pushed a bill through the Nationalrat which called for a forced loan of $20,000,000. When intense opposition to the forced loan developed, however, the chancellor decided to seek financial help from the Allies.

On July 7 he asked the Reparations Commission to secure the release of all liens on Austria's customs and tobacco monopoly, so that these revenues could serve as collateral for an international loan. When the commission ignored his request, he pointed out that the collapse of his country would result in serious repercussions throughout Europe. If the Allies thought that he was trying to make conditions appear worse than they actually were, they should consult the financial

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5The Times (London), July 12, 1922, p. 19.
6Franckenstein, Facts and Features of My Life, pp. 243-244.
8Ibid., July 8, 1922, p. 20.
page of their newspapers—the krone was already quoted at 50,000 to the dollar.\(^9\)

Seipel's statement prompted the Reparations Commission to take immediate action on his request. On August 4 the commission gave its approval to the proposed bank of issue. The next day the Austrian government was informed that the Allies had consented to release their liens on Austrian assets for a period of twenty years but only on the stipulation that these revenues would be used solely as collateral for the bank of issue.\(^10\) The Allied concession, however, had come too late. Seipel could not induce any bank to accept the receipts from Austria's customs and tobacco monopoly as security for a loan. The financiers believed that Austria was on the verge of collapse and that any collateral was worthless without a guarantee of the state's existence.\(^11\)

Having failed to obtain economic aid from any other source, Seipel decided to make one last appeal to the Allied powers. On August 13 he submitted a memorandum to the Allied governments at their London conference. In his note he pointed out that due to the rapid depreciation of the krone the Austrian nation was on the verge of collapse. To a great extent the Allies were to blame for the predicament of his country. If

\(^9\)Ibid., August 5, 1922, p. 3.

\(^10\)Ibid., August 6, 1922, p. 3.

they had released their liens on Austrian assets as recommended by the League of Nations in 1921, then the financial means of saving Austria could have already been obtained through private channels. But the time had passed when private bankers were willing to loan his government money. Under the circumstances, his country could be preserved only if they were willing to loan his government $60,000,000. Austria's fate was in the hands of the Allies. If they refused to act, then they would be responsible for all the consequences which would follow.12

After carefully considering Seipel's memorandum, the representatives of the London conference reached the decision that their governments were unable to hold out any hope of financial assistance to Austria. They had agreed, however, to submit the Austrian question to the League for investigation and report. If the Geneva organization could devise some plan for helping Austria that would not involve additional loans and which would bring about drastic internal reforms in the state, then the Allied Powers would do what they could for Austria. Lloyd George informed Franckenstein that the decision had only been reached with great reluctance, but the Austrian government should understand that the Allies did not feel that they should burden their citizens with further obligations for the benefit of Austria since the latter had already received

12Memorandum of the Austrian government to the Allied powers, Vienna, August 13, 1922, in Ladner, Seipel als Überwinder der Staatskrise vom Sommer 1922, pp. 169-173.
so much credit with such disappointing results.\(^{13}\)

With every avenue of escape apparently blocked, Austria's dilemma seemed hopeless. Chancellor Seipel, however, refused to admit defeat. As a last resort, he decided to frighten the Allies into providing financial assistance. He expressed his dissatisfaction with the outcome of the London conference by stating that his government might press for a "practical solution" to its problems.\(^{14}\) Everyone knew that the phrase "practical solution" referred to Anschluss. A few days later Seipel was quoted, moreover, as saying that should Austria find it necessary to associate with a single neighboring state, then Germany was, quite naturally, first brought to mind.\(^{15}\)

Seipel's actions soon convinced the Allies that his words were more than an idle threat. On August 22 he conferred with Eduard Beneš, the Czech premier, in Prague. The Austrian chancellor asked whether the Allies had submitted the Austrian question to the League strictly as a formality or if they actually believed that the League could solve Austria's financial problems. He then inquired if there was any possibility of securing economic assistance from any of the succession states. Lastly, he asked Beneš to specify what action Czechoslo-


\(^{15}\) *Neue Freie Presse*, August 22, 1922, p. 1.
vakia would take in the eventuality that the Austrian state collapsed in the near future.\textsuperscript{16}

Beneš was disturbed by Seipel's questions. The Austrian chancellor had subtly implied that his country might resort to Anschluss with Germany if the League aid failed to materialize. Beneš immediately informed Seipel that any attempt to unite with Germany would be met with force. France and Czechoslovakia had already agreed to consider the Anschluss as a casus belli. Moreover, the two powers had decided to oppose any move to secure League sanction for any form of union with Germany. Beneš then tried to dissuade Seipel from trying to form close ties with Italy by pointing out that the latter would never be able to give any significant aid to Austria. The Czech premier concluded his remarks by stating that Seipel should not underestimate the League, for France and Czechoslovakia had agreed to guarantee an international loan under the auspices of the League if the other Allies could be persuaded to participate in the project.\textsuperscript{17}

After leaving Prague Seipel went directly to Berlin to consult German chancellor Joseph Wirth. Seipel was primarily interested in advice from the more experienced Wirth. The Austrian leader wanted to know if there was any possibility

\textsuperscript{16}Ladner, Seipel als Uberwinder der Staatskrise vom Sommer 1922, pp. 91-94. Ladner's account is based on archival material.

\textsuperscript{17}Ibid.
of forcing the Allies to grant important economic assistance by pursuing a vigorous foreign policy. Should Austria work through the League of Nations? Was Germany in any position to help Austria financially? Finally, what was Wirth's attitude toward the Anschluss?\textsuperscript{18}

The German chancellor advised Seipel to continue his policy but with extreme caution. In the event of war Germany was not in any position to come to the aid of Austria. As for economic assistance, Wirth said there was no hope of any help from Germany, for the Allies would requisition any aid that his country might offer as a reparations payment. The Anschluss would have to wait until after the reparations question was settled. Wirth reluctantly told Seipel that he thought the League of Nations was the only way for Austria. However, if the Austrian state should find it necessary to associate with one of its neighbors, then he would prefer Italy over Czechoslovakia.\textsuperscript{19}

Having disturbed everyone by his presence in Berlin, Seipel proceeded to Verona for a series of conferences with the Italian foreign minister Carlo Schanzer. Once again the Austrian chancellor asked if the League could really solve his country's problems. He said that if that organization failed to provide concrete assistance within a very short

\textsuperscript{18} Ibid., pp. 94-96.
\textsuperscript{19} Ibid.
period of time, then his country would be forced to seek salvation through an economic union with one of the succession states—a union that would probably eventually become political. Seipel added, however, that before he took any irreversible action he felt he should consult the Italian government.\textsuperscript{20}

Schanzer immediately expressed Italy's disapproval of any type of association between Austria and the Little Entente. If his state were presented with a fait accompli, then his government would consider it a casus belli. As an alternative to any type of Danubian confederation, Schanzer proposed a customs and currency union with Italy. After a brief consideration of Schanzer's proposal, Seipel agreed in principle to the idea of a customs union. The details were to be worked out later.\textsuperscript{21}

Seipel's series of secret conferences created a great amount of friction among the Allies. Italy and Czechoslovakia were both suspicious of the other's relations with Austria. Their mutual distrust led to numerous charges and counter-charges. Relations between the two power blocs were constantly strained by Seipel's partial disclosures to the press of what had transpired at Prague, Berlin, and Verona.\textsuperscript{22} War almost ensued when Ernest von Kwiatowski, the Austrian ambassador

\textsuperscript{20}Ibid., pp. 96-97.

\textsuperscript{21}Ibid., pp. 96-99. See also Franckenstein, Facts and Features of My Life, p. 250.

\textsuperscript{22}See for instance, Le Temps, August 24, 1922, p. 2.
to Italy, indiscreetly revealed that negotiations were in progress concerning some form of Italian-Austrian union, but he could not confirm whether a precise plan had been agreed upon.\(^2\)

The publication of Kwiatowski's statement automatically condemned the Austro-Italian negotiations to failure. To pursue the talks further would mean war. Seipel's apparent unconcern over the diplomatic blunder undoubtedly meant that the discretion was deliberate. He surely realized that his country not only had little to gain from a customs union with Italy but that Austria would lose all freedom of action by making such a move. Most likely, Seipel was simply trying to demonstrate the consequences that the Allies would have to face if they permitted the collapse of the Austrian state.

Seipel's "vigorous foreign policy" was certainly successful. \textit{Le Temps} accused Italy of using Austria to create an alliance with Germany.\(^2^4\) Italy, however, was fearful that Austria would now attempt to enter some form of economic union with the Little Entente. As a result, on August 25 the Italian government publicly announced that a union with either Germany or the Little Entente was a casus belli.\(^2^5\) The next day the situation approached the exploding point when the Italian press reported that Yugoslavia and Czechoslovakia


were massing troops on Austria's borders in anticipation of the latter's collapse.\textsuperscript{26} The Yugoslav government promptly denied the allegation and in turn charged that the Italian government had deliberately instigated the rumor to create a pretext for intervening in Austria.\textsuperscript{27}

With the Allies at one another's throats, Seipel carried his diplomatic offensive to the General Assembly of the League of Nations. On August 28 Alfred Gruenberger, Austrian Minister of Foreign Affairs, left for Geneva to urge immediate financial assistance.\textsuperscript{28} In conjunction with his mission, \textit{The New York Times} warned that if some assurance of monetary help from the League were not immediately forthcoming, the Austrian government would probably disclose what really transpired at the Verona conferences—the formation of some form of economic arrangement, possibly a currency union.\textsuperscript{29} The uneasiness which the article produced was heightened two days later when the Austrian government released an ominous note which stated that, if assistance was not immediately forthcoming, complete chaos in Central Europe was inevitable.\textsuperscript{30}

\textsuperscript{26}Ibid., August 26, 1922, p. 8; and August 29, 1922, p. 17.
\textsuperscript{27}Ibid., August 29, 1922, p. 17.
\textsuperscript{28}Ibid.
\textsuperscript{29}Ibid.
\textsuperscript{30}Ibid., August 31, 1922, p. 15.
At its first session on August 31 the League decided to make a thorough examination of the financial aspects of the Austrian problem. However, it refused to commit itself to the task of finding a solution to Austria's needs until the Financial Committee could gather the facts and make some form of recommendation.31

Meanwhile, Gruenberger urged immediate action. He stated that a group of American financiers were ready to extend new loans to Austria if their investment could be safeguarded against a political upheaval and the possibility of financial default. The Allies should provide whatever additional security was necessary since they had promised to help Austria rebuild her economy when the Treaty of Saint-Germain was signed in 1919. He then stated that unless the League devised some acceptable plan, Austria's only alternative was to establish a commercial union with one or more of her neighbors. Austria, in that case, might play the "role of Mrs. O'Leary's cow and set all Central Europe aflame."32

Following Gruenberger's speech, the English and French delegates were reported to have agreed upon a proposal to place an international police force in Vienna. They hoped such action would provide a sufficient inducement to attract


private capital to Austria without their having to provide either credits or guarantees. A group of London bankers stated that if such action were taken, they would be willing to make the Austrian government a five-year loan of $130,000,000.

While the Council waited for the report from the Financial Committee before taking any definite action, Seipel addressed the General Assembly. He pointed out the suffering that his country had experienced since the war. A loaf of bread that had once cost half a krone sold for 6,600 kronen, and it took 200,000 kronen to buy the shirt that had once been priced at eight kronen. He attributed much of the blame for Austria's inability to solve her own problems to the French and English, who had gained control of two of Vienna's largest banks. If the new owners had not refused to participate in the proposed bank of issue, then the krone would long since have been stabilized. He warned that rather than perish in isolation, the Austrian people would do everything within their power to "break the chain which was oppressing and strangling them."

It was the League's responsibility to see that this took place in such a manner that the peace of the world was not endangered.

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33 Ibid., September 5, 1922, p. 3.
34 Ibid., September 7, 1922, p. 5.
36 Ibid., p. 29.
37 Ibid., p. 32.
Seipel concluded his remarks with the statement that his government was prepared to accept a limited control over its finances, but rather than compromise its sovereignty, the state preferred to merge itself into a larger economic entity.\textsuperscript{38}

Immediately following his speech, a newsman asked Seipel to specify what Austria's last resort would be in case the League withheld its help. Although his reply was somewhat vague, the Austrian chancellor indicated that he would not enter a union with Italy.\textsuperscript{39} In lieu of Seipel's threat to merge Austria into a larger economic entity, the only alternatives left were either an association with the Little Entente or the Anschluss with Germany, either of which meant war.

Seipel's remarks jarred the Council into action. An Austrian committee, composed of representatives from Great Britain, France, Italy, Czechoslovakia, and Austria, was created to find an immediate answer to Austria's financial problems. To speed the work, three subcommittees were organized: one to formulate a program designed to establish a balanced budget for the Austrian government, another to investigate the proposed bank of issue, and the last to determine what assets the Austrian state could provide as security for a

\textsuperscript{38}\textit{Ibid.}, p. 31.

\textsuperscript{39}\textit{The New York Times}, September 7, 1922, p. 5.
possible loan. The Austrian committee then approved a recommendation from the Italian delegate that any assistance from the League was contingent upon the proclamation of Austrian neutrality and a pledge by the Austrian state of a "solemn reconsecration" of her borders as defined by the Treaty of Saint-Germain.

The first reports of the subcommittees were delivered on September 16. The study group assigned to the budget stated that it would require eighteen months in order for the Austrian government to become completely self-sufficient. During this period of time the state would require a subsidy of approximately $125,000,000. Financial stability could be achieved only through the enactment of a number of internal reforms which included the discharge of 75,000 railroad employees, an increase in the freight and passenger rates, and the transfer of the entire rail system to private investors with the state receiving a fixed annual sum plus a share of the profits. The other reports stated that the bank of issue was an ideal means of stabilizing the krone and that Austria's customs and tobacco monopoly were adequate security for any loan.

Acting upon the various recommendations, the Austrian

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40 Kleinfeld, Stabilization and Reconstruction in Austria, 1921-1922, pp. 183-184.
42 Ibid, September 17, 1922, pp. 28 and 29.
committee agreed on three protocols which contained a comprehensive scheme for the financial reconstruction of Austria. The first protocol obligated the participating powers to respect Austria's political independence, territorial integrity, and sovereignty while the Austrian state promised not to take any action that would alienate its independence. In the event that a dispute should arise between the contracting powers, then the League Council would serve as arbiter.

The second protocol authorized the Austrian government to raise a loan of $130,000,000, which was to be guaranteed by the nations signatory to the protocol. The remaining clauses attempted to ensure that the Austrian government could not renege on repaying the loan. The state could not tax the bonds and, if the revenues assigned to amortize the loan proved to be insufficient, the guaranteeing powers could require that additional revenues be provided for that purpose. The proceeds of the loan were to be spent only under the direction of a commissioner-general who was to be appointed by and responsible to the League Council.

Further restraints were placed on the Austrian government by the creation of a committee of control composed of representatives appointed by Great Britain, France, Italy, Czechoslovakia, and other nations that assumed a portion of the guarantee. Permission for the Austrian state to float any additional loan would have to be secured from this organization.
Great Britain, France, Czechoslovakia, and Italy agreed to guarantee 84% of the total loan. After assuming sole responsibility for $26,000,000 which was to be set aside to repay their previous credits, they each agreed to be responsible for 20% of the remaining $104,000,000. Guarantees for the unsecured 16% were to be furnished by other powers.

The third protocol required the Nationalrat to ratify the first protocol. Once legislative approval had been attained, the Austrian government was to work out a program with the commissioner-general that would enable the state to permanently balance its budget within a period of two years. Once a common program was agreed upon, the plan was to be endorsed by the Austrian parliament, which was also to authorize the League to administer its financial program regardless of whatever government happened to be in power in Austria.

The commissioner-general was to control all the proceeds from the loan as well as the receipts from Austria's customs and tobacco monopoly. If the time should ever come when the state disapproved of the policies of the League's representative, the government's only recourse would be an appeal to the Council. The League would decide, moreover, exactly when the office of commissioner-general was no longer required.

In the final clauses Austria pledged the revenue from her tariff receipts and tobacco monopoly as security for the loan. The state, moreover, relinquished its right to print
and circulate new currency. Finally, the government agreed to increase railroad, postal, telegraph rates, and the prices of all items sold by the state monopolies.43

On October 4, 1922, there was a ceremonial signing of the Geneva Protocols. Arthur Balfour spoke for the Allies:

The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardships than she has known since 1919, but with the prospect of real amelioration thereafter—the happier alternative—or of collapsing into a chaos of destitution and starvation, to which there is no modern analogy outside Russia. There is no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms entailing harder conditions than those at present prevailing, knowing that in this way only can she avoid an even worse fate!44

When it came time for Seipel to speak, tears came to his eyes.45 He began by saying that "Thank God the League had not failed." Austria he declared wanted to live and was now ready to take her place in the family of nations. He concluded with the remarks:

Now we shall rejoice when an Austrian chancellor can again stand before the League of Nations and say: "Austria is rehabilitated. Her economic administration is sound. Her people are living, if not in affluence, at least not in crushing poverty. Austria has proved that she can manage her own affairs. You


44As quoted in The Times (London), June 10, 1922, p. 15.

may now set her free from financial control." That will be a great day for Austria and a great day for the League.46

Although Balfour's speech was more appropriate than that of Seipel, the latter was somewhat justified in his exuberance. In May when he had assumed the office of chancellor, almost everyone had considered Austria's situation hopeless. He had avoided the predicted collapse, however, by his pursuit of a "vigorous foreign policy." Obviously, the battle was only half won, because the Nationalrat still had to give its consent to the Geneva agreement. If Seipel could have only seen what lay in store for him when he returned to Vienna, he undoubtedly would have been more restrained.

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46 Speech by Seipel, Geneva, October 4, 1922, in Gessl, Seipels Reden, pp. 34-36.
CHAPTER III

THE POLITICS OF RECONSTRUCTION

The magnitude of Seipel's successful diplomatic blackmail was considerably diminished by the revelation that the Austrian people were visibly dissatisfied with the terms of the Geneva Protocols. Almost every Austrian newspaper found some provision of the agreement objectionable. The Neue Freie Presse lashed out at the clause which stated that the Austrian state must not alienate its independence. The existence of such a provision endangered the nation's sovereignty. If Austria were not free to do what she wished when she wished, then she was little more than a European Madagascar. Moreover, there was no need for a new declaration of the inviolability of the state's borders since Article 88 of the Treaty of Saint-Germain already contained a passage to that effect.¹ In spite of its objections, the Neue Freie Presse did not advocate an outright rejection of the protocols. Since the desperate financial situation of the country made it necessary to obtain help from some source, the government should accept the terms of the Geneva loan and hope that the League would live up to its reputation of fairness. National honor demanded,

¹Neue Freie Presse, September 20, 1922. Morgenblatt, p. 1 and September 20, p. 1. See also the morning edition for October 5, 1922, p. 4.
however, that the Austrian people work hard and make whatever sacrifices were necessary in order to free the country from control at the earliest possible moment.  

The Österreichische Volkswirt denounced not only the Geneva Protocols but Seipel as well. The chancellor had sold his country to the Entente Powers who controlled the League. And for what? Promises! Seipel had returned from Geneva without a single cent. Moreover, it was doubtful that Austria would ever receive the League loan, because actual credits depended on parliamentary approval in four separate countries. Even if the state actually received financial assistance from the League, two years of plenary power by the Seipel government would be detrimental to Austria's republican form of government. The oppressive terms of the Geneva compact left Austria with no honorable alternative except to resort once more to a policy of self-help.  

The most caustic criticism of the Geneva agreement came from the socialist-controlled Arbeiter Zeitung. The editor stated:

Never until now had one dared to demand of a European nation what the League of Nations demands of our people. European imperialism has always established on the barbarous peoples of North

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2Ibid., October 5, 1922, Abendblatt, p. 1, and October 6, 1922, Morgenblatt, p. 1.

Africa and the nomadic peoples of Asia a control of a kind prepared for us by Balfour, Benes and Imperiali; never before has a European civilized state been treated in such fashion... If we were still a people the Parliament should, before pronouncing on Geneva, try the prelate before the High Court of Justice.  

Even the Christian Social-controlled Reichspost admitted that the Geneva Protocols were far from perfect. It insisted, however, that in spite of the numerous objections that could be raised against League control, the crux of the matter was solvency or collapse. There were no other alternatives.

The attitude of the press made it much more difficult for Seipel to secure parliamentary ratification of the Geneva Protocols. When he finally submitted the Geneva agreement to the Nationalrat on October 12, the opposition was already armed with innumerable arguments against the proposed treaty. Since Seipel's Christian Socials constituted a minority of the representatives, he was at a decided disadvantage.

Ratification was possible only if the chancellor could acquire additional votes outside his party. However, both the Social Democrats and the Pan-Germans were opposed to the compact as agreed upon by the League Council and Seipel.

After the chancellor explained the terms of the agreement,

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4Imperiali was the Italian member of the Austrian committee.

5As quoted in ibid., p. 147.

6Ibid., p. 162.
Karl Renner spoke on behalf of the Social Democrats. He stated that his party interpreted the plan to mean not two but twenty years of foreign control. As a consequence, the socialists intended to amend the protocols to make it possible to terminate the plan under certain conditions, for instance, if at some future date American financiers were to offer a loan on more favorable terms.\(^7\)

The initial reaction of the Pan-Germans to the Geneva Protocols was similar to that of the Social Democrats. Some "essential amendments" had to be made.\(^8\) Obviously, the German nationalists were hesitant to support any measure that contained an anti-Anschluss clause. Their bourgeois fear of socialist rule, however, eventually proved stronger than their political ideology. On October 12 they agreed to form a coalition government with the Christian Socials. Otto Bauer promptly accused them of not only having lost faith in the Anschluss but also of throwing themselves into the arms of the Entente simply in order to escape the currency depreciation.\(^9\)

In spite of the awkward position that Bauer's statement left them with their rank and file, the leaders of the Pan-Germans refused to abandon the alliance with the Christian

\(^8\)Neue Freie Presse, October 10, 1922, Abendblatt, p. 1.
\(^9\)Bauer, Die österreichische Revolution, p. 282. The Social Democrats apparently believed that inflation would eventually lead to economic collapse, thereby making Anschluss inevitable. See Gulick, Austria from Habsburg to Hitler, Vol. I, p. 150.
Socials. Although the two parties controlled 103 out of 183 seats in the Nationalrat, they were still nineteen votes shy of a two-thirds majority. As a consequence, the government announced its intention of enacting the reconstruction law as a simple law instead of as a constitutional amendment which could be passed only with some support from the Social Democrats.\footnote{Kleinfeld, \textit{Stabilization and Reconstruction in Austria}, p. 193.}

When the Social Democrats learned that the reconstruction law was not to be introduced as a constitutional amendment, their accusations became more vicious. Karl Seitz charged that the "truth is this program is only a cover up for absolutism.... What has been submitted is no finance plan, but a monster."\footnote{As quoted in the \textit{Neue Freie Presse}, November 7, 1922, \textit{Morgenblatt}, p. 6.} In reference to League officials, Robert Danneberg asked Seipel, "Who are these experts? These constitutional experts who would make your emperor of Austria? You should at least name them for us."\footnote{Ibid.} Bauer added that it was impossible to pay for foreign aid "with the liberty of our country and the honor of our people."\footnote{Gulick, \textit{Austria from Habsburg to Hitler}, Vol. I, p. 169.} He finally went so far as to state that Seipel's irresponsible conduct at Geneva threatened the very existence of the republic.\footnote{Bauer, \textit{Die österreichische Revolution}, p. 280.}
The Christian Socials denied the validity of these arguments. Jodok Fink warned that if the Social Democrats persisted in their policies of obstruction, it would be they, not Seipel, who would bury the republic. There were only two alternatives—credit or collapse.  

Bauer insisted that there was one other alternative. The government had not yet exhausted every means of self help. It was still possible to raise the equivalent of $40,000,000 within Austria herself. This money would provide a breathing space of eight months. During this period the budget could be balanced by means of new taxation and reduced spending. It was not necessary to subject the country to foreign control. There was no need to renounce union with Germany.

As both sides became more and more entrenched in their positions on the Geneva Protocols, an obvious impasse was reached on the question of ratification. In order to break the deadlock, it was necessary for a delegation from the League of Nations to intervene in the political squabbling. A compromise was arranged by which the government agreed to introduce the reconstruction law in the form of a constitutional

15Neue Freie Presse, November 8, 1922, Morgenblatt, p. 8.  
16Bauer, Die österreichische Revolution, pp. 281-282.  
17The League did not arbitrate the dispute or advise the government to take any specific action. It simply brought the two sides together to discuss the issues. See Neue Freie Presse, November 22, 1922, Morgenblatt, p. 1.
amendment, while the Social Democrats agreed that enough of their members would absent themselves from the Nationalrat to give the coalition the requisite two-thirds majority. As a consequence of these mutual concessions parliament ratified the Geneva Protocols on November 26 in a stormy session that lasted until 4 A.M. Six days later the reconstruction bill became law with an added provision which created an advisory committee composed jointly of the cabinet plus members selected from the Nationalrat in proportion to the numerical strength of each party.

Otto Bauer explained why the social Democrats had decided to compromise on the Sanierung legislation. The proletariat had been unable to find a parliamentary ally in either the middle or the peasant class. Only through such an alliance could any significant alterations have been achieved in the Geneva agreement. To have rejected the compact outright would only have resulted in a prolonged food shortage.

After the passage of the necessary legislation the League began establishing its control over Austrian finances. On December 9 a special account was created into which the receipts of the customs and tobacco monopoly were to be paid. Three days later the appointment of Alfred Zimmerman, mayor of Rotterdam, as commissioner-general was announced. Meanwhile,

19 Neue Freie Presse, November 23, 1922, Morgenblatt, pp. 1, 3.
a delegation from the League had reached an agreement with
the government which stipulated that 100,000 state employees
were to be dismissed before July 1, 1924--25,000 before
January 1, 1923, and 25,000 during each subsequent six month
period until the total was reached. Moreover, by 1925 the
budget was to be reduced to a level of $70,000,000.20

The Bank of Issue was also rapidly becoming a reality.
The statutes of the institution, which was entitled the
Austrian National Bank, were passed on November 14. All
officials of the institution, with the single exception of the
president, who was to be appointed by the Austrian government,
were to be chosen by the stock holders. The remainder of
the charter was confined to an enumeration of the financial
policies the bank was to follow. Subscription lists were
opened on December 4 and on January 2, 1923, the bank opened
its doors.21

The question of who was to serve as president of the
Austrian National Bank led to the first disagreement between
the commissioner-general and the chancellor. On December 19
Zimmerman advised the Austrian government that he felt the
position should be given to a foreign expert. Such action
would prove invaluable when the time came to place the Austrian

20"The Financial Reconstruction of Austria," supplement
to the Monthly Summary of the League of Nations, Vol. III
(March, 1923), p. 5.

21Ibid., p. 13.
loan on the market. Potential investors would not have to fear for the safety of their money. Seipel replied that his government had already decided to appoint Richard Resch, a well known Austrian banker. Seipel stated, however, that he would consider the possibility of naming a foreign expert as special adviser to the bank. Since the Austrian proposal was acceptable to the commissioner, the issue was momentarily dropped.\textsuperscript{22}

By January 1, 1923, the Austrian government had met all the prequisites for the League loan. The fact that the credits were not available at that time due to the difficulty of securing a 100\% guarantee for the loan, however, proved to be most embarrassing to Seipel. Bauer scoffed, "Austria has exchanged her national independence for a credit of $125,000,000. Up to the present we have not received a single cent. The control is here, but where is the credit?"\textsuperscript{23}

The mounting political pressure that came as a result of such charges forced Seipel to act. On January 26, 1923, the chancellor asked Zimmerman if it were not possible for the League to arrange a small short-term loan to meet Austria's immediate financial needs.\textsuperscript{24} On February 1 Seipel explained

\footnotesize{
\begin{itemize}
\item \textsuperscript{22}Ibid., pp. 16-17.
\item \textsuperscript{23}Neue Freie Presse, February 9, 1923, Morgenblatt, p. 5, passim.
\end{itemize}
}
to the Council the necessity for providing his country with immediate financial assistance. Since the government had been unable to print new currency for over two months, it was all but impossible for the state to meet its obligations. Austria was in no position to wait until the proceeds of the $126,000,000 loan were available. His country needed help at once.25 After careful consideration of Seipel's request, the League authorized the Austrian government to borrow $16,000,000 until the details of the larger loan could be worked out.26

Seipel wasted no time in making extensive preparations to float the short-term loan. Great Britain, France, Italy, Czechoslovakia, and Belgium agreed to guarantee the interim loan on the condition that the Austrian state repay subscribers from the first proceeds of the $126,000,000 loan. The chancellor replied that his government would give everyone who purchased the short-term bonds the option of redeeming them after six months or of exchanging them for the twenty-year bonds once they were placed on the market.27 After unsuccessfully trying to induce American bankers to participate in the undertaking, Austrian officials arranged to sell half of the $16,000,000 loan in Great Britain and the remainder in France, Belgium,

Switzerland, Holland, and Sweden. The receipts from the series of loans in mid-March solved Austria's immediate financial problems.  

While Seipel was still trying to solve his country's monetary problems, he was suddenly engulfed by a far greater problem that threatened the continued existence of the Christian Social-Pan-German coalition—the French invasion of the Ruhr on January 11, 1923. The Deutsche Allgemeine Zeitung found it inconceivable that the chancellor could remain in Paris, no matter how pressing Austria's financial needs, while at that very moment the French were waging a war of extermination against the German people. Millions of Germans were already under the control of French tanks and bayonets. The Neue Freie Presse declared that conditions in Germany defied every description. Not since the days of Napoleonic despotism had anyone dared commit such acts of aggression in peacetime.

The president of the Austrian National Assembly added that "every German heart was moved by sorrow and brotherly sympathy." Everyone waited to see what effect public opinion would have on the Pan-Germans. Franz Dinghofer provided the answer

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29 Neue Freie Presse, February 3, 1923, Abendblatt, p. 3.
31 Ibid., February 3, 1923, Abendblatt, p. 3.
on February 8. "We are still of the opinion that the fulfillment of the Geneva agreement is an absolute necessity," he said. "We see no other alternative for the salvation of our state."32 The coalition had weathered the storm.

Another major repercussion of the French invasion of the Ruhr was a renewal of hostility against foreigners. During the summer of 1922 thousands of tourists had flocked to Vienna to take advantage of the low prices brought about by an inflated currency. The sight of foreigners living in luxury, while Austrians were starving, had prompted the Abend to demand that all foreigners be temporarily excluded from the country and that those already present be given eight days in which to leave.33

This latent hostility was now directed against all representatives of the League and especially against the commissioner-general. In his first monthly report to the League, Zimmerman accused the Austrians of dragging their feet in certain areas of reconstruction. The criticism infuriated the Social Democrats, who replied:

A few such documents as this and the Austrian people will set up a Government of a composition and mentality which no controller will dare alternately to order about like a zealous servant, and again admonish like a neglectful steward.34

32 Ibid., February 9, 1923, Morgenblatt, p. 6.
34 The Times (London), March 3, 1923, p. 9.
Later when the commissioner recommended a further reduction in the size of the Austrian army Otto Bauer introduced a measure which if it had passed would have prohibited any person from giving information to Zimmerman or any other League official under penalty of twenty years' imprisonment as a traitor.35

Seipel tried to minimize this anti-foreign sentiment by postponing the appointment of a foreign adviser to the Austrian National Bank. When in late February Richard Resch assured him that the bank was perfectly capable of conducting its affairs without outside interference, Seipel announced that there would be no foreign adviser. Zimmerman immediately informed Seipel that, if the League loan were to be a success, it was essential for the outside world to have complete confidence in Austrian finances. For this reason, it was not only advisable to appoint a "foreign expert," but it was expedient for the administration to do so as soon as possible.36 Although he finally yielded to the commissioner's desires, Seipel waited until May 15 before naming Karl Schnyder von Wartensee, vice-president of the Swiss National Bank, as special adviser to the bank of issue.37

Seipel soon discovered that he had committed a serious

35 The New York Times, April 9, 1923, p. 3.
36 Neue Freie Presse, February 27, 1923, Morgenblatt, pp. 1-2.
political blunder in accepting Zimmerman's advice. By publicly giving in to the commissioner, the chancellor had created the erroneous impression that he was nothing other than a League puppet. In order to remedy the situation, he was forced to openly defy the League. In late March, at Zimmerman's request, he introduced an economy measure to reduce the number of ministries from eleven to eight. When the proposal encountered the opposition of the Social Democrats, the Austrian chancellor agreed to a compromise but without consulting the commissioner. Zimmerman was quick to voice his displeasure at Seipel's action. He explained that, if reconstruction were to succeed, it was necessary at the earliest possible moment to bring about those reforms prescribed by the Geneva agreement. In order to do this, the government and he would have to work together.

The Ruhr crisis and the growing resentment against the League accentuated the weakness of Seipel's government. Any momentary upsurge of Anschluss agitation could result in his ouster as chancellor just as it had in the case of Schober. At the first opportune moment, therefore, it was politically expedient that the Christian Socials expand their base of power. Otherwise, if the Christian Social-Pan-German coalition were terminated, reconstruction was doomed and with it Austria.

38 Neue Freie Presse, March 24, 1923, Morgenblatt, p. 2.
39 Ibid., April 1, 1923, Morgenblatt, p. 5.
Credit or collapse! Those were the only alternatives.

While Seipel waited for the right moment to strengthen his government, he gave his undivided attention to the League loan. On February 22, 1923, the Reparations Commission formally waived all rights to Austrian property and revenues for a period of twenty years, thereby making it possible for Austria officially to pledge the receipts from her customs and tobacco monopoly as security for the League loan. In May Belgium, Sweden, Denmark, and the Netherlands agreed to guarantee the remaining 6% of the proposed loan. Once the guarantees were deposited in the Swiss National Bank, only the printing and selling of the bonds remained to be done.

As the promoters discussed possible markets they considered the possibility of selling a large percentage of the bonds in the United States. American bankers, however, were still hesitant to participate in the Austrian loan. One broker stated that he did not believe that Washington would guarantee the foreign loan and that his company would not participate in the financial venture without such a guarantee. As more and more American bankers made similar statements, the possibility of any portion of the League loan

41 Monthly Summary of the League of Nations (June, 1923), pp. 94-95.
being offered in the United States seemed extremely remote. However, on April 24 a rumor began circulating on Wall Street that J. P. Morgan and Co. had sent Thomas W. Lamont to Europe to discuss the possibility of that firm's becoming a co-sponsor of the League loan. 44 Two weeks later Morgan revealed that he was indeed organizing a syndicate to promote the Austrian bonds in the United States. 45 At first unconfirmed reports indicated that upward of $30,000,000 of the bonds were to be offered on the American market. Subsequent disclosures, however, revealed that the figure had been scaled down to $25,000,000. 46

Meanwhile, the remainder of the loan was earmarked for sale in Europe. $33,000,000 was to be offered in London; $8,800,000, in Paris; $8,600,000, in Rome; $12,000,000, in Prague; $12,100,000, in Vienna; $2,700,000, in Stockholm; $3,600,000, in Zurich; $1,000,000, in Brussels; and $1,000,000, in Amsterdam. 47 The total, however, was still $18,000,000 short of the $126,000,000. Since none of the bonds could be marketed until the entire amount had been spoken for, it was imperative that somebody provide the additional sum. Disheartened at the possibility of having to abandon the entire

44Ibid., April 25, 1923, p. 30.
loan, George Franckenstein, Austrian ambassador to Great Britain, successfully sought help from the Bank of England. The English bankers informed him that they were prepared to increase the British allotment from $33,000,000 to $51,000,000. The Austrian loan was assured.

Having secured a market for the entire $126,000,000, Austrian and League officials designated June 11, 1923, as the primary day of issue. As that date approached a vigorous campaign was launched to convince would-be investors of the loan's merits. Morgan reminded everyone that the bonds were, not only a safe investment, but also constituted "the first step toward the economic rehabilitation of Central Europe taken by all the countries working together." He then stated that the idea of European cooperation had been one of the principal reasons that had prompted his firm to participate in the project. Other promoters constantly reminded the public that the annual revenue of $30,000,000 from Austria's customs and tobacco monopoly was more than sufficient to pay interest charges and provide a sinking fund to amortize the loan. The decision of the British government to accept $14,000,000 of the bonds in satisfaction for certain Austrian

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50 Ibid., May 24, 1923, p. 1.
51 Ibid., June 7, 1923, p. 25.
debts\textsuperscript{52} dispelled the few remaining doubts harbored by prospective buyers.

In spite of their outward confidence, the participating bankers were, nonetheless, a little uneasy when June 11 finally arrived. Although the League loan appeared to be an excellent investment, no one was certain how the public would respond to the international financial experiment. The financiers were pleasantly surprised by the day's developments. The American quota was oversubscribed fifteen minutes after the books were open; the British disposed of their allotment in an hour and fifteen minutes; and the Swedish share was sold out within an hour.\textsuperscript{53} Elsewhere the results were equally dramatic.

The overwhelming success of the League loan convinced Seipel that the time had come for him to broaden his base of power. After making the necessary preparations, on July 31 he had the Nationalrat designate October 21 as the date for new parliamentary elections.

For the first part of the campaign the socialists concentrated on the issue of the Sanierungswerk. One of their pamphlets described the League as a vampire that was depriving

\textsuperscript{52}\textit{Ibid.}, June 8, 1923, p. 30.

\textsuperscript{53}\textit{Ibid.}, June 12, 1923, pp. 1-2 \textit{ibid.}, September 2, 1923, Sec. II, p. 6.
Austria of her life blood.\footnote{Neue Freie Presse, April 29, 1924, Morgenblatt, p. 1.} Another segment of the party appealed to the deeply ingrained anti-Semitic prejudices of numerous Austrians by branding the sponsors of the League loan as Jews.\footnote{Ibid., June 15, 1923, Morgenblatt, p. 5. It was much more common to depict Seipel as a domineering pope. Popes, however, do not have the reputation for being financiers.} Most of the arguments of the Social Democrats were much more refined. Wilhelm Ellenbogen, for instance, argued that if the railroads were placed in private hands, as Zimmerman had suggested, the continued existence of the Austrian Republic would be endangered, for there would be nothing to prevent the French imperialists from gaining the controlling interest in the railroads. The French already dominated the rail system in Poland and to a great extent that in Czechoslovakia. Eventually, Austria would be reduced to the status of a French colony. The Austrian people must not permit that to happen.\footnote{Ibid., June 9, 1923, Morgenblatt, p. 7.}

In the latter stages of the campaign the socialists concentrated on a new issue--rent control. On July 24 Seipel had stated that he favored removing the wartime restrictions that had been placed on rents. Such action was essential if Austria was ever to achieve normalcy again. The socialists seized on Seipel's statement and tried to make rent control...
the central issue in the election.57

The theme of the Christian Social campaign was "not party, but state politics."58 Seipel constantly accused the Social Democrats of putting party success before the welfare of the Fatherland. Their continued opposition to reconstruction not only prolonged the restrictions on Austria's freedom but prevented the return of prosperity.59

The Christian Socials had little need for campaign literature since the financial page of the newspapers provided them with all the propaganda they needed. From February until October unemployment had dropped from 167,000 to 78,000;60 the stock market was booming; and international financiers had nothing but praise for Seipel. The clericals also benefited immeasurably from the newspaper practice of reprinting all the laudatory articles about Austria that appeared in the foreign press. Thus Dorothy Thompson of the Philadelphia Public Ledger unknowingly worked for Seipel's reelection when she reported that Americans who had only recently sent millions of dollars of food to Vienna to prevent children from starving were now finding it profitable to

58Neue Freie Presse, August 17, 1923, Abendblatt, p. 1.
59Ibid., August 23, 1923, Morgenblatt, p. 5.
60Layton and Rist, The Economic Situation of Austria, p. 16.
invest millions in sound Austrian undertakings. 61

The outcome of the election on October 21, 1923, was hardly unexpected. On a percentage basis the Christian Socials received 45.0% of the total vote; the Social Democrats 39.6%; and the Pan-Germans 12.8%. In comparison to the previous elections, the Christian Socials gained 3.2% of the popular vote and the Social Democrats, 3.6%. The Pan-Germans lost 4.5%. In the reapportioned Nationalrat the Christian Socials had 82 seats--one shy of an absolute majority. The Social Democrats had 68 and the Pan-Germans, 10. The remaining 5 were held by other parties. 62

In spite of contradictory claims, the election was undoubtedly a triumph for Seipel. He was no longer dependent on the support of the Pan-Germans. The improved position of the Christian Socials, moreover, had come in spite of a number of unpopular reforms enacted at the insistence of the League, such as the dismissal of thousands of state employees, the abolishment of all free rides on the railroads, and increases in postal rates and train fares. The gains of the Social Democrats, on the other hand, were most likely the result of the unpopular stand taken by the Pan-Germans during the Ruhr crisis.

There were numerous post election comments. Seipel said he was very pleased with the results. The vote indicated to

61 Neue Freie Presse, August 30, 1923, Abendblatt, p. 3.
him that a majority of the Austrian people approved of his reconstruction policies—a fact he had never doubted. Renner stated that the Social Democrats were also happy with the results. He asserted that his party had never wanted to pursue a policy of opposition at any price, but against Seipel and the Christian Socials there was no other choice. The results of the election showed that the workers approved of their policies.

One significant aftereffect of the election was the changed attitude of the Social Democrats. They believed that it was no longer possible to prevent the complete enactment of the Geneva program by democratic means. Yet the reconstruction program posed such a threat to the republic that the Sanierungswerk had to be stopped by one means or another. As a consequence, Bauer revealed that his party now intended to initiate its own military service. Under the prevailing circumstances it might prove necessary to save parliament from the government.

Several days previous to the Bauer statement Karl Vaugoin, Minister of Defense, had defended the government against similar charges. He explained that all such accusations stemmed from the Social Democrats' desire to supplant the Christian

63 Neue Freie Presse, November 2, 1923, Morgenblatt, p. 5.
64 Bauer, Die Österreichische Revolution, p. 283; Neue Freie Presse, November 11, 1923, Morgenblatt, p. 5.
65 Neue Freie Presse, November 4, 1923, Morgenblatt, p. 3.
Socials as the ruling party. There was absolutely no danger to the republic as a result of recent reductions in the armed forces. The socialists simply wanted to distort everything that was not Social Democratic into black-yellow monarchism.66

Although the menacing attitudes of Austria's two major political parties eventually led to armed conflict after a period of several years, hostilities were temporarily confined to verbal accusations. As election tempers cooled, even these exchanges became less frequent and more restrained. With the election no longer in the limelight the Austrian people could once more devote their time and energy to the Sanierungs werk.

66*Neue Freie Presse, November 4, 1923, Morgenblatt, p. 3.*
CHAPTER IV
THE TIE THAT BINDS

During the campaign the Sanierungswerk had been virtually abandoned. Of the 12,500 state employees who were supposed to have been relieved of their jobs between July and November, only 3,122 were actually discharged. During the same period of time state expenditures were far in excess of those permitted by the reconstruction law. In July, for instance, the government had spent almost one million dollars more than the amount authorized by the commissioner. The one significant accomplishment of Seipel's administration during the campaign was the transfer of the state-owned railroads to private management.¹

The suspension of the Sanierungs program during the election had not been unexpected.² Seipel's post-election conduct, however, surprised almost everyone. Instead of trying to enact the remainder of the Geneva program, the chancellor launched a drive to terminate League control.

Several factors were responsible for Seipel's momentous decision. First of all, the Austrian people were content to


²Neue Freie Presse, April 26, 1923, Morgenblatt, p. 1.
accept reconstruction as it then stood. The krone had been stabilized in August, 1922, thereby ending the inflation. The country was momentarily enjoying relative prosperity. If, on the other hand, the Sanierungswerk were continued, a number of government services would have to be discontinued. Equally important was the fact almost ten per cent of the population that was dependent upon the state for a living realized that eventually they might be adversely affected by the League provision that required the dismissal of 100,000 state employees. Finally, the Austrian people were coming to resent the presence of the commissioner-general, who constantly reminded them of their faults and shortcomings.

Another major factor that influenced Seipel's decision to terminate the Sanierungswerk was the formulation of a similar plan of reconstruction for Hungary. Seipel considered the provisions of the Hungarian protocols an affront to the Austrian nation. Although Hungary was much more rural than Austria, the former was to be allowed to balance its budget at a figure five million dollars in excess of the amount authorized for the Austrian government. Moreover, although the two states had employed approximately the same number of civil servants, Vienna was required to discharge 85,000 more employees than Budapest. Finally, the Magyars were to be

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permitted to balance their budget by increased taxation while the Austrians were forced to do so by reduced spending.\(^4\)

The demands of the state employees for higher wages provided the final inducement for Seipel to abandon the Geneva program. If the government raised the salaries of its civil servants, it would be fiscally impossible for the Austrian state to reduce its expenditures to a maximum of $70,000,000 by the end of 1924. The provisions of the reconstruction bill could only be fulfilled if the state's employees accepted their earnings as the maximum amount the federal government could afford to pay. Since real wages ranged from 20-50% below what they had been in 1913,\(^5\) there was little prospect of the civil servants accepting the status quo.

The possibility of a strike of all government employees had first presented itself in June. When the government had ignored the demands of its workers for higher pay, a labor spokesman called for a campaign of passive resistance.\(^6\) Although such a movement failed to materialize, the workers did not forget their demands. They simply waited for a more opportune time to act.

The civil servants finally decided to press their demands


\(^5\)Layton and Rist, The Economic Situation of Austria, p. 95.

on the eve of the holiday season in December. At first, Seipel refused to comply with the terms of their ultimatum. He asserted that the people could not expect to live in luxury while the state was in the midst of an austerity program. Austria had demonstrated its ability to live, but for that to be a continued reality, there must be a change of attitude on the part of the people.\textsuperscript{7} When the strikers ignored the chancellor's plea, he was forced to compromise by business leaders. The state agreed to pay each of its employees a Christmas bonus of 7,000 kronen.\textsuperscript{8}

As a consequence of prosperity, Hungarian reconstruction, and the strike by government employees, Seipel told Zimmerman that as far as the Austrian government was concerned the goal of the Geneva program had been attained and therefore Austria should be released from League control. Although the austerity program recommended by the commissioner had only been partially carried out, increased revenues had apparently eliminated the necessity for making further reductions in government spending. Besides, the economy measures had never been intended to serve as an end in themselves but only as a means to an end—the economic stability of Austrian finances.

After carefully studying the chancellor's request, the commissioner advised the League Council that he personally did

\textsuperscript{7}Neue Freie Presse, December 14, 1923, Morgenblatt, p. 5.

\textsuperscript{8}The New York Times, December 13, 1923, p. 2; ibid., December 14, 1923, p. 30.
not feel that the Austrian budget had been balanced on a sound basis. The budget had not been balanced by reduced spending but by means of increased revenues. The state still should cut taxes and reduce its expenditures, for the tax rate was far too high. It was unreasonable to expect the Austrian people to bear such a burden. Much of the increased revenue, moreover, was due solely to an artificial prosperity caused by the French invasion of the Ruhr. Angered by the occupation of their country, numerous German merchants had considered it their patriotic duty to purchase Austrian products instead of less expensive French items. As soon as tempers cooled and conditions returned to normal, the Austrian state would not be so well off financially as it presently was.\(^9\)

The League Council discussed Seipel's request to end the Sanierungswerk at its March session. After carefully weighing all the available facts, the Council censured Seipel's government for failure to balance the budget as required and adopted a resolution which declared that the Austrian government had "entered into a solemn undertaking and that League control" could "be withdrawn only when the permanent equilibrium of the budget" was established and the "financial stability of Austria assured."\(^10\)


\(^10\)Ibid., March 13, 1924, p. 3; Monthly Summary of the League of Nations (April, 1924), p. 55.
In spite of the setback Seipel was still determined to end reconstruction. He asked the Council to review its ruling at its June session. Meanwhile, the chancellor took steps to ensure a more favorable decision when his appeal was reconsidered. He reestablished the austerity program by reviving the office of economy commissioner. Corporation taxes were reduced 14%. As an alternative to the League's maximum expenditure of $70,000,000, Seipel proposed what he termed a "normal budget." Other than the actual amount needed to service the loan, the government would be free to spend whatever it took in. Seipel insisted that it was unrealistic for the League to expect his government to confine its appropriations to the level of the 1922 estimates of Austria's anticipated revenue for 1922 through 1924.

In the eventuality that the Council might still refuse to relinquish its control, Seipel intended to seek permission to spend the unused portion of the reconstruction fund. If the original League plan had been strictly adhered to, a surplus would never have accumulated. The anticipated deficit for each month had been carefully calculated, and the requisite sum had then been set aside to cover each monthly deficit. At first, Zimmerman had simply released whatever amount had been called for by the original schedule; however, he altered

11Ibid., May 24, 1924, p. 19; and April 14, 1924, p. 25.  
12Ibid., June 2, 1924, p. 5; and June 7, 1924, p. 15.
this policy when he learned that Seipel had discovered a
method of bypassing his control. Whenever Zimmerman wanted
a specific reform carried out by the Austrian government,
he simply refused to release any funds until the government
did what he desired. By using the same tactics, he could
also prevent the enactment of any bill of which he dis¬
approved. Once government receipts surpassed the original
estimates, however, Seipel held back a portion of the new
receipts until after Zimmerman made his monthly release from
the League loan. Seipel was then free to spend his reserve
funds for whatever purpose he desired. When Zimmerman realized
what was happening, he resorted to releasing only the sum
necessary to cover the actual deficit. As a result of the
commissioner's action a backlog of more than $45,000,000 had
accumulated from the League loan.\textsuperscript{13}

The disposal of the remainder of the Geneva loan became
a major issue within Austria. The problem started with the
discovery that Zimmerman had invested the money in foreign
securities at 5\% interest while the Austrian state was forced
to pay 8\% interest for the privilege of using it.\textsuperscript{14} Several
party leaders suggested that the money could be put to best
advantage by buying up the League loan on the international
finance market. The advantage of the scheme was that it

\textsuperscript{13}The New York Times, April 7, 1925, p. 35.
\textsuperscript{14}Ibid., May 29, 1924, p. 25.
would not only eliminate the interest payments, but it would also shorten the period of foreign control. Austrian businessmen, on the other hand, believed that the money should be used to fill the country's need for more capital at cheaper interest. Seipel wished to see the money spent for the electrification of the railroads and the construction of hydroelectric plants.

Zimmerman, however, refused to allow the surplus to be used for any purpose. After the March session of the League he pointed out that since the Austrian budget had not been balanced as required by the Geneva Protocols, the unspent portion would have to be retained to meet any future deficits. Unwilling to accept Zimmerman's decision as final, the chancellor asked the League to discuss the subject at its June session.

Despite the extensive preparations that he had made, the Austrian chancellor never got a chance to present his plans to the League Council. On the eve of his departure for Geneva he was seriously wounded in an assassination attempt by Karl Jaworek, a young socialist.

While Seipel was hospitalized from this attempt on his life, the Council debated Austria's future. In the chancellor's

15Ibid.
16Ibid.
17Ibid., March 13, 1924, p. 5.
18Ibid., June 2, 1924, p. 1.
absence the League refused to set a definite date for terminating its control over Austrian finances. The Council did agree, however, to "institute a special inquiry as to whether it would be possible to meet Austria's request to raise her annual expenditure."\(^{19}\) Permission was denied, however, for the government to use any portion of the reconstruction loan for internal improvements unless it first received authorization to do so from the bondholders.\(^{20}\)

Although the League had not acted favorably on any of Seipel's proposals, it had, on the other hand, not completely rejected any of them. Since the chancellor was not only hospitalized, but also on the critical list, the Council members had adopted a wait-and-see attitude. They had no way of judging the course of Austrian politics if Seipel should die or be unable to continue in office. Moreover, they wanted time to evaluate the effects of a recession that was then in progress in Austria. The economic slump had resulted from some unsound banking practices. A number of Austrian banks had speculated quite heavily in futures of the French franc. When that currency rallied on the international exchange, a financial crisis developed throughout Austria. With so much of their assets tied up in francs, the banks had a shortage of money to loan locally. Unable to borrow

\(^{19}\)Ibid., June 17, 1924, p. 4.

\(^{20}\)Ibid.
money, many industries had no alternative except to cut back production which, in turn, adversely affected the entire Austrian economy. Unless conditions worsened considerably before the September session of the League, there were reasons for believing that the Council would then act favorably on some if not all of Seipel's proposals.

The possibility of the League Council approving Seipel's proposals was considerably lessened, however, when a dispute erupted between the commissioner and the president of the Austrian National Bank, Richard Resch. Zimmerman reported to the League that the National Bank had permitted the gold cover behind the Austrian currency to fall below the minimum required level. Infuriated by the commissioner's accusation, Resch submitted his resignation and then refuted the charges in an open letter. He declared that the bank had never followed such unsound banking policies. After accusing Zimmerman of either being misinformed or of deliberately distorting the facts, Resch cited figures to prove that the bank was fulfilling all of its legal requirements. A few days later he added, "I am convinced that...Austria will

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21Ibid., May 5, 1924, p. 23. The index to the Austrian stock exchange plunged from a high on January 15, 1924, of 2680 to a low of 975 on October 15. Layton and Rist, The Economic Situation of Austria, p. 127. In order to end the crisis, it was necessary to loan banks money taken from the reconstruction fund.


23Resch to Zimmerman, Vienna, August 22, 1924, in the Neue Freie Presse, August 23, 1924, Morgenblatt, pp. 3-4.
henceforth be in a position to keep her own house in order. Austria has experienced the dangers and horrors of inflation in such a way that there is no desire for further experience of this sort.\textsuperscript{24}

Fearful that the Resch-Zimmerman feud might jeopardize the chances of the League approving his proposals, Seipel decided to act immediately. Disregarding the advice of his physician, he announced that he was personally going to Geneva to refute Zimmerman's charges.\textsuperscript{25} The chancellor was shrewdly gambling that his physical condition would win for Austria the sympathy of the League and thereby ensure favorable action on his requests.

At its September session the League Council resumed its discussion of the proposals that Seipel had made in June. In his keynote address the President of the General Assembly paid a special tribute to Seipel by stating that the League was honored and touched by the chancellor's presence after his recent ordeal.\textsuperscript{26} Seipel took full advantage of this lavish praise by replying that, although his health had not yet permitted him to resume all of his official duties, he considered himself morally obligated to represent his country in Geneva at this particular time.\textsuperscript{27} Primarily as a result

\textsuperscript{24}As quoted in \textit{The New York Times}, August 29, 1924, p. 10.
\textsuperscript{25}Ibid., September 8, 1924, p. 2.
\textsuperscript{26}\textit{Neue Freie Presse}, September 11, 1924, Morgenblatt, p. 4.
\textsuperscript{27}Ibid., Abendblatt, p. 1.
of Seipel's presence, the Council accepted the concept of a "normal budget" and authorized the Austrian government to spend the balance of the loan for internal improvements. The League Council still refused, however, to specify a date for withdrawing control.

Although the League had acted favorably on two of his three proposals, Seipel was still not satisfied. He was determined to end reconstruction. In order to accomplish his last objective, he reasoned that the Council must be convinced beyond all reasonable doubt that the financial stability of Austria had been secured on a sound basis. To provide such conclusive proof, he proposed to curb the spending of the provincial legislatures and to force them to share their revenue with the federal government. At that very moment Vienna had a surplus of over $9,000,000 in its treasury. 28

Although Seipel expected vigorous opposition to his revenue-sharing bill from the Social Democrats who controlled the purse strings of Vienna, he did not anticipate any serious opposition from within his own party. He was therefore taken by complete surprise when the rural wing of the Christian Socials indicated they might vote against the measure. Determined to crush this intra-party rebellion, Seipel staked his prestige on the passage of the proposed bill. When the vote was finally taken the rural wing of the Christian Socials

Party, led by Rudolf Ramek, rebelled against the party discipline and voted with the Social Democrats to defeat the measure. Since Seipel considered the bill's defeat tantamount to a vote of no confidence, he submitted his resignation. Although President Michael Hainisch immediately asked him to form a new government, he refused. 29

In an open letter to Wilhelm Miklas, president of the Nationalrat, Seipel explained his reasons for resigning. Since the National Assembly was no longer interested in terminating reconstruction at the earliest possible date, the office of chancellor should be entrusted to somebody else. His recent ordeal, moreover, made it impossible for him to carry out a normal work load without impairing his health. 30

Seipel's refusal to form a new government produced an atmosphere of uncertainty concerning the Sanierungswerk. How would the League react to Seipel's resignation? Who would succeed him as chancellor? Would the Pan-German-Christian Social coalition continue? These questions were only a few of the many that the Austrian people were asking themselves, and for the time being there were no satisfactory answers.


30 Seipel to Miklas, Vienna, November 17, 1924, Neue Freie Presse, November 18, 1924, Morgenblatt, p. 1.
CHAPTER V
THE END OF LEAGUE CONTROL

During Seipel's chancellorship there had been a remarkable improvement in the Austrian economy. In contrast to the spiraling inflation of mid-1922, the krone had become the most stable currency in Europe. Moreover, due to the fact that Vienna was rapidly regaining her position as the chief commercial center of Southeastern Europe, Austria's balance of trade had almost reached a favorable level.\(^1\) Austria had also attained a degree of economic stability since industry had gradually accustomed itself to the smaller markets of the post-Habsburg era. However, in spite of the improvements brought about by the Sanierungswerk, the Austrian people were still waiting for the complete return of prosperity.

The responsibility for once more making Austria prosperous was entrusted to none other than Rudolf Ramek, the person who had brought about Seipel's resignation. Strangely enough, it was Seipel who had recommended Ramek for the job of Austrian chancellor. Seipel's recommendation, however, had been based on ulterior motives. First of all, as party chairman, he did not want to split the Christian Social

\(^1\)Layton and Rist, The Economic Situation of Austria, p. 34.
Party, but most of all, he wanted to hasten the end of reconstruction. Once Ramek realized the futility of trying to end the Sanierungswerk by any other means, he would be more likely to support Seipel's proposal to require the provinces to share their revenues with the federal government. The events of the past year had convinced Seipel that the passage of such a bill was the sine qua non for terminating League control over Austrian finances. After a few months as chancellor Ramek would undoubtedly come to the same conclusion.

Unaware of Seipel's motives, the bondholders and co-signers of the League loan were alarmed by the transfer of power from Seipel to Ramek. The only thing they knew about the new chancellor was the fact that he was a champion of states' rights and an outspoken advocate of the Anschluss. Consequently, investors were somewhat concerned about the security of their investment. Moreover, the governments that had guaranteed the Geneva loan suddenly realized that there was a strong possibility that they might have to forfeit the securities that they had deposited in the Swiss National Bank as collateral for the Austrian loan.

Both Zimmerman and Seipel tried to alleviate the growing apprehension about the Rameck government. The commissioner assured everyone that since the Austrian government could not repudiate the Geneva Protocols without violating international law, there was no need for anyone to be alarmed about the new
administration. Zimmerman's statement was reinforced by Seipel, who said that he was convinced that the new administration was prepared to do everything within its power to fulfill the terms of the Geneva Protocols. He also reminded everyone that since he had personally retained the position of party chairman, it was necessary for Ramek to secure his approval before making any major policy changes. Since everyone was aware of his attitude toward the Geneva agreement, any individual who distrusted Ramek could still have full confidence in the Austrian government. 3

The above statements by Seipel and Zimmerman temporarily restored the world's confidence in Austria. That faith remained unshaken until January 10, 1925, when Zimmerman announced that the change of government had definitely retarded reconstruction. 4 Based on information subsequently supplied by the commissioner, the Financial Committee of the League called Ramek's attention to the fact that his administration had failed to carry out a number of the provisions of the September agreement of 1924. The Austrian government, for instance, had failed to reorganize the finance ministry so that more adequate control could be exerted over the expenditures of the various departments. Moreover, the Nationalrat had not yet approved a budget for the fiscal year

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2 The New York Times, November 19, 1924, p. 3.
3 Ibid.
of 1925. Finally, Ramek had done nothing to fulfill Seipel's pledge to secure a larger share of the provincial revenues for the federal government.5

Having been publicly rebuked by the League, Ramek decided to comply with the terms of the Geneva agreement. Despite his conciliatory attitude, he was, however, still bitterly opposed to the federal-provincial revenue bill. Since Seipel had originally suggested the measure as a means of convincing League officials that the financial stability of Austria had been established on a sound basis, Ramek reasoned that he could avoid the necessity of passing the bill simply by finding new sources of revenue. In his first move to supplement the state's income, he placed the state forests and crown lands under private management.6 He hoped that such action would convert an annual deficit of $600,000 into a small surplus.

Ramek also hoped to increase revenues by expanding Austria's foreign markets. The first major step toward this goal was taken on March 1, 1925, when the discredited krone was replaced by the schilling, which was worth 10,000 paper kronen. Two weeks later Austria removed all restrictions on foreign currency transactions.7 Then on April 8 the administration introduced a new tariff system which permitted

5Ibid., February 10, 1925, p. 7.
6Ibid., February 23, 1925, p. 11.
7Ibid., March 14, 1925, p. 4.
a customs control board to raise and lower duties within certain imposed limits, thereby eliminating the necessity of obtaining parliamentary approval for each individual revision. Finally, Ramek concluded a trade agreement with Russia that obligated the Austrian National Bank to discount all Russian bills of exchanges.

Ramek also tried to attract more tourist dollars to Austria. The tax on all restaurants, cabarets, and theaters was reduced from 40 to 10 per cent. Moreover, in April the government reduced railroad fares and the cost of visas for all visitors.

The most important phase of Ramek's drive to find new revenues for the state was directed toward eliminating the annual payment of $10,000,000 for unemployment benefits. He tried to persuade Washington to pass a special emergency law to permit 50,000 skilled Austrian workers to settle in the United States. If Congress would agree to such a proposal, his government would allocate $7,000,000 to help the emigrants resettle. When the United States finally rejected

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8 Ibid., April 9, 1925, p. 9.
9 Ibid., November 29, 1925, Sec. II, p. 2. Primarily as a result of the increased trade with Russia, Austrian exports increased by 20% during the first half of 1926.
10 Ibid., December 14, 1924, Sec. II, p. 7.
11 Ibid., April 29, 1925, p. 15.
12 Ibid., May 28, 1925, p. 4.
13 Ibid.
his proposal, Ramek appropriated $84,000 to facilitate emigration to Brazil.\textsuperscript{14}

Despite the impressive results of Ramek's legislative program, the League Council refused to accept it as an alternative to the federal-provincial revenue bill.\textsuperscript{15}

One reason for the League's adverse decision was the Allied fear of Anschluss. Ever since Ramek had become chancellor the possibility of a union between the two Germanic countries had seemed more and more imminent. The Allied Powers were consequently hesitant to terminate the Sanierungswerk, since they considered League control to be an adequate safeguard against the Anschluss. Moreover, by insisting on the enactment of Seipel's revenue proposal, the British, French, Czech, and Italian governments made it appear that the Austrian government was solely responsible for prolonging the period of League control.

The Anschluss problem had been revived in December, 1924, when the German Foreign Minister, Gustav Stresemann, had officially inquired about the possibility of Germany's becoming a member of the League of Nations. The Pan-Germans in both Germany and Austria were naturally enthusiastic about Stresemann's action for they had long considered German

\textsuperscript{14}\textit{Ibid.}, April 11, 1926, Sec. II, p. 13.

\textsuperscript{15}\textit{Ibid.}, May 30, 1925, p. 4.
membership in the League to be the major prerequisite for a peaceful union of the two Teutonic nations. While Stresemann continued negotiating with League officials, the Pan-Germans tried to revive the moribund Anschluss movement by burning the boundary posts between Austria and Germany on February 22, 1925.16

The main impetus for the Anschluss movement, however, came from the Austrian vice-chancellor, Leopold Waber. In a speech at Graz on April 4, he asserted that there was only one solution for Austria's economic problems—a union with the German Fatherland. He declared, moreover, that he was emphatically opposed to any attempt to form closer economic ties with any of the Danubian states. He concluded his inflammatory remarks by asserting that the "Austrian Empire was not destroyed simply in order to restore it...under Czech rule. That's what the Danubian confederation would amount to. The confederate idea is [nothing but] a disguised Czech plan to eliminate Vienna from world commerce."17

A few days after Waber's speech The New York Times warned its readers that unless the League of Nations took the initiative in breaking down the tariff walls which separated the succession states of the Habsburg monarchy, the Austrian government was probably going to demand a union with

16 Ibid., February 23, 1922, p. 1.
17 As quoted in The New York Times, April 5, 1925, Sec. II, p. 16.
Actions which Ramek took the next day tended to substantiate the report of the New York paper. The Austrian chancellor sent a note to the League Council "asking that a committee of experts be appointed to find a solution for Austria's industrial and commercial difficulties." He insisted, moreover, that if a workable solution were not found in the immediate future, the Austrian people would be forced to take steps to prevent a severe economic crisis.\(^1\)

Realizing that Ramek's statement was of immense propaganda value to the Pan-Germans, especially when it was coupled with vice-chancellor Waber's recent remarks, Seipel thought it advisable for some eminent person who was associated with the government to disavow the Anschluss publicly. Thus on April 16, one day after the publication of Ramek's note to the League, Seipel stated, "I am not against a union, but I do not see a solution of Austria's problems in such a union.... My ideal is a United States of the whole of Europe...if not in a political sense at least in an economic sense."\(^2\)

Seipel's attempt to dampen the ardor of the Pan-Germans, however, was unsuccessful because of the heated German presidential campaign. In a last minute move to minimize Hindenburg's tremendous popularity among the masses, Wilhelm Marx seized upon Ramek's statement and advocated an immediate

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\(^{18}\) Issue of April 15, 1925, p. 8.  
\(^{19}\) Ibid., April 16, 1925, p. 2.  
\(^{20}\) As quoted in ibid., April 17, 1925, p. 4.
The resultant upsurge of Anschluss sentiment, however, proved to be of short duration, for on April 26 Hindenburg defeated Marx by a decisive margin.

Since Hindenburg's election had removed any immediate prospect of union between the two Germanic nations, the Allied Powers began reexamining the necessity of maintaining League control over Austria. Thus on May 23, approximately one month after Hindenburg's election, Eric Drummond, the Secretary General of the League of Nations, informed Ramek that, in compliance with his recent request, the Austrian Committee had decided to conduct a special inquiry to determine the exact status of the Austrian economy. It was tacitly understood by everyone involved that such a survey constituted the first step toward the withdrawal of League control.

When the Secretary General announced on June 4 that Walter T. Layton, editor of The Economist (London), and Charles Rist, professor of political economy at the University of Paris, had been chosen to conduct the investigation, Wilhelm Ellenbogen, an outspoken Social Democrat, immediately challenged the selection. He asserted that the two men had been picked because the League knew that they were convinced that a Danubian confederation was the only solution to Austria's economic problems. He insisted, moreover, that the inquiry

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21 Ibid., April 18, 1925, p. 1.
22 Ibid., May 24, 1925, Sec. II, p. 16.
had been devised solely as a means of discrediting the Anschluss. Layton replied that the opinions expressed in his previous articles should be disregarded because he was determined to consider all the available evidence before making any recommendation to the League.

Despite Rist's statement that he had not prejudged the Austrian situation, the appointment of the two men finally convinced Ramek that the only way to end the Sanierungswerk was to permit the passage of the federal-provincial revenue bill. Thus, on June 17, almost seven months after Ramek had defeated the original proposal, a slightly modified version of Seipel's revenue bill was enacted into law. The new measure gave the federal government a larger share of the provincial taxes, as well as the right to veto any financial legislation proposed by any provincial legislature.

Following the passage of Seipel's revenue bill, Ramek anxiously waited the completion of the Layton-Rist survey. Since his country had finally fulfilled all of its obligations under the Geneva Protocols and the September agreement of 1924, there was no longer any real justification for the

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23 Ibid., June 21, 1925, Sec. II, p. 2.
24 Ibid., July 2, 1925, p. 31.
25 In order to compensate for their loss of funds, the provincial governments tried to borrow money from abroad. When Zimmerman was asked if he approved of such loans, he stated that it would be advisable for all bankers who wished to negotiate them to consult him in advance. He added, however, that he did not object to such loans as long as they conformed to the overall plan of reconstruction. Ibid., June 19, 1925, p. 19.
League's maintaining its financial control over Austria. The Sanierungswerk could be prolonged only if Layton and Rist submitted an extremely unfavorable report.

After two months of intensive work Layton and Rist finally presented their report to the League on September 6. For the most part, their study was optimistic about the economic situation in Austria. Although industrial production was only 80% of what it had been prior to World War I, they maintained that there was absolutely no doubt that Austria was a viable country. Most of the state's economic difficulties were only temporary side effects brought about by the country's post-war economic readjustment. After a period of time most of Austria's problems would simply disappear. The languishing trade between the succession states, for instance, was almost certain to increase sometime in the immediate future. Austria's only real problem was a lack of capital which could always be secured through international loans.

Immediately following the presentation of the Layton-Rist report, the League Council debated the future status of the Austrian state. The French wanted to abolish all control immediately, because under the existing circumstances

26 The only responsible criticism of the Layton-Rist report was made by the Neue Freie Presse, which stated that perhaps the two men had been overly optimistic about Austria's future. See the evening edition of September 6, 1925, p. 1.

they believed that such action was the most effective means of preventing the Anschluss. The British, however, wished to retain a limited control over Austria's financial affairs in order to reassure those people who had invested their money in the Geneva loan.\footnote{The New York Times, September 10, 1925, p. 10. The Austrian bankers sided with the British, for they feared that once all League control was abolished, they would no longer be able to borrow money from American bankers.}

On September 10 the League adopted a compromise proposal. The Council agreed to withdraw its control over Austrian finances, provided that the Austrian government agreed to three conditions. First, the foreign advisor to the Austrian National Bank must be retained for the next three years. Secondly, the Austrian government must agree to permit the reestablishment of League control anytime within the next ten years if the revenues assigned to amortize the reconstruction loan should prove to be insufficient for that purpose or if the Austrian government should be unable to maintain a balanced budget. And thirdly, before January 1, 1926, the League Council and the Austrian government were to agree on some method of safeguarding the guarantees for the loan.\footnote{Ibid., September 11, 1925, p. 6.}

The Austrian people were outraged by the League's action. The League Council had already extended the Sanierungswerk two years beyond the original agreement, and now it wanted
to maintain its suzerainty for another ten years. Since the uproar threatened Ramek's position as chancellor, he had to disassociate himself from the League's decision. On September 11 he made the following statement in the Nationalrat:

I made no binding pledges and there is no new agreement reached between Austria and the League Council, and no State treaty which requires ratification of Parliament. The National Assembly will be free to judge. If Parliament does not accept the new conditions, then matters will remain as originally settled, namely, that control will be abolished when conditions in the reconstruction scheme are fulfilled.\footnote{As quoted in The New York Times, September 12, 1925, p. 3.}

Ramek, however, eventually realized that it was futile to try to end League control without accepting the League's three conditions. Consequently, on October 15 at his request, the Nationalrat reluctantly agreed to permit the reestablishment of League control if future conditions should warrant such action.\footnote{The Times (London), October 17, 1925, p. 11.}

On December 2 the Financial Committee of the League met with a delegation from the Austrian government to decide what was to be done with the unused portion of the Geneva loan once the commissioner was withdrawn. Since the League Council had already authorized the Austrian government to spend the balance of the loan for internal improvements, the Finance committee's primary concern was to ensure that the money was used solely for that purpose. After three weeks of discussion, the Austrian government agreed to a proposal
which permitted a group of trustees, who were to be chosen by the Finance Committee, to administer the remainder of the loan as well as the revenues assigned for its amortization. Having resolved its last major difficulty with Austria, the League tentatively set May 1 as the date on which Zimmerman was to leave Austria.  

The prospects of the League's terminating the Sanierungs-werk on May 1 were considerably diminished, however, when Austria became the object of an international furor created by Germany's formal application for League membership on February 10, 1926. Fearing that the German application was only a prelude to the Anschluss, Mussolini was determined to prevent the establishment of a powerful Teutonic power on the Italian border, especially since the Tyrol was a German irredentist area. When he was unable to persuade the British and French governments to prolong League control over Austria for an indefinite period of time, he tried to obtain the cooperation of the Yugoslav government. On March 1 The New York Times reported that the Duce and the Yugoslav foreign minister, Mintchitch, had apparently concluded a treaty to prevent Germany from annexing Austria. A Czech paper stated that the two powers had also reached an agreement on how Austria was to be partitioned among the various European

32 Ibid., December 21, 1925, p. 21; The New York Times, December 3, 1925, p. 8; and January 1, 1926, p. 29.

33 See p. 4.
powers if she made any attempt to unite with Germany.\textsuperscript{34}

Alarmed by the rumors growing out of the Mussolini-Nintchitch talks, Ramek stated, "Our relations with the Reich are those of close and affectionate members of the same family. To preserve and strengthen the bonds of friendship between the two countries is our most earnest endeavor. How could it be possible that so simple and self-evident a policy could be misinterpreted anywhere."\textsuperscript{35}

Aristide Briand, the French foreign minister, eventually convinced Nintchitch and Mussolini that instead of deterring the Anschluss their action was only creating a great deal of hard feeling. The best way to prevent a union between the two Germanic countries was to open their markets to Austrian products. As long as she was prosperous, Austria would do nothing to jeopardize that prosperity.

As a result of Briand's success with Nintchitch and Mussolini, there was no longer any reason to continue the \textit{Sanierungswerk}. Consequently, on June 9 the League Council formally voted to terminate its control over Austrian finances on June 30. After reaffirming the Council's decision, the General Assembly spent an hour and thirty minutes praising the Austrian government for the many sacrifices it had made and congratulating it for the great accomplishments it had

\textsuperscript{34}\textit{The New York Times}, February 28, 1926, Sec. I, p. 27.

\textsuperscript{35}\textit{Ibid.}, March 28, 1926, Sec. I, p. 25.
made during the past four years.\textsuperscript{36}

The Austrians eagerly awaited the departure of Zimmerman on June 30. The \textit{Neue Freie Presse}, for instance, stated that the Austrian locomotives would undoubtedly whistle for glee when they finally carried the commissioner across the Austrian border.\textsuperscript{37} George Franckenstein, the Austrian ambassador to Britain, stated, moreover, that it would be a joyous occasion when Zimmerman finally left the country never to return.\textsuperscript{38}

When June 30, 1926, finally arrived, there was a brief public ceremony to commemorate the occasion. Chancellor Ramek turned to Zimmerman and said, "You came to us as a stranger, you are leaving as a friend. I may say even as one of us. Austria will never forget you."\textsuperscript{39}

When a person takes a close look at the Austrian \textit{Sanierungswerk}, one of the first things that he notices is that League control revolved almost entirely around the Anschluss. Seipel exploited the movement to the fullest in his unsuccessful attempt to blackmail the Allied powers into providing financial assistance to the Austrian government. Seipel soon discovered to his dismay, however, that

\textsuperscript{36} \textit{The Times} (London), June 10, 1926, p. 15.
\textsuperscript{37} \textit{Neue Freie Presse}, June 1, 1926, \textit{Morgenblatt}, p. 1.
\textsuperscript{38} \textit{Ibid.}, June 29, 1926, \textit{Morgenblatt}, p. 2.
the Anschluss was not a weapon that he could manipulate at will. Having thoroughly frightened everyone in Europe by his tactics, he suddenly realized that the French had converted his means to an end into an end in itself, although in a greatly perverted form. The Sanierungswerk quickly evolved into a French trap. After unsuccessfully trying everything within his power to escape the trap, he entrusted Ramek with the position of chancellor. The new chancellor was no more successful than Seipel. Only after Hindenburg's election had eliminated any immediate possibility of the Anschluss did the French consent to the withdrawal of League control.

A comparison between the original goals of the Geneva Protocols and the actual accomplishments of the Sanierungswerk is most interesting. Although the Geneva agreement was ostensibly formulated to bring about the economic stability of Austrian finances, in actual practice it became a means of dictating to the Austrian government. Zimmerman's control of the Geneva loan made it possible for the League completely to revamp the structure of the Austrian state. In its overzealous attempt to curtail Austrian expenditures, the League was directly responsible for the destruction of the delicate compromise between federalism and centralism that had been worked out in 1920. The League's insistence that the Austrian government limit its expenditures to a maximum level of $70,000,000, moreover, was hardly compatible
with the goals of the Geneva Protocols. The figure of $70,000,000 was originally suggested as the safe amount that the Austrian state could spend without jeopardizing the country's economic stability. Once it became obvious that the Austrian government was capable of sustaining itself at a much higher figure, the League Council should have immediately approved Seipel's "normal budget." Although the League's policy of forcing the Austrian government to adhere to an outdated budget may have been an effective means of continuing the Sanierungswerk beyond the original two years, such action was completely insensitive to the needs of the Austrian people.

On the positive side the Sanierungswerk was responsible for a number of important accomplishments. The krone was quickly stabilized. The railroads and the state forests were transformed from unprofitable state industries to thriving enterprises under semi-private management. Finally, a large number of unnecessary civil servants were eliminated.

In a number of areas the League failed to take any meaningful action. Almost everyone knew that Austria's natural markets in the succession states were slowly disappearing as the Danubian states erected higher and higher tariff walls. Each time a customs duty was raised the Austrian economy became more stagnant. Instead of making any attempt to help Austria in this matter, the League simply assured Ramek that Austria's neighbors would probably be more willing to admit Austrian products sometime in the
immediate future. The League also ignored the tremendous need for capital in Austria. If the surplus funds of the Geneva loan had been placed at the disposal of Austrian businesses in the spring of 1924, the recession which gripped the country for the next nine months might have been avoided.

The roles of certain key individuals were crucial to the Sanierungswerk. Of all the participants, Zimmerman perhaps had the most difficult assignment. The commissioner was placed between two hostile forces and was forced to try to please both sides. During the early phase of League control he made an earnest effort to meet the needs of the Austrian people, but during its later stages he was completely alienated from both the Austrian people and the government. If the commissioner had only been courageous enough to side with the Austrian people against Great Britain, France, Italy, and Czechoslovakia, the Sanierungswerk could have been recorded in history as an honorable and noble experiment in international finance.

Seipel played the most controversial role in the Sanierungswerk. It was his diplomatic blackmail that was responsible for the Geneva loan and the establishment of League control. His decision to introduce the reconstruction law as a simple law instead of a constitutional amendment gives some substance to the accusation of the Social Democrats that Seipel was a power-mad cleric. Despite his resort to an extralegal course of action, however, the chancellor undoubtedly believed that
what he was doing was in the best interests of his country. Nowhere does it appear that he was acting from selfish motives. The evidence at hand seems to indicate that his move to the right occurred sometime after his resignation. If he had been power mad, it is doubtful that he would have been willing to turn the chancellorship over to a political rival. His efforts to terminate the Sanierungswerk and thereby end his government's plenary power, moreover, hardly suggest that he was committed to a goal of power for power's sake. If a person is determined to pinpoint the exact moment of Seipel's conversion to the right-wing authoritarianism, he must look elsewhere than in the Sanierungswerk.

The parts played by the minor participants must not go unmentioned. Although Ramek was elevated to the chancellorship solely as a means of hastening the end of reconstruction, he proved himself to be an able administrator, although not a powerful one. There is no doubt that Renner and Bauer were sincere opponents of League control. When they realized that starvation was the only alternative to the Geneva loan, they permitted the ratification of the Geneva Protocols. They became entrenched opponents of reconstruction only after they discovered that the Sanierungswerk was being used to destroy their political base of power. Their chief mistake was in blaming Seipel for all of their trouble. Moreover, they failed to realize at times that their interests could best be served by cooperating with the Christian Socials.
against League officials.

Today almost everyone except the historian and the Austrian people have forgotten that the Sanierungswerk ever took place. Despite its less than honorable relationship with Austria, for a long time the League derived great satisfaction by constantly reminding itself of its great accomplishment. The fact that anyone could define the League control of Austrian finances as a "great accomplishment," however, is indicative of just how insignificant the League of Nations was during the first few years of its existence.

The effects of the Sanierungswerk on Austria, however, were anything but insignificant. The destruction of the delicate balance between federalism and centralism had a great deal to do with the subsequent creation of the Christian corporate state in Austria. Moreover, the actions of the Christian Socials and Social Democrats throughout the period of League control were partially responsible for the Austrian people's growing disillusionment with democracy. Finally, the failure of the League of Nations to complete its economic rehabilitation of Austria by finding markets for Austrian products in the succession states was one of the principal factors that eventually led to the Anschluss in 1938. Perhaps the Austrian people would have been better off if the Sanierungswerk had never come into existence.
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