

THE CREDITANSTALT CRISIS OF 1931 AND THE FAILURE OF THE AUSTRO- GERMAN CUSTOMS UNION PROJECT*

IAGO GIL AGUADO¹

¹*St John's College, Cambridge*

ABSTRACT. *This article reveals that the diplomatic and financial history of 1931 was even more turbulent than believed to date. New documents found at the Bank of England show that an intricate system of cross-deposits was set up by the Austrian Central Bank covertly to direct funds to the Creditanstalt via American and British banks – to compensate it for taking over the bankrupt Bodencreditanstalt – suggesting that the received accounts of the collapse of the Creditanstalt need to be revised. Further, documents have come to light which show that France exacerbated the 1931 run on the Austrian schilling in order to force Austria to abandon the Austro-German customs union project of that year. This article considers the relationship between the collapse of the Creditanstalt and the abandonment of the Austro-German customs union, incorporating the new evidence to provide a novel interpretation of the financial diplomacy of that year.*

I

The collapse of the Creditanstalt in May 1931 is generally held to represent the start of the European banking crisis of that year.¹ The link between the collapse of the Creditanstalt and the German banking crisis is, however, still unclear.

* I would like to acknowledge the funding provided for my research by the Economic and Social Research Council.

¹ Despite the central role played by the Creditanstalt's collapse in the European banking crisis of 1931, literature on the subject is not abundant. This, together with the refusal of the Creditanstalt to open its archives, means a definitive account of the collapse of the bank remains to be written. None the less, several useful recent studies by Austrian historians exist. The works of D. Stiefel, *Die Grosse Krise in einem kleinen Land: Österreichische Finanz- und Wirtschaftspolitik 1929–38* (Vienna, 1988), and *Finanzdiplomatie und Weltwirtschaftskrise – Die Krise der Credit-Anstalt für Handel und Gewerbe 1931* (Frankfurt am Main, 1989) have provided valuable insights into the crisis. Stiefel's work has shown that the hypothesis that the French provoked the collapse of the bank by withdrawing short-term funds must be discarded, and highlights the questionable practices of the bank's management. F. Weber, 'Vor dem großen Krach. Die Krise des österreichischen Bankwesens in den zwanziger Jahren' (unpublished habilitation dissertation, University of Salzburg, 1991), unfortunately as yet unavailable to the general public, provides perhaps the most detailed study of the internal causes of the bank's problems, providing valuable information on the judicial investigations conducted into the bank's collapse. Similarly H. Kernbauer, *Währungspolitik in der Zwischenkriegszeit – Geschichte der Oesterreichischen Nationalbank von 1923 bis 1938* (Vienna, 1991), provides a careful insight into the Austrian central bank's role during the crisis. A. Schubert, *The Credit-Anstalt crisis of 1931* (Cambridge, 1991), provides an interesting application of modern economic theory to the crisis. As far as the Austro-German customs union is concerned, modern literature is exceedingly rare, specially that referring to the situation in Austria. The seminal work

Harold James argues that ‘it was the common nature of the causes of the crisis that provided the link, the only substantial link, between German and Austrian crises after 11 May 1931’,² whereas P. Temin feels that there was a more direct link: ‘The Austrian government guaranteed its [the Creditanstalt’s] liabilities and the bank’s foreign creditors agreed to stop withdrawals. This meant, however, that the assets of the creditors lost liquidity. German banks were affected particularly, and their creditors started to withdraw deposits in anticipation of further trouble.’³ Figures found in the archive of the Austrian Nationalbank disprove P. Temin’s claim that the German banks were particularly heavily affected by the agreement to stop withdrawals from the Creditanstalt. The documents available reveal that the German creditors of the Creditanstalt held less than 4 per cent of the bank’s overseas debt.⁴ None the less, it is clear that the collapse of the Creditanstalt heralded the German crisis, and probably did help undermine confidence in the German banking system.

The conventional view holds that the problems of the Creditanstalt were mainly the result of its merger in 1929 with the bankrupt Bodencreditanstalt, Austria’s second largest bank (with a larger industrial portfolio than the Creditanstalt).⁵ It is claimed that the management of the Creditanstalt was initially unaware of the real extent of the losses of the Bodencreditanstalt, which only emerged in 1931. The position of the Creditanstalt was further weakened by the effects of the great depression, which hit its vast industrial portfolio hard – the Creditanstalt was a German-style investment bank – and

by E. W. Bennett, *Germany and the diplomacy of the financial crisis, 1931* (Harvard Historical Monographs, Number 50, Cambridge, 1962), does not rely on Austrian archival material, material only partially studied in W. Goldinger, *Das Projekt einer deutsch-österreichischen Zollunion von 1931* (Graz, 1965), and a gap which this article aims to fill. To date nobody has adequately incorporated the valuable financial and diplomatic information available in the archives of the Bank of England, the Austrian Nationalbank and the Archiv der Republik in Vienna to understand the extent to which these two crises were linked. This is the fundamental objective of this article.

² H. James, ‘The causes of the German banking crisis of 1931’, *Economic History Review*, 37 (1984), p. 81.

³ P. Temin, *Did monetary forces cause the great depression?* (New York, 1976), p. 2.

⁴ Creditanstalt to Nationalbank, 5 June 1931, Vienna, Archive of Oesterreichische Nationalbank (hereafter ANB), *Bankakte* 1536/1931. The Creditanstalt’s foreign debts at the beginning of June amounted to 71,240,400 dollars, of which 26,826,200 were held by British creditors, 23,871,000 by American ones, 6,190,000 by French ones, 6,140,000 by Dutch ones and 5,561,900 by Swiss ones, the remaining 2,651,300 were held by creditors from other countries (including Germany). The exact figure for German-held debt is not available, but it was clearly negligible. The agreement to stop withdrawals reached with the Creditanstalt’s foreign creditors was signed on 16 June, so Temin’s claim lacks any empirical basis. Similar figures are provided by A. Lackner, ‘Der Zusammenbruch der Credit-Anstalt 1931 – eine Literaturübersicht’ (unpublished dissertation, Wirtschaftsuniversität Wien, Vienna, 1992), pp. 65–6, and by Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, p. 37.

⁵ K. H. Geng, ‘Der Zusammenbruch der Creditanstalt und die Sanierungsmassnahmen der Bundesregierung’ (unpublished dissertation, Institut für Wirtschafts- und Sozialgeschichte, Vienna, 1969), p. 75.

meant many of its loans were unrecoverable. By the spring of 1931, it is argued, these losses had seeped through the intractable management structure of the Creditanstalt, which was also partly to blame for its failure, and, when preparing the balance for 1930, the managers realized that the bank's capital had been wiped out. Consequently, they decided to approach the government on 8 May and declared the bank to be bankrupt. This is a view supported by the likes of Kindleberger, who argues that 'when the Creditanstalt took over the Bodencreditanstalt, it acquired 80 million schillings of capital but 140 million of accumulated losses, as it learned later when a British chartered accountant revealed the truth'.⁶

This traditional account is supported by much contemporary evidence. Peter Bark, an employee of the Bank of England then in Vienna, reported back to London soon after the Creditanstalt's problems were made public that:

Preparing a Balance Sheet for the forthcoming General Meeting of the Shareholders, the management of the Oesterreichische Credit-Anstalt für Handel and Gewerbe decided that in view of the continued industrial depression it was necessary to make a conservative valuation of their debtors in order to establish a genuine Balance Sheet ... According to their estimation 52 Million Schillings ought to be written off of the debtors and 28 million Schillings off their shareholdings in different industries. Besides that 60 million Schillings represent losses sustained from taking over the business of the Boden-Credit-Anstalt two years ago.

Having reached these appalling conclusions, the Management informed immediately the Austrian National Bank and the Government about the situation.⁷

Alexander Spitzmüller, appointed director-general of the Creditanstalt by the Austrian government following the bank's collapse, also claimed that the losses came as a surprise to the management. He told the Austrian cabinet that: 'Neither the head accountant, Lazar Weisz, nor any other directors knew about the real position of the Creditanstalt. Eventually there developed an unfavourable opinion about the situation of the Bank, and the decision was taken to investigate in order to determine how much ought to be paid out in dividends.'⁸ According to Spitzmüller, it was only as a result of this investigation, i.e. in 1931, that the management realized the extent of the losses: 'This investigation was carried out and showed that no dividend could be distributed and that three quarters of the capital had been lost.'⁹

The new set of documents found in the Bank of England makes this account seem highly unlikely.¹⁰ An intricate system of cross-deposits between the

⁶ C. Kindleberger, *The world in depression, 1929-1939* (London, 1973), p. 149.

⁷ Bark to Harvey (deputy governor of Bank of England), 19 May 1931, London, Bank of England Archive (hereafter BoE), OV28/3 Doc. 45.

⁸ Spitzmüller, 27 June 1931, Vienna, Archiv der Republik (hereafter AdR), *Ministerratsprotokoll* Nr. 707.

⁹ *Ibid.*

¹⁰ BoE, OV28/75. Folder title: '*Credit Anstalt: cross deposits. Deposits by Austrian National Bank with three London houses and then re-lent to Credit Anstalt.*' The folder contains a large number of documents relating to the matter, including large numbers of telegrams from 1929 onwards documenting the operations which took place. The majority of the documents are not numbered.

Austrian Nationalbank, the Creditanstalt, and a number of American and British banks had been set up in 1929, following the merger of the Creditanstalt with the Bodencreditanstalt. This was meant to channel funds – presumably illegally – to the Creditanstalt to compensate it for taking over the Bodencreditanstalt. The only reference in the existing literature to these cross-deposits is by Kernbauer.¹¹ He does not, however, seem to have come across the documents in the Bank of England, and consequently expresses doubts about the extent to which these deposits were expressly tied together. He leaves unmentioned that they were set up to provide the Creditanstalt with foreign exchange without having to reduce the reserves in the Austrian Nationalbank's published statements. This was done to keep these cross-deposits secret, because, if the published reserves of the Nationalbank had suddenly fallen by a substantial amount, it would have been impossible to keep the matter secret.¹² The banks still involved in 1931 appear to have been the New York Trust Co., Rothschilds (London), Japhets, and the Anglo-International Bank. The operation is best described with the help of extracts from documents at the Bank of England archive, such as a telegram from the New York Trust Co. to the Bank of England sent on 5 June 1931:

Arrangement concluded early December 1929 following conferences which Gluckstadt [American banker] had in Vienna with Ehrenfest [Friedrich Ehrenfest was a director of the Creditanstalt] STOP

Gluckstadt was then orally advised that Nationalbank would assist Creditanstalt in working out Bodencreditanstalt situation by making deposits in foreign banks on understanding that foreign banks would forthwith loan equal amount to Creditanstalt similar period at one per cent. over fixed deposit rate STOP

Ehrenfest wrote to us on November 30th 1929 in part quote in virtue of an agreement made with the Austrian Nationalbank the latter has undertaken to place large amounts with foreign banks on fixed terms for one to three months on the understanding that these amounts with a certain interest margin are in turn allocated to our bank.

There would be for your institution an amount of one million dollars to two million dollars taken into consideration and the margin between the rate you would have to allow to the Austrian Nationalbank and the rate allowed to us would be one per cent. maximum end quote

We understood purpose of arrangement was to enable Nationalbank place funds at the disposal of the Creditanstalt and retain same amount in its own foreign exchange holdings STOP

Gluckstadt cabled us on December 3rd 1929 that Credit-Anstalt would arrange we get two million dollars those deposits at four-threequarter per cent. three months

¹¹ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, pp. 280–1, 357–60. This episode is also mentioned briefly in Weber, *Vor dem großen Krach*, p. 631, although he does not seem to have come across the documents at the Bank of England either.

¹² Additionally, the Austrian Nationalbank was loath to lower the published figures for foreign exchange reserves because it felt that this would undermine confidence in the schilling. There is plenty of evidence to suggest that during the run on the schilling of 1931 these published figures – which given the cross-deposits were already a poor reflection of actual reserves – were manipulated by the Nationalbank to try and avoid a panic.

against our giving Credit-Anstalt same amount same date five-threequarter per cent. STOP

On December 6th 1929 we cabled Brauneis [Victor Brauneis was director-general of the Nationalbank] quote confirming Gluckstadt's conversation with you we propose rate four-three-quarter per cent. fixed deposit two million dollars December 9th March 9th please cable end quote

Nationalbank cabled its acceptance on December 7th reading quote your wire of 6th lend you two million dollars 9th December three months fixed four-threequarter per cent. STOP

You will receive for our account two million dollars from Citibank New York Monday end quote

We took business on clear understanding deposit must be used exclusively to make loan in equal amount to Credit-Anstalt STOP

Arrangement has been since renewed at each maturity and in each instance following concurrent action taken by Nationalbank and Creditanstalt STOP

Ehrenfest cabled us on June 6th 1930 quote at our request Nationalbank offer you three months extension three million dollars three per cent. hope you are satisfied STOP

Thereagainst Credit-Anstalt accepts two million dollars three months end quote

Such two million dollars loan to Credit-Anstalt matured May 29th last when by virtue above-mentioned understanding we continued to hold such two million dollar deposit from Nationalbank STOP

We have no written agreement from Nationalbank explicitly making it party to Credit-Anstalt loan STOP

In view origin business representations then made to us and subsequent concurrent renewals by Nationalbank and Credit-Anstalt on such correlated basis we believe such agreement is implied that Nationalbank is party to whole transaction and that we are entitled to hold deposit as collateral STOP

Will appreciate any additional information you may have that Nationalbank was party to arrangements under which these restricted loans including your own were made regards

HUNTER.¹³

An internal Bank of England memorandum shows that, despite the fact that 'all parties to the transaction were aware that the deposits were made by the Austrian National Bank with the London Bankers concerned on the understanding that the latter should pass them onto the Credit Anstalt',¹⁴ the Nationalbank denied the existence of these cross-deposits. It notes that 'The National Bank, while it tried to avoid admitting this fact, even in answer to direct questions, did in effect admit it by several letters which it wrote to Japhets in the following terms – "We confirm the arrangement made with you through Direktor Ehrenfest of the Credit Anstalt."'¹⁵ It continues 'In spite of this the Austrian National Bank in its letter of the 29th May to Japhets denies that there is any connection whatever between the two sets of deposits, i.e.,

¹³ New York Trust Co. to Bank of England, 5 June 1931, BoE, OV28/75 no number.

¹⁴ Bank of England memorandum signed C.A.G., 4 June 1931, BoE, OV28/75 Doc. 110.

¹⁵ Ibid.

those made by the National Bank with the London Banks and those made by the London Banks with the Credit Anstalt.¹⁶ It is thus evident that these deposits did not reflect accepted banking practices.

The documents clearly show that these cross-deposits were set up to compensate the Creditanstalt for the takeover of the Bodencreditanstalt. Francis Rodd,¹⁷ the representative of the Bank for International Settlements (hereafter BIS) sent to Vienna following the Creditanstalt's collapse, was well aware of this: 'The particular question of these cross deposits is further complicated by the political and legal difficulties, since the National Bank seems to have given the devisen in question to the Creditanstalt as a sop to the latter to induce it to take over the Boden Credit at the time of the latter's collapse.'¹⁸

The sheer complexity of the system of cross-deposits suggests that the Nationalbank was illicitly helping the Creditanstalt. It seems that they were set up to circumvent any legal barriers to direct help for the Creditanstalt. This view is reflected in another internal Bank of England memorandum: 'Japhets stated that their deposit was, in effect, money belonging to the Austrian National Bank and had only been placed on deposit with the Credit Anstalt through them because the National Bank were not able to make a deposit direct.'¹⁹ This, together with the denial of their existence on the part of the Nationalbank, and the fact that they were an exceedingly costly way to channel funds to the Creditanstalt, raise serious doubts about the legality of such deposits. This in turn explains why Montagu Norman, the Governor of the Bank of England, referred to them as 'tainted money'.²⁰

The documentation at the Bank of England does not appear to give a complete account of the cross-deposits, and the figures involved are unclear. The documents refer primarily to 1931, when the issue became acute due to the attempts by the Nationalbank to withdraw its deposits from the aforementioned British and American banks. A telegram from the New York Trust Co. to the Bank of England mentions a total of 7 million dollars (approximately 50 million schillings),²¹ whereas a telegram from Rothschilds (London) to the New York Trust Co. notes that three London banks alone held 6 million dollars (approximately 42½ million schillings) in cross-deposits.²² Kernbauer claims

¹⁶ Ibid.

¹⁷ Francis Rodd, the representative of the BIS in Vienna, was a former employee of the Bank of England. Throughout the crisis he maintained a lively correspondence with both Sir Frederick Leith-Ross at the Treasury and Montagu Norman at the Bank of England.

¹⁸ Rodd to Siepmann (memorandum of telephone conversation), 2 June 1931, BoE, OV28/75 Doc. 104.

¹⁹ Bank of England memorandum signed B.G.C., 23 May 1931, BoE, OV28/3 Doc. 51.

²⁰ Bank of England memorandum signed C.A.G., 2 June 1931, BoE, OV28/75 Doc. 104.

²¹ New York Trust Co. to Bank of England, 5 June 1931, BoE, OV28/75 no number.

²² Rothschilds (London) to New York Trust Co., 6 June 1931, BoE, OV28/75 no number. The telegram reads 'Understand three London Banks totalling \$6,000,000 will continue deposit to Oest. Credit Anstalt Vienna without corresponding arrangement with Oest. Nationalbank Vienna.'

that in 1929 the cross-deposits amounted to at most 23 million dollars (163 million schillings),²³ the real figure probably lying somewhere in-between. These are sizeable amounts considering the fact that the Creditanstalt's paid-up capital in 1931 (which had been increased in 1929 following the takeover of the Bodencreditanstalt) amounted to 125 million schillings.²⁴ Interestingly enough, these figures are quite similar to the Creditanstalt's own claims of the net losses caused by the takeover, which according to internal accounts amounted to 52.4 million schillings, and to the official accounts for 1930 to 60 million schillings.²⁵

This elaborate system of cross-deposits set up to compensate the Creditanstalt for absorbing the Bodencreditanstalt raises serious doubts about claims that the Creditanstalt was unaware of the troubles which the merger involved and that they only emerged two years later.²⁶ Given that, as Walther Federn, editor of Austria's then leading economic newspaper (the *Österreichische Volkswirt*), reported, 'other Viennese Banks had refused to take over the bank [Bodencreditanstalt] without an exact inspection of its balance',²⁷ it seems that it was well known in Viennese banking circles that taking over the Bodencreditanstalt constituted a considerable risk. Additionally, there is plenty of evidence that the Creditanstalt had been consistently rigging its accounts before 1931: valuations of stocks had been inflated, dud loans considered recoverable.²⁸ Federn, for example, recalled one Creditanstalt director who claimed that 'ownership of unlisted shares is most pleasant, because their book value needn't be lowered with stockmarket prices'²⁹ (which was a real problem given the collapse of stockmarkets during the great depression). Dividend payments appear to have been used to manage stockmarket valuations irrespective of

²³ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 281. Kernbauer's figures refer to the deposits by the Austrian Nationalbank in foreign partners of the Creditanstalt. We know, however, from the example of the New York Trust Co. that not all these deposits were then forwarded to the Creditanstalt. In this particular example, of the 3 million dollars deposited by the Nationalbank in the New York Trust Co., only 2 million were placed at the disposal of the Creditanstalt. New York Trust Co. to Bank of England, 5 June 1931, BoE, OV28/75 no number.

²⁴ *Economist*, 16 May 1931.

²⁵ Weber, *Vor dem großen Krach*, p. 631.

²⁶ Kindleberger, *The world in depression, 1929–1939*, p. 149, and Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, pp. 281–2. Kindleberger argues that the losses of the Bodencreditanstalt only became apparent following the Creditanstalt's collapse and the subsequent investigations undertaken by British chartered accountants. This view is reflected in Kernbauer's uncritical acceptance of the claims made by Viktor Brauneis, director-general of the Austrian Nationalbank, to the Bank of England in September of 1929, when he claimed that as far as he was aware, the takeover of the Bodencreditanstalt would provide the Creditanstalt with important opportunities for profit. This view is, however, untenable. The telegram from the New York Trust Co. reproduced above notes that Brauneis was directly involved in setting up these cross-deposits, which means that he must have been aware of the losses of the Bodencreditanstalt when he made these claims to the Bank of England.

²⁷ W. Federn, *Der Zusammenbruch der Österreichischen Kreditanstalt* (Berlin, 1932), p. 416.

²⁸ Schubert, *The Credit-Anstalt crisis of 1931*, p. 25. Schubert notes that the bank's published statements had been manipulated as far back as 1925.

²⁹ Federn, *Zusammenbruch der Kreditanstalt*, p. 414.

profits.³⁰ There is evidence that before their merger the Creditanstalt and the Bodencreditanstalt lent each other uncovered cheques to improve their respective balances before annual accounts were drawn up,³¹ a fact which in itself makes it highly improbable that the management of the Creditanstalt was unaware of the Bodencreditanstalt's problems. Geng's claim that as early as 1929 the accounts of the Creditanstalt did not reflect reality can thus be accepted,³² and Stiefel notes that this was all done quite consciously: 'Whereas the unpublished internal accounts showed only small profits and by 1929 they were closed with losses, the yearly accounts continued to show, through appreciations [of the book value of its industrial portfolio], and despite a further deterioration of the situation, profits. This "window dressing" exceeded by far usual banking practice.'³³

If there is plenty of evidence that the accounts of the Creditanstalt had been systematically rigged, it is hard to accept the view that the directors of the Creditanstalt were – due to the poor organization and the long time it took to digest the Bodencreditanstalt – unaware of its troubles till that May of 1931. After all, it makes little sense systematically to falsify accounts if one is unaware that the bank is in an untenable position. These facts, together with the new evidence on cross-deposits, make the traditional view that the Creditanstalt's management only found out about the bank's problems and about the costs of the merger with the Bodencreditanstalt in May 1931 implausible.³⁴ It is hoped that the opening of the Creditanstalt archives will allow us to discover the real reasons for its collapse.

The implications of the new evidence on the cross-deposits are manifold. First, and as noted above, it undermines the received view of the bank's collapse, because its problems must have been known earlier to its management, and, one assumes, to certain individuals in the Nationalbank. Further, together with the evidence on the rigging of accounts it implies that the Creditanstalt consciously misled the Austrian public about its situation. Thus, although we will have to wait till the Creditanstalt archives are open for a definitive account of the collapse, it is clear that the existing accounts will have to be revised. Finally, the cross-deposits indicate that the position of the Austrian Nationalbank was much weaker than the official figures suggest, because a large part of its 'reserves' were actually tied up. This means that current estimates of foreign exchange cover in Austria at the time of the great depression are inflated, something which is very important to understand the financial diplomacy of

³⁰ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 279; Federn, *Zusammenbruch der Kreditanstalt*, p. 414.

³¹ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 293.

³² Geng, *Zusammenbruch der Creditanstalt*, p. 77.

³³ Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, p. 122.

³⁴ Weber, *Vor dem großen Krach*, p. 548. Fritz Weber claims that the management of the Creditanstalt must have been aware of the problems by the second half of 1930 at the latest. The cross-deposits, as well as the evidence on the rigging of accounts, suggest that they must have been aware of the bank's problems much earlier.

1931. They help explain why Austria was so vulnerable to financial pressure during the run on the schilling. This will become clear below when we discuss that other vital incident of European history in 1931, the Austro-German customs union project.

II

In March of 1931 the Austrian and German governments announced to the world that they intended to establish a customs union in what was a clear violation of their treaty obligations.³⁵ This project can be placed in the context not only of the process of revision of the Versailles settlement, but, more controversially, in the wider German policy of ‘*Mittleuropa*’, of creating a German-dominated central Europe large enough to rival the perceived American and Russian ‘world empires’. As Fritz Fischer notes, as early as 1912 ‘Walther Rathenau, the leading personality in the Allgemeine Elektrizitätsgesellschaft, told Bethmann Hollweg that German policy should be directed toward the creation of a central European customs union, and secured the chancellor’s agreement.’³⁶ There can be no doubt that this was considered a first step towards *Anschluss* – union between Austria and Germany. This was admitted by less careful German diplomats, as Sir Eric Phipps, then British minister in Vienna reported about his German counterpart, Count Lerchenfeld: ‘Lerchenfeld spoke bitterly about his transfer just at a moment: “when he had done so much for his country”’: he added that the Germans would eventually put their hands on everything in Austria.’³⁷ It is this aspect which made the issue so highly charged for contemporaries, who invariably recalled the *Zollverein* and its role in the unification of Germany in the previous century.

Intense opposition to this project on the part of Czechoslovakia and above all France immediately became manifest. This can be divided into two stages, the one preceding the Creditanstalt’s collapse, and the one which followed it and is characterized by the use – on the part of the French – of the Austrian financial crisis to extract concessions from the Austrian government. Czechoslovakia was the power which reacted most violently to the project. As Sir Robert (later Lord) Vansittart, then permanent secretary at the foreign office,

³⁵ Internal foreign ministry legal report, undated and unnumbered, AdR, BKA-AA Karton 401, p. 347. The Austrians and Germans strenuously denied that their actions contravened Austria’s obligations under article 88 of the Treaty of St Germain, and the Protocol for Austrian Reconstruction of 1922, under which Austria agreed to abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise her independence. A legal report meant only for internal use, found in the foreign ministry archives in Vienna, highlights that they well were aware of the fact that this was not the case. This document states that: ‘Even if we assume that the Court’s [the Permanent Court of International Justice in The Hague] report will be completely unbiased, it is not to be assumed that it will declare that the proposed Customs Union is no threat to Austria’s independence.’

³⁶ F. Fischer, *Germany’s aims in the First World War* (London, 1967), pp. 10–11.

³⁷ Phipps to Vansittart, 9 May 1931, Cambridge, Churchill Archive Centre (hereafter CAC), the Phipps collection 2/16 p. 55.

pointed out in a confidential report to cabinet, this was understandable: ‘Czechoslovakia’s position – geographic and economic – is such that her lot would be unpleasant and perhaps untenable, if Germany and Austria were united commercially. A S.O.S. has been sent to Paris to save Czech independence and France is fully alive to the importance of responding to the call.’³⁸ The Czechs proceeded to terminate trade negotiations with Austria.³⁹ They started circulating rumours – for no corroborating evidence can be found – that the customs union agreement included secret military clauses,⁴⁰ and Eduard Beneš, then Czechoslovak foreign minister, even threatened the long-serving Austrian minister in Prague, Ferdinand Marek, with a trade war if Austria and Germany persisted with their plans. This can be seen from the report on the conversation sent by Marek to the *Ballhausplatz*:

France, whose trade deficit with Germany is nearly 4 billion, would suffer much less than Germany in case of a trade war, which Germany and Austria, given the present circumstances, would barely survive for two months. Instability and revolution would be the result. Given that France is suffering under the present trade agreement with Germany, she might even welcome a tariff war with the Reich. Czechoslovakia is certainly the strongest of the central European states, and although she would be strongly affected by a trade war, it would affect her much less than Austria or Germany. Do we need to go that far? Asked the Minister [Beneš].⁴¹

Similar threats were heard from Paris, where Aristide Briand, the French foreign minister, threatened in a speech to the senate to terminate Austria’s preferential trade agreement,⁴² and told Lord Tyrrell, the British ambassador in Paris, that if Germany was to continue with her plans, she would start raising tariffs.⁴³ The British role during these initial stages is more equivocal: although Britain did not participate in the initial collective protest of the other three guarantors of the Geneva protocol of 1922, which forbade Austria’s alienation of her ‘economic independence’,⁴⁴ she then swung progressively into Paris’s line, and it was Arthur Henderson, the Labour foreign secretary, who actually took the issue to the council of the League of Nations.⁴⁵

³⁸ Vansittart, foreign office confidential report (13878) ‘An aspect of international relations in 1931’, CAC, Archives of Lord Vansittart of Denham, 1/4 p. 11.

³⁹ *Neue Freie Presse*, 24 Mar. 1931.

⁴⁰ Phipps to Vansittart, 1 Apr. 1931, CAC, the Phipps collection 2/16 p. 52.

⁴¹ Marek to Vienna, 15 Apr. 1931, AdR, BKA-AA 2251–13/1931.

⁴² L. Zimmerman, *Deutsche Aussenpolitik in der Ära der Weimarer Republik* (Göttingen, 1958), p. 413.

⁴³ L. J. Götzhaber, ‘Der Versuch einer Zollunion vom Jahre 1931’ (unpublished Ph.D. thesis, Karl Franzens University, Graz, 1969), p. 82.

⁴⁴ F. Siebert, *Aristide Briand 1862–1932, ein Staatsmann zwischen Frankreich und Europa* (Stuttgart, 1973), p. 582.

⁴⁵ The Austro-German customs union was discussed in Geneva, and an *avis consultatif* was requested from the Permanent Court of International Justice in The Hague. The ruling, however, which although not binding would have had immense political significance, was made public in September 1931, when the customs union had already been abandoned, and was thus of little relevance to the outcome of the affair. We can thus reject Fritz Weber’s claim that ‘The greatest

That intense diplomatic pressure was exerted on Germany, and above all Austria, from the moment the customs union project became known, is well documented. However, new documents have emerged – unmentioned by the literature on the subject – relating to Austrian fears of a military intervention on the part of Czechoslovakia and France in the spring of 1931. This military intervention would have been undertaken to stop the Austro-German customs union project. A couple of internal foreign ministry reports relating to the issue exist, and have been reproduced in the appendix to this article. They refer to alleged military preparations on the part of Czechoslovakia and France for intervention in Austria: ‘the intention is to stop the customs union by simply occupying Austria, thus eliminating her from the negotiations. To this effect the Prague government will resign, the parliament will be dissolved, and a pure Hradschin [Presidential] government will be formed, to lead the measures against Austria.’⁴⁶ These are not the only documents which inform us about these fears. Correspondence between Marek, the Austrian minister in Prague, and the *Ballhausplatz* also refer to these rumours, and indicate that other countries were aware of them. The Austrian minister was approached on 13 May by the Italian minister to ask him whether such fears were actually circulating in Vienna.⁴⁷ On 21 May Marek again wrote to the *Ballhausplatz* to report that Count Cadorna, the Italian military attaché in Prague, had gone to investigate the matter after he had heard rumours that gasmasks had been deposited in all railway stations between Brno and Bratislava. Cadorna did not, however, discover anything to this effect. The Hungarian military attaché also confirmed that no unusual moves could be detected in Czech military circles.⁴⁸

It appears highly unlikely that there was any substance to these fears circulating in Vienna at the time. The reports printed in the appendix contain errors, such as the reference to the intervention having been discussed by Beneš and Briand two months earlier, i.e. at least a fortnight before the Czechs and French could have been aware of the customs union project, or implausible statements such as that by the informant in Paris who claimed that Briand had told cabinet that no complications would arise from an occupation of Austria. Further, a marginal note on the initial report, signed indistinctly, and dated 14 May 1931, notes that the information in it had not been verified. None the less, the episode does illustrate one fact, namely the extreme pressure the Austrians were exposed to, and, above all, the tension caused by the affair. The mere fact that these threats were initially held to be credible in Vienna reveals the

success of French diplomacy followed in September 1931, when the Court at The Hague declared, with a narrow majority, that the customs union was incompatible with the Geneva Protocol of 1931.’ Weber, *Vor dem großen Krach*, p. 532.

⁴⁶ Internal foreign ministry report (I), 30 Apr. 1931, AdR, BKA-AA 22772-13/1931.

⁴⁷ Marek to Peter (general secretary at Austrian foreign ministry), 13 May 1931, AdR, BKA-AA 22867-13/1931. ⁴⁸ Marek to Peter, 21 May 1931, AdR, BKA-AA 22950-13/1931.

animosity which had been created by the customs union project. The information provided in the Austrian documents should be verifiable in both the French and the now open Czech archives, specially those relating to an alleged secret cabinet meeting held on 27 April in Paris and the mobilization of the ‘*reserve disponible*’.

Despite the external pressure and the fears of a possible military intervention, there exists no concrete evidence in the Austrian archives to suggest that this initial pressure was successful in its attempts to force a retreat from the customs union project. All evidence suggests, rather, that it was the financial pressure following the collapse of the Creditanstalt which forced the Austrian government to abandon the project. Before discussing the new evidence relating to French pressure following the Creditanstalt collapse, it is important to note that there is absolutely no evidence to suggest – as has been done in the past⁴⁹ – that the French provoked the collapse of the Creditanstalt by withdrawing funds from the bank. No corroborating documents have been found, and all circumstantial evidence points against the hypothesis of French intervention. The fact that the foreign exchange reserves of the Austrian Nationalbank actually increased during April 1931,⁵⁰ that the Creditanstalt did not face a liquidity problem when it approached the Austrian government for help,⁵¹ and that French loans to the Creditanstalt appear to have been minimal before its collapse,⁵² all make it extremely unlikely that they provoked the collapse.

Although we can ignore any claims that the French provoked the collapse of the Creditanstalt to pressure the Austrian government, it is well known that the French used the subsequent financial crisis in Austria to exact political concessions – notably the abandonment of the customs union project. As noted above, the management of the Creditanstalt approached the Austrian government on Friday 8 May, and that weekend was one of frantic negotiations conducted between the government and the bank. A plan to save the Creditanstalt was presented to the public late on 11 May, which entailed the recapitalization of the Creditanstalt with an injection of capital of 100 million schillings by the federal government, 30 million by the Austrian Nationalbank, and 30 million by the Rothschilds (who were at the time the main shareholders of the Creditanstalt) to compensate for the 140 million schillings reported losses.⁵³ This plan did not, however, reassure the Austrian public – which need

⁴⁹ See W. A. Lewis *Economic survey, 1919–1939* (London, 1957), p. 63, H. Luther *Vor dem Abgrund 1930–1933. Reichsbankpräsident in Krisenzeiten* (Berlin, 1964), p. 158, and Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, pp. 75–6. Both Lewis and Hans Luther, the then President of the Reichsbank, consider French withdrawals of short-term capital to be the immediate cause of the Creditanstalt’s collapse. Stiefel provides an interesting analysis of why this view has persisted for so long.

⁵⁰ K. E. Born, *Die deutsche Bankenkrise 1931 – Finanzen und Politik* (Munich, 1967), pp. 64–5, and Weber, *Vor dem großen Krach*, p. 567. According to Fritz Weber, the loans by French banks to the Creditanstalt amounted only to 20 million schillings, or 4.5 per cent of the Creditanstalt’s total overseas debts.

⁵¹ Federn, *Zusammenbruch der Kreditanstalt*, p. 417.

⁵² Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, p. 77.

⁵³ Brauneis, 13 May 1931, ANB, *Generalratssitzung* Nr. 97.

hardly surprise us given that the real extent of the losses is now calculated to be at least 900 million schillings⁵⁴ – and the announcement was followed by a run on the Creditanstalt.

The key element, as far as the customs union was concerned, was when the run on the Creditanstalt became a run on the schilling. The Austrians had experienced hyperinflation only a few years earlier, and they were scared that the decision might be taken to print money to solve the problem, a possibility feared by the Bank of England, as one of its confidential memorandums on Austria illustrates: ‘In spite of the 1922 experience, half the cabinet and several private bankers have at some time or other been openly in favour of inflation, presumably as an easy way out of the present difficulties.’⁵⁵ Whatever the exact reasons may have been, one can hardly blame the Austrians for having had little faith in the probity of their financial system, and the run on the Creditanstalt was followed by a run on the schilling as they moved their savings into ‘safer’ currencies. The combined effect of the two runs on the position of the Nationalbank was such that within two weeks of the announcement of the Creditanstalt’s problems it felt obliged to ask the government to declare a general banking moratorium, a demand which was, at this stage, refused.⁵⁶

The Austrians had received permission from the League of Nations ‘Control Committee for the 1922 loan for Austrian reconstruction’ to issue treasury bonds for 150 million schillings, albeit with initial French opposition. This can be seen from a telegram sent by the Treasury to the Bank of England, informing that Sir Frederick Leith-Ross, the representative of the Treasury on the committee, ‘tells us privately that the real facts are that the French, Belgian and Czechoslovak Governments absolutely declined to agree to the Austrian proposal on Saturday. Their pretext was short notice etc. ... , but no doubt their real reason was political. The other members supported the Draft Resolution proposed by Leith-Ross, and under pressure the French accepted the compromise arrived at.’⁵⁷

However, the Austrians faced the problem of where to place these bonds – it had to be abroad due to the continued loss of foreign reserves on the part of the Austrian Nationalbank. A delegation from the Austrian finance ministry was told in Berlin that Germany was in no position to help on its own,⁵⁸ and the British refused to take the lead in the placement of these bonds, as Felix Frank,

⁵⁴ Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 295, and Schubert, *The Credit-Anstalt crisis of 1931*, p. 17. Kernbauer believes the overall losses to have been over 900 million schillings. Schubert claims they amounted to about 1,070 million schillings. Although these figures include the losses which accrued after 11 May, it is clear that the losses before the problems were made public by far exceeded the Creditanstalt’s own claims.

⁵⁵ Confidential Bank of England memorandum on Austria, 30 July 1931, BoE, OV28/4 Doc. 131.

⁵⁶ Nationalbank to chancellery, 23 May 1931, ANB, *Bankakte* 1550/1931; Kernbauer, *Währungspolitik in der Zwischenkriegszeit*, p. 307.

⁵⁷ Walley to Cattern, 18 May 1931, BoE, OV28/3 Doc. 38.

⁵⁸ Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, p. 44.

Austrian minister in Berlin, told Bernhard Wilhelm von Bülow, the general secretary at the *Wilhelmstraße*: ‘[The] English group had suggested the Banque de Paris for the placement. We cannot avoid this, specially since the English will not otherwise participate. We shall have to negotiate in Paris over the placement of the bonds.’⁵⁹ This placed the Austrians in a position they had desperately hoped to avoid, namely to have to depend on French help, as Phipps pointed out to his colleague Orme Sargent on 26 May: ‘the Austrians now seem almost equally anxious for two things, (1) for foreign financial support and (2) for that support not to be *exclusively French*, as that would place Austria completely in the French pocket’.⁶⁰

With a constantly deteriorating foreign exchange position, which – due to the cross-deposits noted above, and the fact that the accounts of the Nationalbank had been constantly fiddled since the start of the crisis⁶¹ – was considerably worse than the official figures published by the Nationalbank suggest, the Austrians started negotiations with the Banque de Paris et Pays Bas on 9 June. Johannes Schober,⁶² the Austrian foreign minister, instructed the Austrian minister in Paris to accept any technical conditions for the placement,⁶³ and, as Francis Rodd, the representative of the BIS in Vienna, reported to his headquarters, the negotiations were soon over: ‘On Friday night the 12th of June, we were informed by Paris that the negotiations with the French bankers on the terms of the issue of the treasury bills had, for all intents and purposes, been completed and only the final approval of the French government remained.’⁶⁴ The speed of the negotiations and the Austrian willingness to accept virtually any technical conditions were due to their need for the money to arrive before the morning of Wednesday 17 June. That afternoon, or at the very latest on Thursday morning, the Nationalbank would have to publish its foreign reserve figures. As Rodd noted ‘these figures included a loss of foreign exchange of 111 million schillings. The publication of the statement in this form was in the opinion of everybody concerned calculated to produce a panic.’⁶⁵ The implications were clear, and as Rodd points out, known to all parties involved: ‘the publication of the statement, therefore, had to be made coincident with a declaration of an internal moratorium. It was moreover clear to all that an internal moratorium would lead to a general moratorium ... Both London and Paris had had this situation explained to them.’⁶⁶

⁵⁹ Frank to Vienna, 5 June 1931, AdR, BKA-AA 23259-13/1931.

⁶⁰ Phipps to Sargent, 26 May 1931, CAC, the Phipps collection 2/9 p. 22.

⁶¹ Bruins to BIS, ANB, *Bankakte* 1534/1931. Bruins notes in his report to the BIS that accounts had been fiddled even before the publication of the Nationalbank return on 15 May (the first after the start of the run on the schilling), so as to avoid showing the real extent of losses of foreign exchange.

⁶² Johannes Schober, a *Gross Deutscher* who was vice-chancellor in a coalition government led by the Christian Social Party, was the main Austrian instigator of the customs union accord.

⁶³ Rodd to Siepmann (memorandum of telephone conversation), 12 June 1931, BoE, OV28/3 Doc. 183.

⁶⁴ Rodd to Siepmann, 20 June 1931, BoE, OV28/4 Doc. 44.

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

That the situation in Austria was getting desperate was evident. On 13 June the Nationalbank asked the government to start preparing for a moratorium and the introduction of exchange controls. Its letter to the government explained the problems:

The run on the Creditanstalt has been followed by a flight from the schilling, which in the last eight days has taken on worrying proportions; this in itself has increased nervousness and withdrawals from banks and has started runs at the weaker ones ... It is possible that if we are able to negotiate a moratorium on withdrawals with the [foreign] debtors of the Creditanstalt, and the placement of the treasury bond issue of 150 million schillings abroad, confidence will be re-established, this being the precondition for reducing the inflation and avoiding controls. However, given that a successful completion of negotiations can no longer be expected with certainty, we ask the federal finance ministry to start preparing today the measures necessary to declare an internal moratorium.⁶⁷

The seriousness of the situation was such that in the cabinet meeting on the 15th the Austrian chancellor, Otto Ender, noted that unless the Creditanstalt's problems were resolved, he feared that law and order in Austria would collapse.⁶⁸ The situation came to a head on 16 June 1931, when the French minister in Vienna, Count Clauzel, presented the Austrian government with an ultimatum demanding that Austria submit its finances to League of Nations control and that it send a note – he provided the text – to the French government surrendering the customs union. The French government refused to provide the funds necessary to prevent the by now imminent banking moratorium in Austria unless these conditions were accepted by eight that same evening. This was the latest possible moment at which the money could be sent to Austria in time to appear in the next Nationalbank statement and thus prevent a moratorium. The Austrians rejected this ultimatum, and a moratorium was only avoided thanks to a last minute intervention by the Bank of England. Montagu Norman hoped thereby to avoid a Europe-wide financial crisis, as he noted in a conversation with the head of the Federal Reserve Bank of New York: ‘On the advice of Sir Robert Kindersley⁶⁹ and Bruins⁷⁰ we have decided, at a meeting held here this afternoon, that we cannot wait for the treasury bonds to be placed and we are therefore paying over to the Austrian government Schilling 150 million in anticipation of the placing of the treasury bonds.’⁷¹ Contrary to later claims (see below), this was not done by the Bank of England to save the Austrians from French pressure, but to avoid a banking moratorium. As Montagu Norman noted in that same conversation: ‘We have

⁶⁷ Nationalbank to finance ministry, 13 June 1931, ANB, *Bankakte* 1555/1931.

⁶⁸ Ender, 15 June 1931, AdR, *Ministerratsprotokoll* Nr. 701.

⁶⁹ Sir Robert Kindersley was a director at the Bank of England and was at the time in Vienna representing the interests of the Creditanstalt's foreign creditors.

⁷⁰ Professor G. W. J. Bruins was a foreign adviser of the Austrian Nationalbank called in to help during the crisis.

⁷¹ Norman to Harrison (memorandum of telephone conversation), 16 June 1931, BoE, OV28/44 Doc. 8.

done this unwillingly but because we believe that otherwise there would be a moratorium in Austria which would be quickly followed by a similar action in the adjoining countries and probably in Germany as well.⁷²

This French move, which even the American secretary of state termed ‘blackmail’ in the presence of the French ambassador in Washington,⁷³ is known to the literature.⁷⁴ However, new documents at the Bank of England show that French ‘blackmailing’ was much more intricate than believed to date. The French were not only demanding political concessions in exchange for the funds necessary to avoid a banking moratorium, but were actually withdrawing funds from Austria in order to accentuate the flight from schilling which made the Austrian government dependent on foreign help in the first place. The French were causing the problem they were offering to solve in exchange for onerous political concessions! The operation is best described by the documents themselves. Here is an extract from a memorandum prepared by Rodd for the BIS and forwarded by him to the Bank of England:

The withdrawals of foreign exchange from the Central Bank by the five principal banks in Vienna up to and including Monday, June 15th, are interesting reading. In total the five banks since the beginning of the crisis had withdrawn 343 million schillings of which, of course, the largest amount, namely 142 million schillings, was withdrawn by the Credit-Anstalt between the beginning of the crisis and Saturday, June 6th, inclusive. This was accounted for by withdrawals of foreign deposits before the Creditors’ Committee was formed and the cashing in of valuata Kassenscheine. From June 8th onwards the Credit-Anstalt withdrawals of foreign exchange were comparatively moderate considering the position of the Bank; they amounted in all to 28.7 million schillings. The Wiener Bankverein, which was known to have lost and be losing foreign deposits had, by June 15th, withdrawn 56 million schillings, of which 15.4 were between the 8th and the 15th inclusive. The N.O. Escompte Gesellschaft had up to June 6th inclusive withdrawn 24.5 million schillings, but since that date had actually received foreign devisa on balance, the net plus being 1.6 million schillings, between June 8th and 15th inclusive. The other two large banks concerned are both banks either directly under French influence or having French sympathies; they are the Länder Bank and the large and active branch in Vienna of the Zivnostenska Banka of Prague. The direct foreign commitments of the Länder Bank at the beginning of the crisis were known to be small. Nevertheless, by June 15th this bank had withdrawn 50.5 million schillings of devisa, of which 17.5 were withdrawn between June 8th and 15th, being the largest amount withdrawn in this period by any bank in Vienna with the exception of the Credit Anstalt. It is of course well known that this bank has behind it the Banque des Pays de l’Europe Centrale in Paris. Demands by the Länder Bank for foreign exchange from the Austrian Nationalbank may therefore be considered wholly improper in the present circumstances. The Zivnostenska Banka in the period under review withdrew 25 million schillings, of which 9 million between June 8th and 15th. It is a matter of interest that half way through May the Zivnostenska Banka had asked a prominent American bank for the terms upon which the American bank would take a deposit of no less than 18 million dollars [127 million schillings]. It is therefore clear that the

⁷² Ibid.

⁷³ Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*, p. 158.

⁷⁴ For an up-to-date account of the issue, see Stiefel, *Finanzdiplomatie und Weltwirtschaftskrise*.

Vienna Branch of the Zivnostenska Banka had no business to call upon the Austrian National Bank for devisen.⁷⁵

These are considerable figures, for the Nationalbank was scared of publishing a loss of 111 million schillings for the week ending on the 16th, and the bond issue which the French were meant to help place only amounted to 150 million schillings. This account is supported by documents found in the Austrian Nationalbank's archives. Figures contained in a report sent by the Nationalbank to the secretary general of the League of Nations, Joseph Avenol, indicate that between 12 May (the day on which the run on the Creditanstalt started) and 23 August, the Länderbank used up 93 million schillings of foreign exchange, and the Zivnostenska Banka 51 million, a sizeable sum considering the Creditanstalt, which was in the middle of a crisis and having to repay foreign loans and deposits, used up only 218 million schillings in the same period.⁷⁶

The paucity of references in other archives means it is hardly surprising that this episode has remained unmentioned to this day. In the correspondence between the British legation in Vienna and the foreign office for that year, there is only one reference to this episode. Sir Eric Phipps, British minister in Vienna, noted in a letter to the foreign office that: 'I understand that the Vienna branches of the Central Europäische Länderbank and of the Zivnotstenska Bank have both been selling Schillinge.'⁷⁷ This reference is easily missed, and might actually have been lost on the foreign office, which, on its own admission, was insufficiently informed about the situation in Austria, as can be seen from the following extract of a letter sent by the central department of the foreign office to the British legation in Vienna, on 16 July 1931: 'This Department is a little harassed by what is going on in Germany and Austria so you must forgive me if you do not get what you would think appreciative and informative answers to yours letters, but do not for this reason suppose that writing to the Foreign Office is like putting your money into Germany, that it all goes down the drain.'⁷⁸ The only direct reference in the Austrian archives is found in an appendix to the minutes of the cabinet meeting held on 9 September 1931. It notes that Schober, vice-chancellor, and foreign minister, claimed in cabinet that 'It is also due to French influence that during the negotiations with the

⁷⁵ Rodd to Siepmann, 20 June 1931, BoE, OV28/4 Doc. 44. Francis Rodd forwarded to Harry Siepmann at the Bank of England a copy of this memorandum he had written for the BIS describing the situation in Austria between 8 and 16 June 1931.

⁷⁶ Nationalbank to Avenol, 4 Sept. 1931, ANB, *Bankakte* 1094/1931.

⁷⁷ Phipps to Foreign Office, 19 June 1931, PRO, FO C4362/61/3.

⁷⁸ O'Malley to Hadow, 16 July 1931, PRO, FO C5389/61/3. In fact, British intelligence on the crisis was quite good. The Bank of England was receiving privileged information from both Francis Rodd, the BIS representative in Vienna (and a former employee of the Bank of England), and Sir Robert Kindersley (a director of the Bank of England), who represented the interests of the foreign creditors of the Creditanstalt in the 'Austrian Credit Anstalt International Committee'. This explains the valuable insights into the crisis provided by the British archives. None the less, it appears that the Bank of England and the foreign office did not share all the information available, which might help explain the above claim.

B.I.S. the Länderbank withdrew 2–3 million schillings a day, thereby continuously weakening the reserve position of the Nationalbank.⁷⁹ Both are easily missed and make little sense on their own, although they serve to confirm Rodd's claims. Other documents at the Bank of England refer to the steps which were taken to stop this politically motivated run on the schilling.⁸⁰

Consequently, it appears as if Lewis's claim that France 'exerted pressure by withdrawing short-term funds'⁸¹ to stop the customs union was correct. However, the means chosen were not – as he and many others have argued – to bring down the Creditanstalt by removing funds from it, but rather to force Austria to rely on French help by artificially accentuating the run on the schilling. The French attempt was initially foiled by the Bank of England's intervention, which ran counter to the foreign office's own policy of supporting the *Quai d'Orsay*, as can be seen from a letter sent by Orme Sargent to the British legation in Vienna, written in late August when the customs union issue was effectively resolved: 'We – the Foreign Office – do not want particularly to be identified with the original action of the Bank in lending the money, especially as the transaction has not in the end had the effect (which presumably it was intended to have) of freeing Austria from French dictation.'⁸² He explained in that same letter that 'the loan is entirely a private affair of the Bank's. The Bank took the initiative originally without consulting us, and since then have perhaps purposely not kept us informed. The Bank, as you probably know, are always jealous of their independence.'⁸³ This also explains Sargent's complaint that 'the principle of financial autonomy, though sound in principle, has sometimes in the present state of world affairs considerable disadvantages'.⁸⁴

Despite Sargent's claim that the Bank of England had aimed to save Austria from French pressure (the real reason for the intervention, it is now clear, was to avoid a banking moratorium which was felt would lead to a European-wide banking crisis) it appears, from the evidence found in the Austrian archives, that the Austrian government had already decided to surrender the customs union at this stage. Schober, the Austrian foreign minister, had told Phipps on the morning of the 16th, i.e. before the French ultimatum and the Bank of England credit, that 'although of course he could not say so officially, he must admit, speaking as a private individual that it seemed to him that there could no longer be any question of putting the customs union plan into execution, even should the decision of the Hague Court be favourable, and he had so

⁷⁹ Schober in 'Übertragung der stenographischen Aufzeichnungen über die Verhandlungen des Ministerrates in der Sitzung vom 9. September 1931', 9 Sept. 1931, AdR, *Ministerratsprotokoll* Nr. 721. Appendix.

⁸⁰ Rodd to Siepmann (memorandum of telephone conversation), 19 June 1931, BoE, OV28/4 Doc. 35, and Bruins to Siepmann (memorandum of telephone conversation), 20 June 1931, BoE, OV28/4 Doc. 36.

⁸¹ Lewis, *Economic survey, 1919–1939*, p. 63.

⁸² Sargent to Hadow, 24 Aug. 1931, PRO, FO C6429/61/3.

⁸³ *Ibid.* The Bank of England and the foreign office do not appear to have shared all the information at their disposal, a fact which might help explain the above claim by the foreign office that it was poorly informed.

⁸⁴ *Ibid.*

informed the Austrian chancellor'.⁸⁵ Bennett chooses not to take this comment too seriously, arguing that Schober 'was no doubt speaking under the stress of the immediate Austrian crisis, which was eased later in the day by Norman's extension of credit'.⁸⁶ This is the view taken by Julius Curtius, then German foreign minister, who later claimed that 'our partner was, after the English help mentioned above, once again on top of things and determined to persevere'.⁸⁷

However, this position cannot be sustained. We know that as early as 13 June Vansittart had commented on Schober's wish to discuss alternatives to the customs union, and much more importantly – and here Bennett's lack of information on what was going on in Austria becomes clear – Ender, the Austrian chancellor, had announced at the cabinet meeting on the 15th that Austria would eventually get help from abroad 'but not without a painful price, Austria will have to bury the customs union with Germany. But if the customs union was still worth enough to get Austria a guaranteed loan from the League of Nations, then it is still valued highly, whereas its real value is considerably lower'.⁸⁸

Although no document appears to exist which shows exactly when the Austrians decided to abandon the customs union, it is clear that the decision was taken before 16 June, and stuck to despite the Bank of England's advance. This view is supported by evidence which shows that the Austrians were well aware of the weakness of their position despite the British help, as can be seen from a letter sent by the Nationalbank to the finance ministry on 17 June:

The fact that the advance on the placement of the treasury bonds has provided us with 150 million schillings of foreign exchange is unlikely to suffice to re-establish the desired trust of the public in the Nationalbank and the currency, unless the clear will of the Nationalbank to end the inflationary increase in the money supply becomes manifest. The 150 million schillings would, if the demand for foreign exchange continues at an average rate of 20 million schillings, be used up within 7–8 days and the help provided would disappear in smoke, if we continue to allow an increase in currency in circulation, which is predominantly being used by the public to purchase foreign currencies.⁸⁹

The implications of all this are clear. The collapse of the Creditanstalt and the consequent financial crisis signified the end of the customs union project. French pressure was not, as some believed, responsible for the collapse of the Creditanstalt, but – to this day ignored – it was responsible for an exacerbation of the flight from the schilling, which forced the Austrians to surrender the customs union project. French financial pressure had knocked the will to fight for the customs union out of the Austrians.

⁸⁵ Phipps to Henderson, 17 June 1931, in R. Butler and E. L. Woodward, eds., *Documents on British foreign policy, 1919–1939: second series volume II 1931* (London, 1947), Nr. 59.

⁸⁶ Bennett, *Germany and the diplomacy of the financial crisis*, p. 295.

⁸⁷ J. Curtius, *Bemühung um Oesterreich – Das Scheitern des Zollunionplans von 1931* (Heidelberg, 1947), p. 63.

⁸⁸ Ender, 15 June 1931, AdR, *Ministerratsprotokoll* Nr. 701.

⁸⁹ Nationalbank to finance ministry, 13 June 1931, ANB, *Bankakte* 1555/1931.

Although this article has concentrated on the international aspects of the project, it is important to note here that there were many in Austria who had opposed the customs union all along, and who were quite happy to see the project abandoned. These appear to have, according to Phipps, included former Chancellor Ignaz Seipel: ‘Monseigneur Seipel, as usual, has since his return to Vienna maintained an attitude of discreet reserve in regard to this question, but I have reason to believe that he is in reality opposed to the plan’.⁹⁰ The problem in gauging the extent of internal opposition in Austria to the customs union is, as Phipps noted, that ‘although Austrian patriotism per se is, as I have pointed out, practically non-existent, it is replaced by a sort of amorphous patriotism for the “great German nation” and this renders difficult any open manifestation of opinion against the “*Anschluss*”, whether it be economic or political’.⁹¹

None the less, it is now clear that it was because of the financial pressure that the French conditions were eventually accepted and the customs union project was publicly dropped at the League of Nations early in September.

III

The above findings reveal that the diplomatic and financial history of 1931 was even more turbulent than believed to date. The findings on the cross-deposits between the Austrian Central Bank, the Creditanstalt, and several overseas banks indicate that the accepted view on the role of the merger of the Bodencreditanstalt with the Creditanstalt in the collapse of the later is in urgent need of reappraisal. It also indicates that the real foreign exchange reserves of the Austrian Nationalbank were considerably smaller than the official figures would suggest, which in turn helps explain why Austria was so susceptible to foreign financial pressure in 1931. The findings on French accentuation of the run on the schilling in 1931, and on the fears of military intervention by Czechoslovakia and France in Austria in the spring of 1931, show that French pressure during the customs union dispute was much greater than formerly believed. It is now clear that the customs union project was abandoned as a result of the flight from the schilling – exacerbated by the French – and the consequent need for foreign help. The impact of the French policy of withdrawing funds from Austria – to weaken its financial position and thus make it dependent on foreign help – on the wider European financial crisis of that year remains to be studied.

⁹⁰ Phipps to Henderson, 16 Apr. 1931, CAC, the Phipps collection 1/11 p. 2. ⁹¹ Ibid.

Appendix: Report on military information regarding Czechoslovak military intervention in Austria⁹²

Gegenstand: Militär. Informationen über angebliche Vorbereitungen der Tsch. Slowakei Gegen Österreich.

Genehmigungs- Dringlichkeits- und Verschußvermerk: Streng Geheim30./4. 1931.

Bericht. I

Seit dem 16. April d.J. laufen fast ununterbrochen Mitteilungen von verschiedenen Seiten, hauptsächlich aus Böhmen ein, dass militärische Massnahmen erwogen werden, die zur Besetzung Oesterreichs notwendig sind. Bis zum 21. d.M. konnten keine konkreten Daten herbeigeschafft werden. Am 22. d.M. traf die Mitteilung ein, dass die französischen Militärattachés im Zeitraume vom 23.–26. Besprechungen in der Wiener Gesandtschaft abhalten werden. Tatsächlich fand eine diesbezügliche Konferenz in der franz. Gesandtschaft hier statt und haben daran die Militärattachés von Prag, Berlin und Budapest teilgenommen. In dieser Konferenz, soweit Informationen zulassen, wurde in erster Linie die Ausgestaltung des N.[achrichten] Dienstes, der sich hauptsächlich gegen Deutschland und Italien von hier aus zu wenden hat, in Beratung gezogen, zweitens wurde das Gutachten der einzelnen Attachés über die Stimmungen ihrer Länder und ihrer Leistungsfähigkeit im Falle der Besetzung Oesterreichs vorgetragen.

Die Attachés sollen übereinstimmend die ungehinderte Aktion verbürgt haben, da weder Ungarn noch Italien und Deutschland gegenwärtig in der Lage sind gegen den Einmarsch wirksame Gegenmassnahmen zu ergreifen.

Am 29. d.M. traf Muka aus Prag hier ein, ohne hiezu aufgefordert, und teilte mit, er sehe es als seine Pflicht an, auf die drohende Gefahr in Oesterreich aufmerksam zu machen. Nach seiner Information beabsichtigt man die Zollunion durch die Besetzung Oesterreichs ganz einfach nicht zuzulassen und Oesterreich aus den Verhandlungen auszuschalten. Zu diesem Zwecke wird die Prager Regierung demissionieren, das Parlament aufgelöst, so dass eine reine Hradschin Regierung entsteht, die die Massnahmen gegen Oesterreich durchzuführen haben wird.

Die diesbezügliche Besprechungen fanden zwischen Briand und Benesch bereits vor 2 Monaten statt, wobei Briand Benesch die Zusicherung gab, die Aktion voll und ganz durch Frankreich zu decken [sic !].

Die Aktion gegen Oesterreich soll unmittelbar nach den Pfingstfeiertagen Platz greifen und zwar in der Form, dass eine französische Militärmission mit besonderen Vollmachten nach Wien gelangt (an der Spitze wird General Mittelhauser stehen) und als Exekutivtruppen sind C.S.R. Verbände in der Stärke von 76.000 Mann vorgesehen.

⁹² Austrian foreign ministry report, 30 Apr. 1931, AdR, BKA-AA 22772-13/1931.

Der Abmarsch an die österr. Grenze soll in unauffälligster Art und Weise erfolgen u.zw. unter dem Vorwande einer Nachtübung werden die Truppen auf Lastautomobilen verladen (motorisierte Verbände) und derart eingesetzt, dass sie längstens um 3 h früh die österr. Grenze überrumpeln, um 7 Uhr früh bereits die Donaulinie erreicht haben werden.

Hava Brünn meldet am 28. d.M., dass die Sokol zu einer streng vertraulichen Besprechung eingeladen waren und ihnen nahegelegt wurde sich ab 20. d.M. bereits zu halten, da höchstwahrscheinlich es zu einer Einberufung auf längere Zeit kommt. Den Sokoln wurde zur Pflicht gemacht über diese Besprechung gegen jedermann strengstes Stillschweigen zu wahren.

Die zu-erst [sic!] aufgetauchten Alarmnachrichten wurden allgemein als von Prag lanciert angesehen und es hatte den Anschein, man verfolge damit die Einschüchterung der öffentlichen Meinung Oesterreichs. Seit dem 26. d.M. verdichten sich die einzelnen Meldungen, hauptsächlich aus den Grenzgebieten, gegen Oesterreich, die fast übereinstimmend eine emsige Vorbereitung der einzelnen Truppenverbände anher berichten. Ein Zuschub von Kriegsmaterial sowie der notwendigen Tankformationen ist noch nirgends einwandfrei festgestellt worden. Eine Meldung vom 27. d.M. aus Paris besagt, dass dortselbst ein vertraulicher Ministerrat unter Vorsitz des Präsidenten der Republik stattgefunden hat, zu dem auch der Chef des Generalstabes, General Weygand, zugezogen wurde. Der Gewährsmann konnte in Erfahrung bringen, dass bei diesem Ministerrat die Besetzung Oesterreichs besprochen wurde und die Durchführung als solche in dem vom Generalstabschef vorgelegten Prospekten gutgeheissen worden ist. Briand versicherte, dass mit Komplikationen nicht zu rechnen sei und dass die ergriffene Massnahme in dieser Form gekleidet, die Zubilligung der anderen Grossmächte erhalten wird.

Soweit bis jetzt die Informationen zulassen, finden in Frankreich vorzeitige Einberufungen aus der sogenannten Reserve disponible statt, die hauptsächlich zur Verstärkung gegen Deutschland Verwendung finden.

Bericht. II

Die bis zum heutigen Tage eingelangten Nachrichten aus den einzelnen Bezirken lassen erkennen, dass Konzentrierungen von Transportmitteln bereits Platz gegriffen haben. Die Staatsbahndirektion Pilsen sowie auch Prag und Brünn haben reservate Weisungen ergehen lassen, dass frei werdende Waggons umgehend an die Ursprungstation ohne Aufenthalt abzuschieben sind, ferner, dass die Einwagonierungsstationen mittels eines Dienstzettels bis zum 10 d.M. zu melden haben, dass die für die Einwaggonierung notwendigen Vorkehrungen revidiert und sich in Ordnung befinden.

Der Gewährsmann aus Pilsen hat festgestellt, dass auf der Transenalbahn Pilsen-Tabor 5 Garnituren a 60 Waggons ferner 3 Garnituren für Artillerie-Transport zu je 52 Waggons bereit gestellt liegen.

Weitere Konzentrationen von Eisenbahnwaggons finden in den Stationen

Budweis - Iglau - Znaim - Brünn - Biesens - Pisek - Lundenburg und Pressburg statt.

Auf dem Flughafen von Brünn werden mit rasender Geschwindigkeit 2 neue Hangars gebaut, die für Unterbringung von je 6 Flugzeugen berechnet sind.

Die Nesselsdorfer Waggonfabrik (Tatra Werke) erhielten den Auftrage die in Bestellung gegebenen 12 Stück 5 tonnigen Lastkraftwagen, die Ende August d.J. zur Ablieferung gelangen sollten, durch Tag- und Nachtschicht die Lieferung derart zu beschleunigen, dass die Wagen schon Ende des Monats zur Ablieferung gelangen.

Eine erhöhte Tätigkeit wurde ferner bei Breitfeld Daniek (Kolben) in den Werken von Kralup sowie in Nechanic festgestellt.

Die einzelnen Ueberprüfungen in den Garnisonen von Budweis, Neuhaus, Telsch, Znaim, Brünn. Göding und Pressburg haben ergeben dass die Stände der Infanteriekompagnien derart erhöht wurden, dass die MG. Züge vollständig komplett sind, die Infanteriekompagnie einen Effektivstand von 126 Mann besitzt.

Ein telephonischer Bericht aus Olmütz besagt, dass die Flugkompagnie 37 und 39 strenge Marschbereitschaft bereits erhielten und werden unter dem Vorwange einer Uebung in den Raum von Brünn gelangen.

Die Kavallerieregimenter 2, 6 und 7 haben je 14-5 tonnige Lastkraftwagen zugewiesen erhalten, die vom Zentraldepot der Automobiltruppe im Laufe des 2. Mai eingelangt sind.