TIGHT BINDING BOOK

SOUTH-EASTERN EUROPE

A Political and Economic Survey

SOUTH-EASTERN EUROPE

A POLITICAL AND ECONOMIC SURVEY

Prepared by

The Information Department of the Rnval Institute of International Affairs

in collaboration with

The London and Cambridge Economic Service

London

THE ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS

New York • Toronto • Bombay ' Melbourne ' Capt Town

OXFORD UNIVERSITY PRESS

First published, May, 1939
Second (revised) edition, June, 1939

PRINTED IN GREAT BRITAIN AT
THE BROADWATER PRESS, WELWYN, HERTFORDIHIRE

PREFACE

AFTER the events of the autumn of 1938 it became clear that South-Eastern Europe was destined to play an important part, politically and economically, in the period which was opening. The Information Department of the Royal Institute of International Affairs decided, therefore, to prepare a survey of South-Eastern Europe for publication at the earliest possible moment in the Information Department Papers Scries.

The London and Cambridge Economic Service had, in the meantime, reached a similar decision and had invited Dr F. C. Benham to prepare a Special Report on Economics, Trade, and Finance in the same area.

In these circumstances collaboration between the two organizations was clearly indicated and was decided upon as soon as their plans were made known to one another. It was agreed that while Dr Benham, with the help of Mr Scitovsky who undertook to compile the statistical tables, was to be responsible for Part II, the Information Department of Chatham House would undertake the preparation of Part I and also the general editing of the whole survey.

With the aid of a travelling grant generously offered by the Geneva Research Centre, Dr Benham, who had recently returned from Turkey, visited, among other centres, Belgrade, Zagreb, Budapest, Bucharest, Sofia, and Athens in November and December 1938, during which time he was able, with the help of many experts to whom he wishes to give his warmest thanks, to collect up-to-date information as to the existing position.

The survey had just reached the printer when the destruction of Czecho-Slovakia was accomplished in March 1939. It was withdrawn and thoroughly revised to take account of the effects of this development. The final process of printing had not, however, begun when the Italian invasion of Albania took place on April 7, 1939. It was, therefore, possible to make the necessary alterations to cover this event also and to include the substance of the British pledges to Poland, Greece, and Rumania.

In conclusion, the two bodies concerned in the production of this survey, the limits of which have been deliberately restricted, would like to express their appreciation to all those who have assisted, with their advice and comments, in its completion.

For the maps (with the exception of the general map of South-Eastern Europe and those of Hungary and of Minorities in the Danubian Basin which **Miss M. A. Keen prepared at Chatham** House), and for other assistance, grateful acknowledgement **is due** to the Geographical Department of the London School of Economics.

Chatham House,
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London, S.W.i.

April /5,*1939.*

NOTE TO THE SECOND EDITION

The issue of a second edition makes possible the revision of the original text, where necessary, and also the inclusion of some brief additions to cover developments up to the second half of May 1939. The map of Yugoslavia has been redrawn to include additional details regarding the distribution of mineral resources.

In spite of the loss of her independence, the sections dealing with Albania contained in the first edition have been retained since the political section contains information which is still interesting in relation to the period 1913-39, and a brief note on the new Constitution has been added while, in the economic section, the information regarding the economic resources and structure of the country is still of some value.

The opportunity may also be taken to explain a point which may not have been made clear in the original Preface. The scale upon which the material in Part I has been compiled is different from that adopted in the detailed sections of Part I I. It is intended to provide a general background to the day-to-day political situation (which changes with a disconcerting rapidity) and is, therefore, a general survey of developments and tendencies over a period of years. It thus differs from Part I I, which is a detailed review of the existing economic structure and resources of each country.

*June 8, 19***39.**

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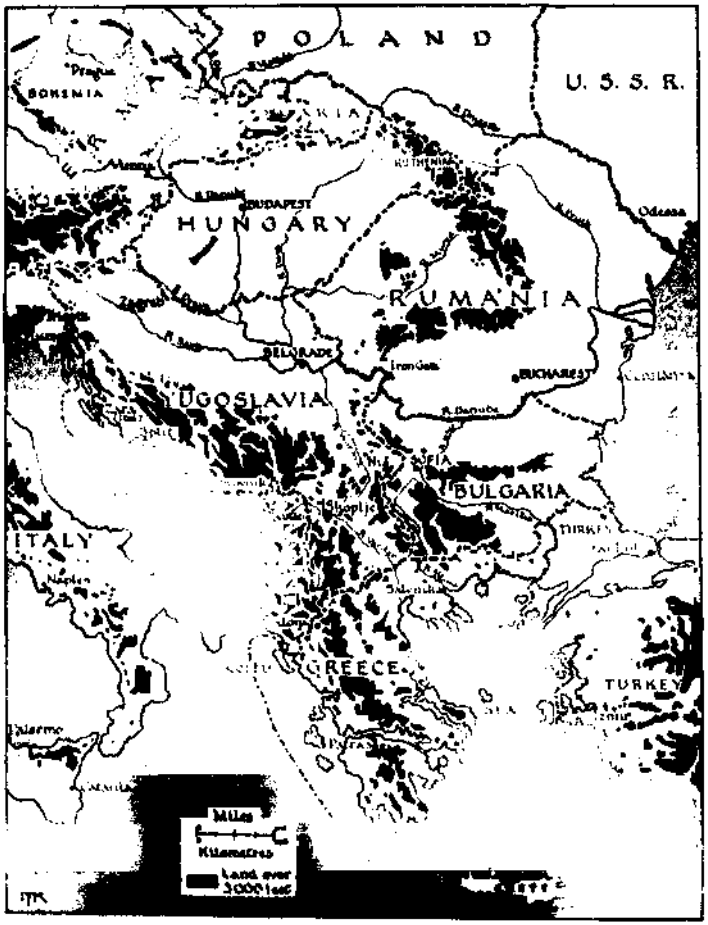


PART I

FOREIGN RELATIONS AND INTERNAL POLITICS

I. PRINCIPAL FACTORS AND FEATURES

BOUNDED by the range of the Carpathians and the River Dniester in the north and by the Alps, the Adriatic, the Aegean, and the Black Seas in the west, the south, and the east, there lie between Greater Germany, Italy, the Soviet Union, and the sea (that important clement) several States of comparatively recent creation—the Succession States to the Ottoman and Habsburg Empires.[1]

Strategic of South-Eastern Europs

Through the middle of this area flows the Danube, traversing it from Germany to the Black Sea just as, metaphorically speaking, it runs like a continuous thread through its history. The Danubian basin forms to-day, no less than in past centuries, one of the principal trade routes and channels of communication in Europe. Its importance has, if anything, increased in recent months for since the opening of the Rhine-Main-Danube canal to light traffic in 1938, it is now possible for barges to pass not only from the North Sea to the Black Sea, but also from the Danube to the Baltic, through the extensive river and canal system of Germany. The projected Oder-Danube canal further emphasizes the strategic importance, both militarily and commercially, of this system.

The Danube valley constitutes, furthermore, a corridor linking Central Europe with Asia Minor, its walls formed by the mountain ranges to the north and south, natural ramparts easily defensible against attack, as the experience of 1914-18 showed. The vital keys to this corridor are Vienna, the Iron Gate, Ni3, and the Straits.

A further point is that Greece and Turkey ("The Guardian of the Straits") are Mediterranean States, whose friendship, harbours, and islands have a particular importance in relation to sea power in the Aegean and the Eastern Mediterranean. From a strategic point of view these facts are of major importance.

(1) Gresse (1899), *S$rhia and Monieusgro* (1878), *Rumania* (1878), *Bulgaria* (1908). and *Albania* (1913) secured their independence from the Ottoman Empire in turn Mid as * result of the Balkan W a n of 1912-13 divided Eptrus, Macedonia., and Western Thrace between them, Rumania securing the South Dobrudja from Bulgaria. In 1919 Greece and Yugoslavia made further gains at the expense of Bulgaria. *Cleacho-Slovakia* was constituted out of Bohemia and Moravia (ceded by Austria) and Slovakia and Ruthenia (ceded by Hungary); *Rumania* obtained Transylvania and pari of the Banat from Hungary, the Bukovina from Austria, and Bessarabia from Russia. *Yugoslavia* was formed by the union of Serbia and Montenegro with Slovenia and Dalmatia (ceded

Economic Significance

The area has a special interest from another point of view also, for the agrarian economics[1] of the States within it and their produce —foodstuffs, livestock, grain, timber, tobacco, and oil—are complementary to the industrial production of Germany. In consequence the trade exchanges between them and Germany have always been substantial. This is more than ever the case since the emergence of the Great German Reich, which, having absorbed Austria and Czechoslovakia, now dominates in a striking fashion the foreign trade of the Danubian basin, Greece, and Turkey. The Habsburg Empire constituted a well-balanced economic unit, with a domestic market of more than fifty million people, linked together by the Danube and by a network of railways radiating (as they still do) from Vienna and Budapest. The Greater Germany of to-day regards this area as its natural *Lebensraum* and looks upon it, therefore, as a special preserve in which exclusive rights are claimed, just as the intrusion of others is resented.

These facts, briefly stated, serve to explain the significance of this region, from a commercial as well as from a strategic point of view. They also show why the States which lie within it are continuously threatened just as were the Balkan States before the War, with foreign pressure and persuasion, exerted in a multitude of ways, internally as well as externally, and have been, in modern times, "objects of jealous desire to all economically-minded people; less from the point of view of occupation than of control; less for their intrinsic importance than as a means of access to other lands. Hence the concentration of international rivalries upon the lands which fringe the Eastern Mediterranean."[1]

Principal in History

The student of politics who would try to reduce to their simplest expression the factors which have been chiefly responsible for the shaping of the history of South-Eastern Europe, might well be content with restricting them to three basic factors: geography ("the mother of history"), the striking mixture of peoples, and the perpetual and disturbing intrusion of the Great Powers.

(i) INFLUENCE OF GEOGRAPHY

There are few parallels to the influence of geography upon the Balkans to be found in the Continent of Europe and no political discussion would be cither fair or complete which failed to take

by Austria), Bosnia-Heraegovina (ceded by Austria-Hungary), and Croatia-SIavonia, and the Vojvodina (ceded by Hungary). For pre-War frontiers sec map on p. 5.

(1) With the exception of Greece (60 per cent) between 70 and 80 per cent of the populations of South-Eastern Europe and Turkey are **dependent upon agriculture.**

(9) Sir John Marriott: *Thi Eastern Question*, 1918, p. 38.

account of certain geographical considerations.[1] This is all the more necessary because first appearances are misleading. At first sight the Balkan Peninsula appears to resemble the other Mediterranean peninsulae—the Italian and the Iberian—but closer examination reveals that it has, in fact, little in common with them. Unlike them it is neither compact nor self-contained; unlike them it has no mountain range, such as the Alps or the Pyrenees, to afford protection against external aggression from the north. It lies open to the Central European plain, on the one hand, and open to Asia on the other, the Dniester alone separating Rumania from the Steppes, and the Bosphorus being no more than a narrow submerged channel between two related regions, always in close contact with each other. Nor does the Adriatic offer any greater difficulties of passage, while the islands in the Aegean have ever been stepping stones from the actual borders of the Eastern Mediterranean to the Peninsula itself.

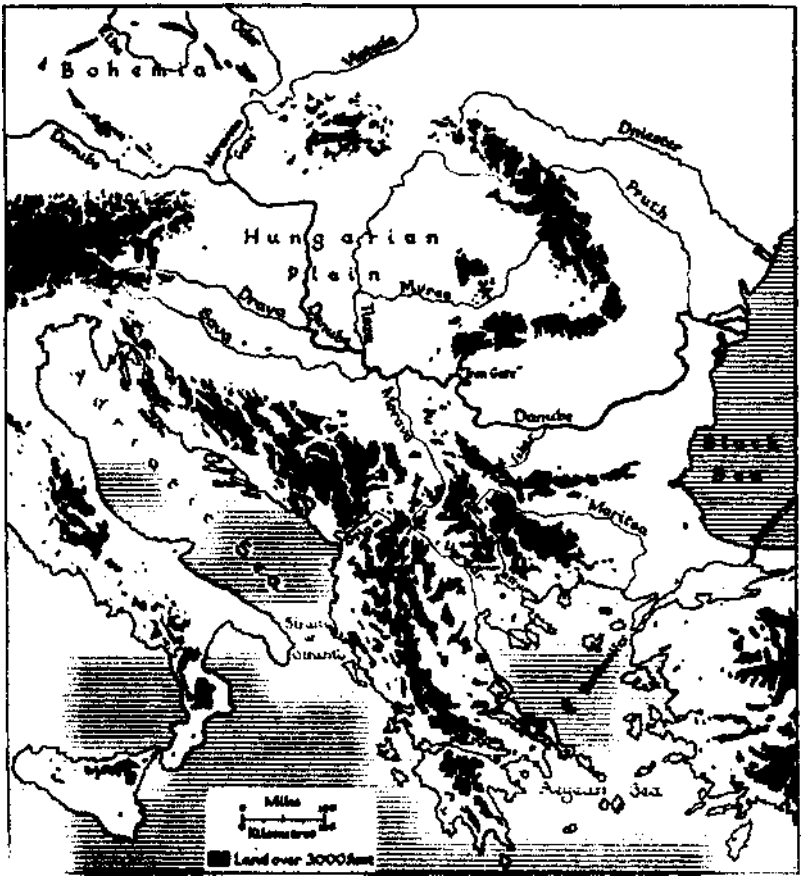
On the other hand, the Peninsula (in this it resembles the Iberian peninsula) is divided within its own limits by long and rugged mountain barriers, which even now make contact or intercourse between the various parts more arduous than between those parts and neighbouring outer regions. (Compare, for example, the communications of the Dalmatian Coast with Belgrade on the one hand, and with Italian towns on the other.) In this may be found an explanation of some of the difficulties encountered not only in the process of internal consolidation, but also in the movement towards Balkan Union.

Principal Routes

Reference has already been made to another important feature of Balkan geography. The Danube constitutes in effect a corridor linking Central with South-Eastern Europe, and Europe with the Steppes and Asia Minor. At Belgrade three traditional routes converge: the first, the land and waterway along the Danube valley; the second, the line through Ni5, Sofia, and Adrianoplc followed by the trans-continental railway to Istanbul; and the third, the route through NiS and Skoplje, along the valleys of the Morava and Vardar, to Salonika, thence by sea or by the centuries-old coastal route to the ancient capital of the Byzantine and Ottoman Empires. Along these corridors the great invasions and migrations have passed, both eastwards and westwards, each movement leaving straggling remnants in its wake. The effects of this arc only too visible in the ethnography of Eastern Europe.[2]

(1) *See* physical map on p, 4.
(a) For details of national minorities, see below, p. 8.

SOUTH-EASTERN EUROPE*. PHYSICAL



SOUTH-EASTERN EUROPE: POLITICAL

(ii) MIXTURE OF PEOPLES

Settlement

The formation of homogeneous national States was made difficulty if not impossible, by this mixture of peoples, the second basic factor to be noted. This problem was further aggravated by the policy of a number of rulers, whose difficulties or weaknesses led them, after as well as in the centuries before the War, to try to apply to the nationality problem the Pasteurian method of fighting a disease with its own virus. To break up the cohesion of national groups, they planted among them minorities of a different race, thus making the confusion of populations worse confounded. The Saxons in Transylvania, the Swabians in the Hanat,[1] the Szekler colonies along the eastern (Transylvanian) border of the Habsburg Empire, and all the Turkish settlements in the Balkan Peninsula, arc cases in point; equally strange is the way in which in Bessarabia and in the Dobrudja (Dobrogca) one comes upon French, German, and Swiss villages which retain not only their own language but even the dialect of the places from which their inhabitants originally came. It is not without importance for the present situation that the post-war Governments should have continued to meet a similar problem with similar methods. Yugoslavia, for instance, made use of agrarian reform to plant extensive Serb colonies in the Vojvodina,[2] in Macedonia, and even among her own Catholic Croats. Rumania involved herself in endless trouble with the Vlach colonists, who were induced to abandon their ancient homes in the Epirus and settled on land taken from Bulgarian and Turkish inhabitants so as to "nationalize" the southern Dobrudja; Czecho-Slovakia was accused by Germany and Hungary alike of settling Czech farmers in frontier regions inhabited by their minorities in Sudetcnland and Slovakia. History and politics together have thus produced the extraordinary motley of nationalities that one finds in Macedonia and the Banat, in southern Bessarabia, in the Dobrudja, and in Transylvania, to name only the most striking examples. One finds in these districts several nationalities not only inhabiting different villages side by side, but often three or even four of them with as many languages and nearly as many religions sharing one and the same village. In these conditions it is difficult to sec how the principle of national self-determination could ever lead to a satisfactory political settlement in the Danubian region.

(i) The Banat of Temetvar, former Hungarian territory now divided between Rumania and Yugoslavia and tying to the north-east of Belgrade and to the east of the River Tizza.

(a) The name given to former Hungarian territory in the Banat, the Backa (forming the triangle between the Rivers Danube and Tina) and the Baranya.

Ethnography as basts for Territorial Claims

Another aspect of this question is to be seen in the use made of ethnographic claims, whether real or artificial, to support territorial demands designed to meet the requirements of commercial or military strategy, or satisfy nationalist or expansionist aspirations. The Peace Treaties, while they undoubtedly represented a settlement which left fewer people under foreign rule than had been the case before the War, succeeded in satisfying one set of aspirations merely at the cost of creating a fresh set of claims. Self-determination was a principle which was difficult to apply in such a way as to yield a settlement which was both fair and acceptable in the eyes of all those concerned, and to produce, at the same time, States which were strategically, economically, and politically viable. Furthermore, it was not generally possible, in the atmosphere of the Peace Conference, to apply the principle at the expense of those Allied States which had fought so hard and suffered so much for independence. As a result South-Eastern Europe was left, not only with such major domestic questions as the relationships between Serbs and Croats, or Czechs and Slovaks, but also with serious minority problems in Czecho-Slovakia (3$ million Germans, ¾ million Magyars, ½ million Ruthenians), in Rumania, viz. Transylvania *(1½* million Magyars, ¾ million Germans), the Dobrudja (¼ million Bulgarians), Northern Bukovina and Bessarabia (J million Ukrainians), not to mention the ethnographic confusion in Macedonia and the Vojvodina. Although the Peace Conference attempted to guarantee the proper protection of the rights of these minorities by securing the signature by the Succession States of Minorities Treaties,[1] the latter were, it must be admitted, honoured in the breach, rather than in the observance. This was, perhaps, hardly surprising, for their provisions were administered by officials with little tradition and administrative experience, and with, perhaps, more thought for the opportunity of "getting their own back" on their erstwhile political masters, than for that generous interpretation which alone might have produced conditions favourable to a durable settlement. The importance of this change of relative position between "top-dog" and "under-dog" can hardly be overemphasized. But if responsibility attaches to a great extent to the short-sightedness of officials and the ultra-nationalism of newly created States, a share of the blame must equally be apportioned to foreign intervention and to irredentisrn encouraged from abroad.

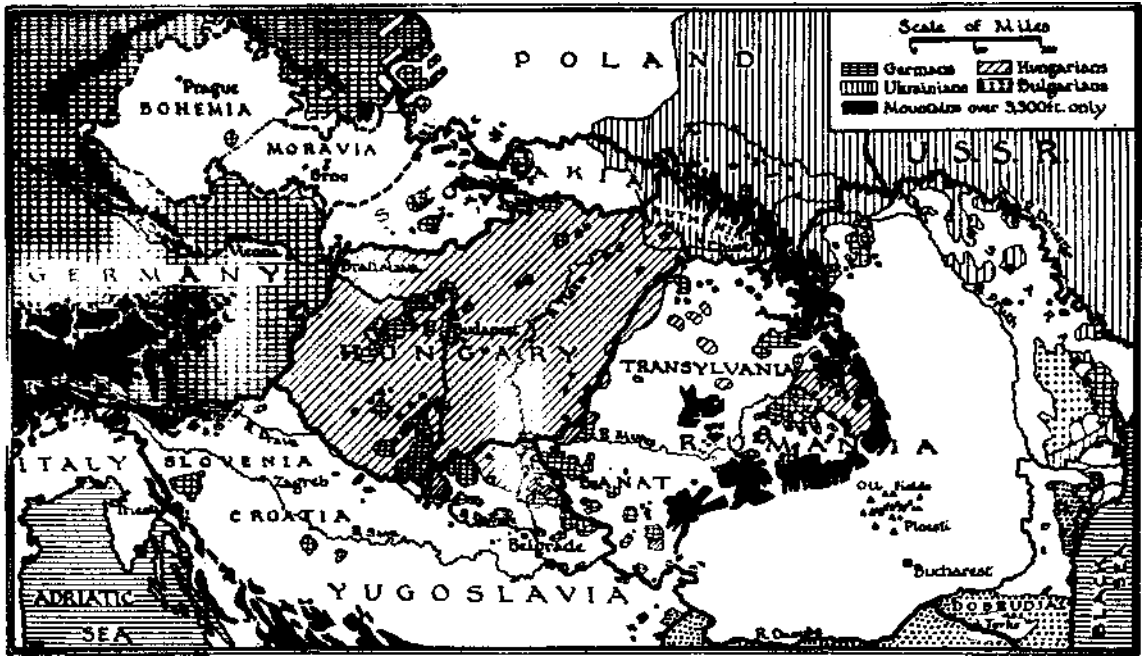
Minorities

(1) These promised: "full and complete protection of life and liberty to all inhabitants without dustintion of birth, nationality, language, race, or religion.'

SOUTH-EASTERN EUROPE: PRINCIPAL MINORITIES

	HUNGARY (Census, 1931) Basis: mother tongue		RUMANIA (Census, 1930) Basis: ethnic origin		YUGOSLAVIA (Census, 1931) Basis: mother tongue		BULGARIA (Census, 1934) Basis: language of use		GREECE (Census, 1928) Basis: language of use	
Germans										
Official figure	478,630	Found in W. and S.W. Hungary round Budapest, and north of Lake Balaton	740,000	ca. 225,000 in Transylvania; ca. 280,000 in the Banat; 70–80,000 in the Bukovina; 80–100,000 in Bessarabia	513,672	ca. 280,000 in the Banat, Bačka, and Baranya; ca. 125,000 in Croatia-Slavonia; ca. 40,000 in Slovenia	4,171		—	
Percentage of total population	5·5		4·1		4·2		0·1		—	
German figure	600,000		600,000		700,000		—		—	
Hungarians										
Official figure	—		1,426,000	Of which 1·1–1·3 million in Transylvania	472,600	Chiefly in the Banat, Bačka, and Baranya; ca. 70,000 in Croatia	—		—	
Percentage of total population	—		7·9		3·9		—		—	
Magyar figure	—		1,900,000							
Bulgarians										
Official figure	—		361,000	ca. 150–360,000 in Bessarabia; 60–100,000 in N. Dobrudja; 130–150,000 in S. Dobrudja	—	There is a frontier minority of some 70,000 pure Bulgarians; also 600,000 Bulgaro-Macedonians who are reckoned as Serbs	—		16,776	On the Bulgarian frontier.
Percentage of total population	—		2		—		—		81,844	"Macedonians" in W. Macedonia.
									0·2	
									3·0	
Ukrainians										
Official figure	680,000 (approx.)	In Ruthenia (annexed March 1939)	578,000	Chiefly in N. Bukovina and Bessarabia	—		—		—	
Percentage of total population	5·1 (approx.)		3·2		—		—		—	
Jews										
Official figure	444,567	According to religion	728,000		68,405	According to religion (1931 Census)	48,398	According to religion	72,791	According to religion
Percentage of total population	5·1		4·0		0·49		0·8		1·1	
Other Important Minorities	Slovaks: 200–250,000 (approx. 1930) 2·5 per cent (approx. 1928)		Russians: 415,000 (in Bessarabia) 2·3 per cent		Albanians: 441,740 3·7 per cent		Turks: 618,368 (mostly on Thracian and Dobrudjan frontiers) 10·2 per cent		Turks: 191,254 (W. Thrace) 7·1 per cent Albanians: 18,778	

THE DANUBE BASIN: PRINCIPAL MINORITIES



This map skews ***approximately the*** *areas in which the minorities lize, without, however, indicating dariations in their proportion to the local populations.*

(iii) INTRUSION AND RIVALRIES OF FOREIGN POWERS

The third basic factor, therefore, to be noted in the situation in South-Eastern Europe has been the intrusion of foreign States, particularly the Great Powers. What effect has this had on the progress of political life and on the conduct of foreign policy in the Balkans? Political writers have in the past suggested more often than not that the Balkan peoples have been wholly responsible for the corruption of political life in the Peninsula, and that indeed they have actually spread the virus and infected the rest of Europe with it. If evidence can be produced in support of such a view, it is equally true that the European Powers have seldom interfered with any beneficent results in the life of the Balkans. To-day, in fact, as never before, it is from entanglement in Europe's conflicts and power politics that the Balkans pray to be saved.

"Bartering of cepted policy in nineteenthth century

During the eighteenth, and the earlier part of the nineteenth, centuries, however, the idea of self-determination and respect for national independence had not yet entered into the political consciousness of Europe. In fact with the emergence of Russia as a Great Power, the Ottoman Empire came to be regarded by some almost as a bulwark of the European "Balance of Power"* in South-Eastern Europe, and Great Britain made of its maintenance the cardinal principle of her foreign policy. Political problems were solved more willingly by partition than by independence. "The bartering of peoples and provinces like pawns in a game" was an accepted rule of policy, which in the circumstances of that time awakened no pang of conscience. Even Voltaire advised Catherine the Great to help herself to the promising territories along the lower Danube. Napoleon had a full-fledged plan for the partition of South-Eastern Europe, and thereafter the changing fortunes of European politics were frequently reflected in the handing to and fro of the provinces inhabited by the Balkan peoples. "At the Congress of Vienna [1814-15], the Eastern Question had been relegated to the background, and in any case the Christian nationalities were as yet too much under Turkish control to secure an independent hearing from statesmen indifferent to, or immune from, the principle of nationality. Forty yean later, at the Congress of Paris [after the Crimean War], these nationalities were already reborn and forcing themselves upon the attention of Europe, but all decisions were kept exclusively in the hands of the Concert. In 1878 [at the Congress of Berlin], the Balkan nations could no longer be ignored, and though it was not till 1919 that they were admitted on at least nominally equal terms to an international conference, their claims

formed a main subject of discussion and their partial admission was under consideration.*'[1]

It is true, however, that the Great Powers (after the fall of the Ottoman Empire) did not on the whole directly encroach excessively upon Balkan territory.[2] But that was due in the first place to the determined resistance of the Balkan peoples themselves; and it was due in the second place to the inability of the Powers to come to an agreement as to how the spoils should be divided.

Atempts at Balkan Union frustrated

The first point is well illustrated in another interesting aspect of Balkan political history. It is often overlooked that the Balkan peoples, whose quarrels receive such elaborate attention, have frequently tried to set up some kind of unity among themselves. The tendency towards Balkan union, in one form or another, has seldom been absent; in a common impulse first of escape from Ottoman domination, and later of self-defence against foreign influence or intervention, the political leaders strove to overcome the natural division and the exposed situation with which geography had afflicted their region. In the minds of the revolutionary leaders who prepared and carried through the struggle for national independence their own particular problem was looked upon as part of a common Balkan problem. Not only were proposals for union numerous, but there were frequent attempts to make a practical beginning. But the difficulties were many. National jealousies were strong and easily exploited. There was, in particular, constant opposition to the idea of union from the neighbouring Great Powers. When in 1887 the Bulgarian leader, Stambulov, proposed a personal union of Bulgaria and Rumania under Prince Carol, the Prince refused, well knowing that acceptance would mean instant attack by Russia. The idea of a union between Bulgaria and Serbia was frequently advocated by leaders in both countries, and the two countries made a beginning in 1905 when they signed a treaty setting up a Customs union between them; the treaty was ratified by the Bulgarian Parliament, but, before the Serbian Parliament could do likewise, Austria, scenting in this agreement a Pan-Slav move with Russia in the background, intervened and forced the Serbian Government to drop the project. The nefarious r6le played in 1912-13 by Austro-Hungarian policy in the break-up of the Balkan League is within living memory.

(t) R. \V. Selon-Waucm: *Disraeli, Gladstone, and the Eastern Question,* Macmillan, London, 1935, p. 479.

(a) The annexation of Bosnia-Herzegovina by Austria-Hungary in 1908 was a glaring exception.

More recent examples arc provided by the influence of Italian and German diplomacy in the Balkans since the War.

Not only the political but also the economic interests of some of the Great Powers stood in the way. Perhaps this obstacle acquired its sharpest point after Austria had lost the leadership of the Germanic peoples. That crucial development occurred at a time when the trend towards Balkan national consolidation was also at its strongest, and it acquired its special momentum and character from the economic aspirations with which the new German Empire invested the Central European Alliance. It was from that moment that the Eastern Question acquired the special virulent temper which led to conflict in 1914. While certain incidents lend plausibility to the argument that the Great War began in the Balkans and as an outgrowth of Balkan intemperance, a more serious political judgement will always concede that the Balkans were, rather, sucked in helplessly in a struggle which was neither in their interests nor within their means.

Tenton-Slao Rivelry

The Eastern Question had included within its fateful course all the elements which have been described as having entered into Balkan political history. The meeting along the Danube and at the Bosphorus of the outlets upon which two great Empires depended, the mixture of religions and nationalities which gave them occasion to interfere in the political life of South-Eastern Europe, and above all the competing forces of general European politics—all happened to lead those Empires to a point of conflict which, partly of necessity and partly through opportunity, was laid in the Balkans. The War and its settlement were, therefore, bound to bring an unexpected chance for a reversal of the traditional run of the Balkan problem. The three Empires which had fought for domination in the Balkans — the Ottoman, the Tsarist, and the Habsburg Empires—were swept away by the War; in their place were left States which had other interests and were occupied with other problems of political and social organization. For the first time, therefore, it seemed as if the Balkans would at last be left to the Balkan peoples; and it is interesting to find that with the rise of a democratic current in South-Eastern Europe, embodied in the Peasant Parties and movement, there was a revival also of the idea of federation. Such men as Stambulisky in Bulgaria and Radii in Yugoslavia steadily maintained that the progress of their own nations was bound up with some form of union between their States. These views were not only opposed by the more conservative or reactionary dements in the

Balkan countries, **but also** hampered by the policy of certain Great **Powers.**

Before the War the Balkan policies of Russia and of Austria-**Hungary had** certain compelling reasons behind them. Russia was **eternally** faced with the problem of an ice-free outlet to the open **sea,** and her policy aimed either at getting control of the Straits or at least at preventing some other Great Power from taking the place of **the** decaying Ottoman Empire in the Balkans. Her instrument **both** for **the** weakening of her rival the Habsburg Empire and for the penetration of the Balkans was Pan-Slav nationalism.[1] Austria-Hungary in her turn was inevitably drawn into the Balkan cockpit by the intertwining of her own national Slav problem with the national developments in the Balkans. The policies of both Empires were wrong, but in a way they might be said to have been dictated by an inescapable fate. There have been no such compelling factors behind the interference of other Great Powers, which have played so powerful and unhelpful a part in political life on the lower Danube after the War. They had neither problems of population nor of communication which forced them to interfere in that region. Their political intrusion into South-Eastern Europe was not demanded by the presence of any Balkan element in their own domestic problems. They were there merely as a consequence of a competition in issues which did not concern the Balkans and which could not be settled in the Balkans.

* * *

In the post-War history of South-Eastcrn Europe two main periods may be distinguished: the first lasting from the Peace Conference in 1919 to the National-Socialist Revolution in Germany, the second from January 1933 onwards. In the following pages the principal developments in the sphere of foreign policy **during** those two periods are briefly reviewed.

(1) Bulgaria, Montenegro, and Serbia were used at various times by Tsarist Rusaia as the instruments of an expansionist policy. In 1870 the Turks granted the Bulgarian Exarchate of the Orthodox Church and included Macedonia in iu sphere of influence. In the abortive Treaty of San Stefano (1878) Russia sought to consolidate ber influence in the Balkans by proclaiming the independence of Serbia, Montenegro, and Rumania, and by the establishment of a Greater Bulgaria, to include the whole of Macedonia (to the frontiers of Albania) and territory between the Danube and the Aegean Sea, This Greater Bulgaria hat remained the dream of all Bulgars since that date and the particular bogey of Greece, Turkey, Rumania, Serbia, and Yugoslavia.

(i) 1919-23: CONSOLIDATION OF THE STATUS QUO

Prese Treatias, 1919

The Peace Treaties which terminated the Balkan Wars of 1912-13 and the Great War of 1914-18[1] redrew the map of South-Eastern Europe, creating new States, destroying or aggrandizing others. The Habsburg Empire had disintegrated into its component parts. Out of its ruins there emerged the new States of Austria, Hungary, and Czecho-Slovakia, a greater Rumania, doubled in size by the acquisition of Transylvania and part of the Banat from Hungary, of the Bukovina from Austria and Bessarabia from Russia,' and a South Slav State (Yugoslavia) composed of Serbia and Montenegro, former Austrian and Hungarian territory in Slovenia, Dalmatia, Bosnia-Herzegovina, Croatia-Slavonia, part of the Banat, and the Backa, and smaller acquisitions of Macedonian territory at the expense of Bulgaria. Finally, to complete the picture in the Balkans, Greece extended her territorial gains in the Balkan Wars by the acquisition of former Bulgarian territory in Western Thrace. Bulgaria not only failed to obtain any revision of her frontiers in regard to the South Dobrudja and Macedonia, but also lost the territory (between Kavalla and the River Maritsa) giving her access to the Aegean Sea, which she had secured by the defeat of Turkey in 1913. In Article 48 of the Treaty of Neuilly, however, the Allies undertook "to ensure the economic outlets of Bulgaria to the Aegean Sea.*' In fulfilment of this a free zone was offered in the Greek ports of Dedeagach or Salonika. This offer was rejected by the Bulgarian Government, partly on the ground of the expense involved in the construction of the necessary harbour works, warehouses, and railway connections, and partly because they interpreted the Article to mean a territorial corridor to Dedeagach; failing the acquisition of this they preferred to nurse a grievance rather than accept the inadequate satisfaction of their claims.

Status que p.
Revision

This settlement inevitably left a trail of bitterness, between the victors, on the one side, exulting in their newly-won independence and their intense nationalism, and the vanquished, on the other, no less nationalistic in their outlook and already scheming for the recovery of their lost territories. In the circumstances it was hardly surprising that two groups shortly emerged, one consisting of

(1) London, May 30, 1913 (Balkan States and Turkey); Bucharest, August 10, (Balkan States and Bulgaria); St Germain-en-Laye, September 10, 1910, ta); Neuilly, November 97, 1919 (Bulgaria); Trianon, lune 4, 1990 (Hungary); (abortive), August 10, 1920 (Turkey); Lausanne, July 94, 1993 (Turkey).

(9) The cession of this was effected by the Treaty of Paris of October 38, 1990, ratified by Great Britain, France, and Italy, but not Japan.

Czecho-Slovakia, Rumania, Yugoslavia, and Greece drawn together by common interest in defence of the *status quo* and the preservation of their territorial gains, the other consisting of Hungary, Bulgaria, and Austria, whose common purpose was not only to prevent the denationalizing of the minorities of their race now beyond the frontiers, but also to keep public interest in their grievances alive in the hope of obtaining, either by their own efforts or with the support of the Great Powers, some revision in the course of time. While the first group recognized that it had much in common with France, the second found itself in the same position as Germany; it also did not fail to notice that Italy, in spite of" her territorial gains in the South Tyrol and Istria, was far from satisfied (particularly after the establishment of Fascism in October, 1922) with her share of the spoils of victory and the manner in which the promises made to her in the secret Treaty of London in April 1915, had been fulfilled in regard to the Dalmatian Coast, Albania, Africa, and Asia Minor.[1]

Formation of the Little Ententes,

In 1919-20 Czccho-Slovakia, Yugoslavia, and Rumania were exercised by a number of anxieties. In the first place, all three States were drawn together by the common bond of Hungarian revisionism and their fear of the consequences of a Habsburg restoration*; secondly, while Rumania and Yugoslavia (and Greece) were also affected by Bulgaria's territorial claims against them, Czechoslovakia and Yugoslavia (and Italy) were concerned to prevent all

(1) Betides the Istrian peninsula and Trieste, which were ceded to her by the Treaty of St Germain, she had been promised territory along the Dalmatian Coast including the Islands (but *not* including Fiume), a substantial area round Zara, and a protectorate in Central Albania covering the area round Valona adjacent to the Straits of Otranto. D'Annumio seized Fiume in 1919 but an Italo-Yugoslav Agreement at Rapailo in 1920 established the town as an International Free Slate. In 1924 this Agreement was replaced by the Treaty of Rome whereby Italy annexed F'iume, while the eastern suburb of the town (Susak) was allotted to Yugoslavia. While Italy retained the port of Zara and certain blands off the Dalmatian coast, she had to abandon the surrounding territory as well as her occupation of Valona and Ontral Albania, although she secured possession of the island of Saseno which dominates the entrance to the port-

In Africa, where she had been promised additional territory in the event of the Allies extending their possessions, she received British JubaIand and the rectification of her Libyan frontiers with Tunis and Egypt, though she was refused the southward extension of Libya to Lake Tchad. In Asia Minor the resistance of the Turks upset various Allied schemes for spheres of influence, etc., in accordance with which Italy (by the Agreement of St Jean de Mauriennc in 1917) had been promised Southern Anatolia. All that she secured here was the confirmation, in 1923, of her occupation of the Dodecanese and Rhodes, which she had acquired in her Turkish War of 1911-12.

(a) It may be noted that the particular danger which this dynasty representeden the minds of Little Entente statesmen lay in the Oath to be taken by the Emperor as King of Hungary, which requires the wearer of the Holy Crown of St Stephen to swear to preserve the integrity of all the traditional lands belonging to the Crown.

possibility of an *Anschluss* between Austria and Germany[1]; thirdly, each of these States had as neighbour a Great Power with covetous eyes upon parts of its territory, for while Italy had aspirations regarding Yugoslavia's Dalmatian Coast, Russia's claim on Bessarabia was a constant preoccupation for Rumania, and the large German-Austrian minority in Sudetenland constituted a formidable external as well as internal problem for Czccho-Slovakia.

After the signature of the Treaty of Trianon in June 1920 irredentism and revisionism revealed themselves at their strongest in Hungary. Negotiations had been opened in the spring between Czccho-Slovakia and Yugoslavia and in August 1920 resulted in the signature of a bilateral treaty providing for mutual defence against any aggression on the part of Hungary and for the maintenance of the Peace Treaty Settlement. (This treaty was extended and confirmed on August 21, 1922.) After his success in Belgrade Dr Bend, the Czccho-Slovak Foreign Minister, next approached Bucharest with the proposal of a similar treaty. If he required evidence to support his arguments regarding the need for such agreement, it was provided in dramatic fashion by the attempted *Putsch* of the ex-Emperor Karl who returned to Hungary at the end of March 1921, only to leave the country again on April 7. The immediate result was that on April 21, 1921, a treaty was concluded between Czecho-Slovakia and Rumania identical with that already signed between Prague and Belgrade. This was followed on June 7 by a similar treaty between Rumania and Yugoslavia, the scope of which was extended to include aggression on the part of Bulgaria. By this treaty the triangular nexus of treaties, which became known as the Little Entente, was completed. Its solidarity was almost immediately put to the test, for on October 20 Karl once more reappeared in Hungary. His presence on Hungarian soil was declared a *casus belli* by the Little Entente and their mobilization ensued. Hungary appealed to the Allied Powers for help, but the Conference of Ambassadors yielded to pressure from the Little Entente and required the passage by the Hungarian Parliament of legislation to secure the deposition of Karl and the exclusion of the whole Habsburg dynasty.

Hebsburgs

In other directions also individual members of the Little Entente had sought to strengthen their relations with their neighbours or safeguard their security against mutual dangers. Thus at Rapallo

Axstre-German pratibited

(1) This had been voted for in the Austrian Parliament in November 1918 (and alto in two unofficial plebiscites in Salxburg and Innsbruck in April 1921). It waft, however, prohibited by Articles 80 and 88 of the Treaties of Versailles and St Germain

on November 12, 1920, Yugoslavia had settled some of her frontier difficulties with Italy and signed a defensive treaty providing for the maintenance of the Peace Treaties, for concerted action against a Habsburg restoration, and for consultation in the event of any hostile move by Austria or Hungary, for Italy, no less than Czecho-slovakia and Yugoslavia, was anxious to prevent the possibility of an *Anschluss* between Austria and Germany. In order to make assurance doubly sure an Austro-Czecho-Slovak treaty, signed in December 1921, guaranteed respect for the Treaties of St Germain and Trianon and for existing frontiers, and provided that the signatories should not allow their States to be used for any activities or propaganda directed against one another or for the purpose of restoring the pre-War regime.

Austrian Protocol,

A further development in Central Europe must be noted in this brief survey of the immediate post-War period.[1] The disintegration of the Empire, the loss of industries and markets, the financial and monetary chaos, and the inflation had left Austria in ruins, and Vienna, the former political and commercial centre of an area of fifty million people, a mere capital without a column to support it. In Austria many people looked for salvation to union with Germany; but this way was barred by the Peace Treaties. Some alternative way out of her difficulties, if complete chaos was to be avoided, had to be provided. Reparations claims had already been suspended by the four principal Allied Powers and in February 1922 advances were made to Austria by France, Great Britain, Italy, and Czecho-Slovakia which were the forerunner of the complete scheme of reconstruction which was drawn up and adopted by the League in October 1922. A Protocol signed at the same time recorded an undertaking by the four Powers (and Belgium and Spain, who adhered) to respect Austria's independence and not to seek any advantage at her expense, and a renewal by Austria of her pledge not to alienate her independence or to enter into any negotiations of a political, financial, or economic nature such as might be prejudicial to it.

(1) In 10 far as Turkey was concerned the Treaty of Sevres of August 10, iQfljo (which allotted to Greece the greater pari of Eastern Thrace, Smyrna and South-West Anatolia) was abortive and, after the Graeco-Turkish War of igat-a, was replaced by the Treaty of Lausanne, signed on July 24, 1923. This left Turkey in possession of these areas, subject to the establishment of demilitarised zone* in Thrace and in the region of the Straits. Turkey confirmed the loss of the non-Turkish portions of the Ottoman Empire in Syria, Mesopotamia, Arabia, and North Africa. This Treaty was freely negotiated and accepted by Turkey, who, in confequence, alone among the ex-eneroy States did not pursue a policy of active revisionism after 1923. The revision of the Straits regime was settled by negotiation in 1936.

By this network of treaties and agreements, reinforced by the Franco-Polish Treaty of Friendship of January 1921, the Treaty of Alliance between Rumania and Poland signed on March 3, 1921, and, above all, by the guarantee of "the territorial integrity and the political independence** of States Members of the League, contained in Articles 10 and 16 of the Covenant, the Succession States believed that they had made adequate provision for their security against the dangers which threatened them from irredentism, revisionism, the *Anschluss,* or a Habsburg restoration. Moreover, in the League's reconstruction of Austria in 1922, and a similar reconstruction of Hungary in 1924, there seemed to be cause for hope that a basis had been laid for co-operation in the Danube Basin. But those who entertained such hopes underestimated the strength of post-War economic and political nationalism and of the bitterness which the War and the territorial settlement had created.

(ii) 1924 32

(a) *Franco-Italian Rivalry*

*Principal **Factors detekmining Italion Policy*

Italy's exposed geographical position is one of the principal factors determining her foreign policy. A single glance at the map explains the importance to her security of control of the narrow Straits of Otranto, and consequently, of maintaining paramount influence in Albania, an indispensable condition to the exercise of such control. It also explains why Italian diplomacy has been directed towards the prevention of the establishment of a Great Power in the Balkans and particularly on the Dalmatian Coast; why Pan-Germanism and Pan-Slavism were and are the "bogies" of Rome; why Italy supported the establishment of an independent Albania, rather than see its partition between Austria-Hungary, Serbia, and Greece, and why, finally, she regarded the disruption of the Habsburg Empire as the most solid of her gains from the War.

After the War and the disappearance of the former protagonists, Italy looked upon herself as the natural successor to Austria-Hungary in the Balkans. Unhindered by Austrian, Russian, or Turkish interference, her policy was to extend her patronage to the Peninsula, gaining in political influence and securing valuable markets for her trade. After 1924, by which time the Fascist Government was well in the saddle, this policy was pushed forward vigorously. France, however, had similar plans, and so for the **pro** War struggle for predominance of Teuton against Slav was substituted a Franco-Italian rivalry for political influence and commercial advantage.

French and Italian Treaties

While France was successful by 1927 in firmly establishing her influence in **the** States of the Little Entente by means of loans, military and cultural missions, and alliances,[1] Italy secured a position, which, if not strong (except in Albania) in a positive sense, at least permitted the harassing of her rival by counter-attack at weak points arid the extraction by skilful diplomacy of a maximum of "nuisance value." France, on the one hand, became the principal guarantor of the Peace Treaties and the *status quo* and, in consequence, the natural patron and defender of the Little Entente—thus furthering her policy of the encirclement of Germany; Italy, on the other hand, frustrated in the attempt to establish her patronage over these same States, and bitter at the way in which her territorial claims had been ignored, became after 1927, with Germany, the principal sponsor of revisionism in Europe. As a result Italy succeeded in associating with herself Albania, Hungary, and Bulgaria. Good relations were also established for a time (1926-32), with Turkey and Greece.[2]

Italo-Yugoslav Relations

The years 1926-7, which saw the intensification of Franco-Italian rivalry, also witnessed the opening of an Italian campaign for the isolation of Yugoslavia. If Italy saw cause for satisfaction in the removal of Teutonic pressure upon her frontiers by the disruption of the Habsburg Empire, she also had to recognize the fact that the Empire's Slav problem had to some extent become her own. Having failed to secure at the Peace Conference the cession of the Dalmatian Coast, Italian policy had to take account of the presence of a Slav Stale in control of the eastern shores of the Adriatic - the dangerous consequences of which Italy, no less than Austria-Hungary earlier, was anxious to avoid. It was natural that Italy viewed with concern the plans discussed in the immediate post-War years by Radic, the Croat, and Stambulisky, the Bulgarian peasant leader, for a South Slav union as part of a wider scheme of Balkan Federation. In 1923 Stambulisky was murdered in the course of a successful *coup d'etat* against his regime, in which a prominent part was played by those Macedonians whose terrorist activities in later

(1) By the Treaties of Alliance with Czecho-Slovakia, January 15, 1924, and October 16, 1925 (Locarno), and the Treaties of Friendship with Rumania of June ia, 1926, and with Yugoslavia, initialled in March 1926, and signed on November ll, 1937, after attempts to persuade Italy to join in a tripartite arrangement had failed.

(2) In spite of a period of strained relations after the Italian bombardment of Corfu in 1923, friendly relation* were restored in 1926 and in 1928 Treaties of Friendship and Pacific Settlement were signed by Italy with Greece and with Turkey. Working on this basis Italian diplomacy supported the Graeco-Turkish negotiations which resulted in the *rappeochement* of 1950 and the settlement of all outstanding differences between them. Italy thus strengthened her position in the Eastern Mediterranean. During this period Italian relations with Great Britain were cordial.

yean kept relations between Bulgaria and Yugoslavia in a perpetual ferment,[1] and whose contacts with Italy were suspected, if not actually proved.

In 1924 Signer Mussolini stated to M. Ninclc, the Yugoslav Foreign Minister: "Our interests in the Adriatic are clashing. There arc two ways of settling this question: cither to fight it out or make a treaty of friendship."[8] A treaty was indeed signed at the time, but soon became a dead letter (as did the Ncttuno Convention of 1925 providing for mutual commercial and economic privileges), for Italian policy, having found in the establishment in 1925 of Achmct Bey Zogu's Government the looked-for opportunity in Albania, shifted from one of co-operation to one of conflict.

The establishment of a virtual Italian protectorate over Albania by the Treaty of Tirana in 1926 and the Treaty of Alliance in 1927 was followed by Treaties of Friendship with Hungary in the latter year, with Greece in 1928, and with Austria in 1930. In the negotiation of these treaties Italian diplomacy found valuable aid in the form of Hungary's revisionist claims against Yugoslavia and Gracco-Yugoslav friction over railway communications with Salonika and a free zone in that port.

In Rumania Italy was forestalled by France, but concluded a Treaty of Friendship in September, 1926. The Rumanian Government, however, made it clear that, if Rumania was glad to have Italy's friendship (and to supply her with wheat and oil), they were no less determined to maintain their alliance with Yugoslavia within the Little Entente.

In Sofia, on the other hand, Italy had found in Bulgaria's revisionist claims and even more in the aspirations of the Macedonian nationalists (i.e. the Internal Macedonian Revolutionary Organization, I.M.R.O., founded in 1893 to secure independence for Macedonia from the Turks) a valuable rod with which to beat the Serb back, and during the period 1926-33 the anti-Yugoslav terrorist activities of the Macedonian revolutionaries, together with those of the Croat *Ustaft,* played an important part in the Italian campaign for the isolation and internal disruption of Yugoslavia.

The more bitterly this campaign in favour of revisionism in general and against Yugoslavia in particular was pursued, the more

(1) They alto resulted in an outbreak of hostilities between Greece and Bulgaria in 1925, though war was averted by the intervention of the Leeague of Nations.

(t) At the same time he explained that the Fiume question (which was finally settled in 1924) "had been for too long a kind of portcullis impeding . . . direct and immediate contacts with the immense Danubtan world. Now Italy can only move in an easterly direction . . . Therefore the lines of the pacific expansion of Italy lie towards the east.**

strongly France rallied to the support of her friends and allies, and **the** severer the friction between France and Italy became.[1] This rivalry was particularly disastrous in its effects on the States of South-Eastern Europe at a time when they had difficulties enough of their own to overcome, and when Italian co-operation with France, directed towards the consolidation of the whole region, rather than the promotion of conflict, would have done much to foster the growth of mutual confidence which was indispensable to any stable settlement. It was to the intensity of their nationalism that the Balkan peoples owed their survival and the achievement of their independence from Austrian, Hungarian, or Turkish rule. This intense nationalism persisted after the War and its influence made itself felt in the formulation of economic as well as domestic and foreign policy. The results were disastrous.

(b) *Nationalism and its Effects*

Former political masters were now at the mercy of those who had been emancipated from their rule—a rule which in most cases had not been marked by any particular generosity towards subject nationalities.[2] In these circumstances, the reactions of those subject nationalities once emancipated, while inexcusable politically, were from a human standpoint understandable the weaknesses of human nature being what they arc. It must also be added that those concerned were politically inexperienced and that the leaders of this period were the nationalist and revolutionary leaders of the preceding phase. In an atmosphere, therefore, in which feelings ran high and the difficulties of reorganization were enormous, the temptation to "have their own back" on former masters and on those who, by one means of obstruction or another, sabotage, passive resistance, or non-co-operation, held up the work of reconstruction, proved almost irresistible. Ex-enemies were encircled, the provisions of the new Minority Treaties were ignored or inadequately enforced, and economic and fiscal policies were adopted which raised tariff walls about the new States for the protection of agricultural or industrial interests. While the former manufacturing units of the Austro-Hungarian Empire (i.e. Vienna, Lower Austria, Bohemia, and Budapest) encouraged the production within their own frontiers of some of the foodstuffs formerly imported from the

(1} There were other, more important, trasons for Franco-Italian rivalry not of direct concern here, such as the difference in regimes, the activities of anti-Fascist emigres in France, and naval and political rivalry, in the Mediterranean and North Africa, particularly in Tunisia.

(a) Although the Croats had always *pomtmed* autonomy from Budapest.

agricultural units of the Empire, the primary producing countries artificially fostered manufacturing industries which they were little able to support.

In this way not only did they break up the economic unit formed by the old Empire, but by substituting conflict for co-operation between complementary economies stifled the free exchange of goods and commodities in that area. Czecho-Slovakia and Austria, by artificially fostering their own agriculture, cut off imports of grain and foodstuffs from Hungary, Rumania, and Yugoslavia, whose primary producers were in coascquencc no longer able to import Austrian and Czech manufactures.

But if the intense nationalism which brought about these changes was, taking a long view, short-sighted, the difficulties, both political and economic, of the time cannot be overlooked. Quite apart from the economic and financial dislocation caused by lost markets, inflation, depreciated currencies, and hundreds of miles of new tariff walls, the agrarian reform, which was carried out on a large scale in all these countries except Hungary, had far-reaching effects. Not only did dispossessed landlords turn more and more to industry and banking as a means of supplementing their depleted fortunes, but large numbers of smallholders were created who swelled the ranks of the agrarian parties. The effect of the eatastrophic fall of commodity prices on the world market in 1029 not only seriously hit these predominantly agrarian countries, but threatened with ruin the greater part of their populations.

(iii) 1929-32: THE DEPRESSION AND ECONOMIC CRISIS

Agrarian 1930

Confronted with an economic crisis the agrarian States sought to reverse the nationalist policies pursued during the last ten years and to find in co-operation some means of escape from the depression which affected them all alike. Two agrarian conferences were held in Hue barest (Hungary, Bulgaria, and Yugoslavia) and Sinaia (Rumania and Yugoslavia) in July 1930, at which notes were compared and the situation discussed. Nothing, however, was achieved and further conferences were held in August and October at Warsaw and Bucharest. A second Warsaw Conference in November 1930, at which representatives of the Little Entente, Bulgaria, Hungary, Poland, and the Baltic States were present, discussed the possibility of agreements between industrial and agricultural countries providing for the granting of preferential tariffs for agricultural produce, the abolition of export duties and the relaxation or abandonment of all kinds of protection. In **the** same

month at a Conference in Belgrade representatives of Bulgaria, Hungary, Poland, Rumania, and Yugoslavia discussed means of increasing and co-ordinating the export, and fixing the prices of wheat, maize, and rye. These various schemes came to nothing and, in the meantime, the price of cereals continued to fall.

Apart from the difficulty of securing agreement between the States concerned, these proposals met with obstruction by the Great Powers,[1] themselves struggling to combat the effects of the depression and unwilling or unable in the circumstances to make concessions or waive privileges, such as their rights under the most-favoured-nation clause, which might favour their rivals or further increase their own difficulties.

Austro-German Customs Union, March 1931

On March 21, 1931, Germany and Austria without diplomatic preparation or warning suddenly sprang upon a suspicious world the ill-fated Customs Union scheme. The proposal, while economic in form, had political implications which ensured the immediate opposition of France and the Little Entente. It was argued that the Treaties of Versailles (Article Bo) and St Germain (Article 88) prohibited the alienation of Austria's political independence without the consent of the League of Nations, while under the League Protocol of October 1922, providing for her reconstruction, Austria had pledged herself not to forfeit her economic independence. The matter was referred by the League Council to the Permanent Court of International Justice for an Advisory Opinion. The Court in September handed down an Opinion, though only by the close margin of eight votes to seven,[2] that the proposed union was contrary to the Protocol of 1922, some-judges also holding that it also contravened the clauses in the Peace Treaties.

Tardisu Plan,

In the meantime the collapse in May 1931 of the Credit Anstalt of Vienna, precipitated by the sudden withdrawal of French short-term funds during the *Anschluss* crisis, heralded an even more serious economic crisis. In the spring of 1932 another effort was made, this time by the Great Powers, to find a solution of the economic difficulties of the Danube basin. A conference was held in London in April, at which Great Britain, France, Germany, and Italy were

(!) Briand's scheme for European Union put forward in May 1930, met with the same fate. Originally envisaged as a scheme for political union, its author agreed, when political difficulties retarded progress, to give priority to the discussion of economic regional agreements the possibility of which he did not exclude. A Committee of Inquiry for European Union was set up fov the League in September 1930, and discussed among other thing* the economic problems of Intern Europe.

(2) It was significant that while the eight prevailing votes consisted of those of France, Itaiy Poland, Rumania, Spain, Colombia, Salvador, and Cuba, the seven members who dissented were the British, American, German, Dutch, Belgian, japan-**etc, and Chinese judges.**

represented. It at once became clear that conflict, not co-operation, was the order of the day. The French (Tardieu) Plan envisaged British and Italian support for the formation of a Danubian Customs Union to embrace Austria, Hungary, Czecho-Slovakia, Rumania, and Yugoslavia, that is to say to include approximately the area covered by the Habsburg Empire. The plan was opposed by Germany, Italy, Austria, Hungary, and Bulgaria. Germany held that the volume of her own commercial exchanges with the countries concerned made her association with the Danubian group almost a *conditio sine qua non* of its successful functioning. Her offer of preferential tariffs to Austria and the countries of South-Eastern Europe was, however, opposed by France, who scented an attempt to revive the Customs Union scheme in a different guise. Italy opposed any multilateral agreement and considered that a proper solution lay in bilateral preferential agreements between Danubian and non-Danubian States. She also supported Bulgaria's claim for inclusion in the proposed union. Austria was reluctant to become a member of any preferential group in which Germany did not also participate, and hesitated to commit herself to any combination which would be dominated by the Little Entente and France. Finally, Great Britain was unwilling to waive her rights under the most-favourcd-nation clause, except possibly in favour of Austria, and was in any case awaiting the results of the Ottawa Conference to be held in the autumn.

The breakdown of the Austro-Gcrman and the Danubian Customs Union proposals revealed the existence of two politico-economic groupings in Central Europe, each of which was determined to predominate in that area and to oppose any plans which favoured or were put forward by the rival group. In fact the political rivalry of France and Italy and of the revisionist and *status quo* groups had extended into the economic sphere, while the re-cmergcncc of Germany was a further complicating factor in the situation.

Canference, At a Conference held at Strcsa in September 1932 and attended by fifteen countries, a final effort was made to tackle the Danubian problem. But gloomy forebodings were once more justified and only meagre results were obtained. The Conference's recommendations amounted to little more than that preferences should be granted to Austria and that a revalorization of cereals exported by South-Eastern Europe should be effected by a system of special preferences and by means of a central fund to which the importing States were to contribute in proportion to their imports. The recom-

mendations, however, remained a dead letter, except in so far as the proposals were adopted by Italy as the basis of Signor Mussolini*s Danubian Memorandum of September 1933, and of the Rome Protocols between Italy, Austria, and Hungary in May 1934 —the direct result of the campaign against Austria which followed the advent to power of National-Socialism in Germany. This event (January 30, 1933) may conveniently be taken as marking the end of one period and the opening of another in the post-war history of Europe.

(iv) SUMMARY, 1919-33

Looking back on this period it will be seen that it can be subdivided into three periods. In the first, lasting from 1919 to 1924, the ex-enemy States were struggling in common with their neighbours to produce order out of chaos, and, except for Hungary, presented little danger to the Little Entente States, who proceeded to consolidate their mutual relations and those with neighbouring States. This same period saw the reconstruction of Austria and Hungary under the League's auspices. In the second period, extending from 1924 to 1932 the development of Franco-Italian rivalry not only constituted a fatal obstacle to consolidation in South-Eastern Europe, but brought about the crystallization of two rival groups, one for the preservation of the *status quo* and the other frankly revisionist. These looked to France and Italy respectively for support. Had it not been for this external interference and for the intense and jealous nationalism which it fostered and maintained, all hopes of friendly co-operation might not have disappeared. In the third period, which partly overlaps the second and covers the years 1929-33, the depression and the economic crisis dominated the picture. Under this pressure attempts were made to achieve some form of co-operation in a common effort to deal with a disaster which affected all alike. But the inextricable intertwining of politics with economics frustrated all attempts and the political rivalries of the previous years were projected into the economic field. Economic plans, whether for the *Anschluss* or for Danubian co-operation, were thwarted by one group or the other for political motives. As a result the year 1933 found South-Eastern Europe hopelessly divided against itself, disillusioned or cynical as a result of the prospective failure of the Disarmament Conference,[1] and confronted with yet another problem in the shape of a resurgent National-Socialist Germany.

(1) This had *opened* in February 1932. The failure of the World Economic Conference in July 1933 may also be added to this list of disappointments.

III. FOREIGN POLICY, 1933-9

(i) 1933-5: REPERCUSSIONS OP THE NATIONAL-SOCIALIST REVOLUTION IN GERMANY

Little Entents

February 1993

One of the first repercussions of the National-Socialist revolution in Germany was the consolidation of the Little Entente by the Statute of February 16, 1933, providing for the complete co-ordination of policy through a central secretariat, a Permanent Council holding regular meetings, and joint representation at Geneva and international conferences. But while military conversations and the exchange of information between the General Staffs of the three States was provided for, no pact of mutual assistance was signed. The mutual obligations of the three States, therefore, remained limited (apart from action within the framework of the league Covenant) to co-operation and consultation within the limits laid down in the original bilateral treaties of the yean 1920-1 and confirmed in the Statute—that is to say military co-operation in the event of Hungary attempting to restore the Habsburgs or to revise the territorial clauses of the Treaty of Trianon by force.

Reffects of Four-Potosr Pact, March-

The initialling of the Four-Power Pact by France, Germany, Italy, and the United Kingdom on June 7, 1933, although the objectionable features in the first Italian draft (revision of the Peace Treaties, joint action by the four Powers) had largely been removed as a result of pressure upon France by Poland and the Little Entente, caused uneasiness in these States lest they should in the future be subjected to some form of Four-Power Directory. As a result they took stock of the possibilities of strengthening their position and their relations with their friends.

In July Czecho-Slovakia, Rumania, Yugoslavia, and Turkey signed the Soviet Convention for the Definition of the Aggressor.[1]

Definition of

July 1989

The negotiation of this Convention (and of identical Conventions covering the Baltic and Middle Eastern regions) marked a change in Soviet policy and an intention to play a more active part in Eastern Europe. This intention was almost immediately carried out and resulted in 1934 in the formulation of the Eastern Pact proposal (May), diplomatic recognition by Hungary (February), Czecho-slovakia and Rumania (June), and Bulgaria (July), entry into the League of Nations (September), and the conclusion of Mutual Assistance Pacts with France and Czecho-Slovakia in May, 1935.

In September 1933, Greece and Turkey signed a Treaty mutual-

(1) The inclusion of Rumania among the signatories in spite of the continuance of the Bessarabtan dispute and the lack of diplomatic relations with the U.S.S.R., marked the beginning of a *rapprochement* as a result of which Russia virtually, though not formally, agreed to shelve her claims regarding Bessarabia.

Grasco-Turkish Tneaty of GUARANIES September '933

iy guaranteeing their common **frontiers and pledging the use of military force in their** defence. This treaty was **the southern counterpart of the Little Entente Statute in the** process **of Balkan** consolidation. **It** was designed to counter any southward aggressive **move** by **Bulgaria,** whose Macedonian *Komitadjis* had **been** particularly active during recent years, just as **the Statute** was **intended to deal with** any revisionist move by Hungary encouraged by the resurgence of Germany; it also marked the culmination of the Graeco-Turkish *rapprochement* of 1930, which Italy, in furtherance of her Eastern Mediterranean policy, had promoted in 1928, but which in its final stage had assumed an independent character.

Balkan Conferences, 1930-3

In the meantime, the movement towards a Balkan Federation had been carried forward, step by step, by the series of unofficial Balkan Conferences held in 1930, 1931, and 1932, which had discussed not only cultural and economic co-operation, but also the draft of a Balkan Pact of Non-Aggression. Little progress, however, was made towards the adoption of the Pact owing to the attitude of the Bulgarian representatives, who persistently refused to consider any such proposals, so long as they involved a formal acceptance of the existing frontiers or until the Bulgarian-speaking population of Greek and Yugoslav Macedonia had been granted the minority rights which they claimed. Attempts to meet the Bulgarian objections by modifications in the draft of the Pact met with no success.

The fourth Conference met at Salonika in November 1933. By this time official negotiations were already proceeding between the Balkan States, and the improvement in relations between Bulgaria and Yugoslavia was noted as a new and hopeful factor.[1] But the attempt to persuade Bulgaria to join with her four neighbours in a Pact of Non-Aggression was unavailing, as Bulgaria, while ready to give proof of peaceful intentions, persisted in her refusal to commit herself to any multilateral agreement which guaranteed the *status quo* and involved the final renunciation by her of all territorial claims.[2] To Bulgaria's persistence in this attitude diplomatic pressure from Italy largely contributed, as it did also to the decision of Albania to hold aloof. The other four Governments were, therefore,

(i) King Alexander of Yugoslavia had been actively Rupporting a policy designed to lead to a *rapprochement* between his country and Bulgaria and achieve the ideal of the "Balkans for the Balkan people." King Bonn reciprocated this desire, and on September t8, 1933, on his return from a visit to Western Europe, stopped his train in Belgrade station, where a meeting with Alexander took place. 'This was followed by another informal meeting between the two Sovereigns at Euxinograd, when Alexander broke his journey on the way to pay an official visit in Turkey, and finally by an official visit of King Boris to Belgrade on December 13.

(a) The Bulgars could never bring themselves to renounce the vision of the Greater Bulgaria which was dangled before their eye* by Russia at San Stefano in 1878.

faced with the choice of abandoning the project altogether or of proceeding to the conclusion of a Balkan Pact without Bulgaria, in the hope that sooner or later the latter might recognize the advantages to be gained from such a pact and change her attitude towards it. Rumania, Greece, and Turkey decided upon the second course and used their influence to overcome the reluctance of Yugoslavia to sign a pact participation in which was likely to prejudice, temporarily at least, her new-found friendship with Bulgaria. Every cfTort was made to render the Pact in its published terms as little objectionable as possible to Bulgaria, but her abstention inevitably gave it the form of an alliance for the guarantee of the Balkan frontiers of the four Powers against any aggression directly by her or in which she was implicated.

Thi Balkas pact, *February 1934*

The Pact of Balkan Understanding was finally signed in Athens on February 9, 1934, and was left open for the adherence of Bulgaria and Albania. It provided for a mutual guarantee by the signatories of the Pact of the security of all their Balkan frontiers and for joint consultation on the measures to be taken "in the face of eventualities capable of affecting their interests" as defined in the Agreement. No political negotiations with other Balkan States were to be undertaken by any signatory without the consent of the other Contracting Parties. Two Secret Protocols were attached to the Pact, the terms of which did not become public until some months later. The Pint of these, signed at the same time as the Pact, provided for its execution, adopting the definition of aggression[1] contained in the Soviet Convention of July 1933, and declared that "if one of the High Contracting Parties is the victim of aggression on the part of a non-Balkan Power and if a Balkan State joins it in its aggression, either simultaneously or subsequently the Pact will operate with full effect against this Balkan State." Seeing the possibility of being involved in war with Italy or Russia if cither were to attack Yugoslavia or Rumania respectively, directly or through Albania or Bulgaria, Greece fend Turkey subsequently entered reservations that they could not be involved in war against any Great Power. The second Protocol, signed on March 17, set out the measures to be taken by each signatory State against Bulgaria in the event of the continuance of the hostile activities of Macedonian *Komitadjis* operating from Bulgarian territory.

(1) This included: (1) declaration of war; *(2)* invasion with or without such a declaration; (3) attack by armed forces; *(4)* naval blockade; and (5) "aid to armed bands formed on the territory of a State and invading the territory of another State, or refusal, despite demands on the pan of the State subjected to attack, to take all possible measures on its own territory to deprive the said bands of any aid and protection."

The Statutes of the new political organization to be known as the Balkan Entente were adopted at a Conference in Ankara in October and November 1934. These provided for a Permanent Council consisting of the Foreign Ministers of the four States meeting regularly for the co-ordination of policy, and for an Economic Council.

Austria's Independence, 1934

During this same period when the work of consolidation was being carried out in the Balkans as a defence against entanglement in Power politics, the brunt of Nazi expansionism was being borne by Austria, against whom a bitter campaign had been launched in the summer of 1933.

By the beginning of 1934 it had become abundantly clear that the independence of Austria was the keystone of the Danubian problem, and on February 17, 1934, a joint Anglo-Franc o-Italian Declaration (renewed on September 27, 1934) recognized the maintenance of this independence as a vital interest of the three Powers. The collaboration of France and Italy, to which emphasis was given by this Joint Declaration, was a highly significant development, in view of the intense rivalry between the two Powers which had characterized the previous decade. It marked, in fact, the beginning of an interlude which lasted until the outbreak of the Abyssinian conflict in the summer of 1935; during these eighteen months the luxury of Latin rivalry was abandoned and for a while conflict yielded to co-operation in a common cause joint opposition to Pan-Germanism, the main feature of the second post-War period.

How was Austria to be saved? Financial aid was not enough, though it was sufficient, with periodical injections,[1] to keep the heart of Austria beating. The three alternatives—*Anschluss,* Danubian co-operation, and a Habsburg restoration had at various times since the War been attempted, proposed and rejected.

Rome Protocol Bloc, March" May '934

In March 1934, Italy produced her own variation on the theme of Danubian co-operation. The so-called Rome Protocols signed on March 17 between Italy, Austria, and Hungary (with supplementary technical agreements in May) provided for political co-operation, consultation, and economic mutual assistance on a triangular basis. The economic agreement applied the recommendations of the Stresa Conference, regarding indirect preferences, to Austrian timber and iron ore and Hungarian wheat, for which Italy paid

(1) In compensation for the rejection of the Customs Union proposal in 1931,a further loan of 300 million schillings was guaranteed by the Agreement of July 15, 1932 which was signed by Belgium, France, Great Britain, Italy, the Netherlands, and Austria. All the signatories reaffirmed the undertakings and pledget of the Protocol of October 1922.

agreed high prices above those obtaining on the world market. It was undoubtedly largely due to the economic concessions granted by Italy under the Protocols and the ready military support forthcoming on July 25,1934, when 100,000 men were concentrated at short notice on the Austrian frontier on the occasion of the Nazi *Putsch* in Vienna in which Dollfuss was assassinated, that Austria owed her survival for a few more years. After the failure of this *Putsch* the campaign of violence and terrorism was called off, and Herr von Papcn was appointed as Minister in Vienna, with instructions to pursue a policy of peaceful penetration in the guise of appeasement.

Alexander, October 1934

Encouraged by this *rapprochement* over Austria M. Barthou was preparing in the autumn of 1934 to negotiate a comprehensive settlement with Italy, by which he hoped not only to put an end to the friction and rivalry which had marred Franco-Italian relations for so many years but also to find a durable basis for trustful collaboration in the settlement of the Danubian problem. The assassination of King Alexander and M. Barthou at Marseilles on October 9, 1934, seriously threatened the success of this project, for the assassins were immediately identified as Croat *Ustate* terrorist exiles to whom Italy and Hungary (at the camp of Yanka Puszta) had for many years been offering their hospitality. In fact two of those implicated in the assassination plot took refuge in Italy, whence the Fascist Government refused their extradition. Feeling ran high in Yugoslavia against Italy and Hungary, and large numbers of the latter country's nationals were expelled. A really serious situation was, however, prevented from developing, largely through the mediation of the League Council to which the dispute was referred.

Frence. Italias Roms January 1935

In spite of this setback preliminary conversations between Paris and Rome continued and Barthou's successor, M. Laval, went to Rome at the beginning of 1935. On January 7, a comprehensive Franco-1 tahan Agreement was signed dealing with outstanding difficulties in East Africa and Tunis, and providing for consultation and co-operation in regard to the Danubian problem. At this meeting a scheme was discussed and was given the joint blessing of France and Italy. This scheme proposed the strengthening of security in Europe by a system of interlocking regional pacts of non-aggression and mutual assistance, modelled on the Locarno Rhineland Treaty. It envisaged the conclusion of an Eastern Pact (already rejected by Germany and Poland in the previous autumn) to stabilize frontiers in the East of Europe as did the Locarno Treaty

in **the** West, and a Danubian Pact to include Germany, the Little Entente, and the Rome Protocol Group, and to be open also to the adherence of France and Poland. The proposed Danubian Pact was approved in principle by the Permanent Councils of the Little and Balkan Ententes on January n and 20, 1935, respectively. There were thus apparently grounds for hope that the Franco-Italian *rapprochement* would pave the way for co-operation between the two groups associated with the two Powers, and thus facilitate a Danubian settlement and the consolidation of peace in the Balkans.

Fully satisfied with the results of his visit to Rome, M. Laval next accompanied M. Flandin to London to discuss the situation with the British Government and secure its active support for the policy outlined. A Joint Anglo-French Declaration was made public on February 3 in which the proposals agreed upon in Rome were approved.[1]

On March 16 all these efforts were rendered futile by Germany's unilateral denunciation of the armaments clauses of the Treaty of Versailles and the proclamation of compulsory military service as the basis of an army of 550,000 men.

Stresa Conference, April 1935

In April, British, French, and Italian Ministers met at Stresa. Germany's action had destroyed the hope of European collaboration upon which the proposals outlined in the Rome Pact and the London Declaration had been based. The three Powers, therefore, confined themselves to reaffirming their joint declarations of February 17 and September 27, 1934, regarding the necessity of maintaining the independence of Austria, and their decision to consult together should this be threatened, to proposing the convocation of a Danubian Conference at an early date, to denouncing the method of unilateral repudiation, and to agreeing upon the joint policy to be pursued at the imminent meeting of the League Council called to discuss and condemn Germany's action.* They also took note of the desire expressed by Austria, Hungary, and Bulgaria to obtain the revision of the restrictions placed upon their armaments by the Peace Treaties, and recommended the other

(i) The rest of thi* important document outlined a general settlement in which Germany was invited to participate and by which German rearmament would be legalized within agreed limit* and on the basi* of the security system already described, thus according to Germany that "equality of rights [in regard to armaments] in a system which would provide security lor all nations" which was promised to Germany by the United Kingdom, France, and Italy in the declaration of December 11, 1932. A Western Air Pact was also envisaged.

(2) On April i7, the League *Council* adopted a resolution condemning Germany's unilateral repudiation at a threat to European security and setting up a Committee to consider the economic and financial measures which might be applied against any State which might, in the future, "endanger peace by the unilateral repudiation of its international obtigations."

States concerned "to examine this question with a view to its settlement by mutual agreement within the framework of general and regional guarantees of security."

Prenco-Sevict Sovict Pocts, May 1935

Having abandoned hope of securing Germany's participation in a general settlement, France, concluded on May 2, 1935, a Pact of Mutual Assistance with the U.S.S.R., a parallel pact being signed by the latter with Czecho-SIovakia a fortnight later* This date may be regarded on paper at least (for the zenith of France's effective power was passed in 1932) as the high water mark of the French system of pacts and alliances in post-War Europe.

(ii) 1935~6: THE ITALO-ABYSSINIAN WAR AND THE BERLIN-ROME AXIS

Italo-. Abyssinion December 1934-July 1936

By this time the dispute between Italy and Abyssinia, which had begun with the Wai-Wai incident in December 1934, had assumed serious proportions. This is not the place to describe the course of the dispute, the efforts made by Great Britain and France and the League to avert a conflict, or the application, effects, and abandonment of sanctions in the early summer of 1936. It is, however, necessary for the sake of this record to note that, while Austria, Hungary, and Albania regretted their inability to apply sanctions against Italy, the remaining States of South-Eastern Europe all participated in that experiment, Rumania and Yugoslavia in particular suffering severely from the interruption of their substantial trade with Italy. It may also be noted that the same group of States together with France entered into a reciprocal undertaking with the United Kingdom Government that, in the event of any action of a military character being aimed by Italy against any one of them as a result of the application of sanctions, they would support the victim of the attack in accordance with Article 16, para. 3, of the League Covenant.

But, while the Italo-Abyssinian dispute monopolized public attention during the summer, autumn, and winter of 1935 and the early months of 1936, a serious challenge once more concentrated all eyes on Western Europe.

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On March 7, 1936, Germany sprang a further surprise upon Europe by the reoccupation of the demilitarized Rhineland zone in defiance of the Treaty of Versailles and the Locarno Treaty. The latter Herr Hider unilaterally denounced on the plea that it had already been violated by the provisions of the Franco-Soviet Pact, which had been ratified by the French Chamber at the end of February. Having succeeded in executing this double infraction of

treaties without incurring the serious consequences for which the latter provided, Herr Hitler proceeded to fortify the Rhincland and to begin the construction of a barrier of concrete and steel which would effectively debar France from coming to the aid of Czecho-Slovakia by the invasion of the Rhincland and Southern Germany. The enormous significance of this development was not missed in Central Europe. The abandonment of sanctions against Italy in the summer of 1936, and the triumph of Italy in the face of the co-ordinated (albeit half-hearted) action of some fifty States, completed the discomfiture of the anti-revisionist States of Central and Eastern Europe, while in others it re-aroused the hopes of territorial revision which at the beginning of 1935 had appeared so dim. These hopes and fears appeared to receive further confirmation from two further developments of major importance which affected them even more directly.

Austro-German Compromise,

On July 11, 1936, the policy pursued by Herr von Papen since his arrival in Vienna in the summer of 1934 bore fruit in the signature of an agreement between Austria and the Reich. It bore the semblance of a compromise, for, while Herr Hitler undertook not to interfere in the domestic affairs of Austria or to support the Austrian Nazis, I)r von Schusclmigg agreed to pursue a policy which was compatible with the fact that Austria was a Centum Stale. But the practical application of these principles left the balance of advantage in favour of Germany. Furthermore, whereas the pens which signed the agreement were those of Germany and Austria, its terms represented, in effect, a compromise between Germany and Italy. Weakened by the Abyssinian war and sanctions, his relations with France and the United Kingdom gravely embittered, Signor Mussolini found himself in no position to withstand a direct German challenge to Austrian independence. In the circumstances he did not hesitate to make a virtue of necessity and in June gave his approval to the proposed agreement, urging I)r von Schust hnigg to do likewise.[1] The latter had no alternative but to accept. Austria, the. principal obstacle to good relations between Germany and Italy, was thus "put into cold storage."

The way was now clear for collaboration in other fields and Count Ciano, Signor Mussolini's son-in-law, to whom he had handed over the portfolio of foreign affairs on June 9, 193b, visited Germany at the *end* of October. On October 25, in a statement to the press,

(1) In November 1936 Signor Musaolini said "it is my conviction that these Agreements have strengthened the structure of that country and have also further guaranteed **its** independence."

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Berlin-Roms Axis, October 1936

Count Ciano announced that agreement had been reached between the two countries in a number of fields, including Western Europe, Central and South-Eastern Europe, and Spain[1] and the Mediterranean. The two Governments, he declared, were determined to co-operate "in the interests of peace and reconstruction." No further information was forthcoming as to the details of the agreement, but, in his speech at Milan on November i, Signor Mussolini spoke of the need of making "a *tabula rasa* of all the illusions, of all the commonplaces, and of all the conventional lies which still constitute the relics of the great shipwreck of Wilsonian ideology," in which he included the League of Nations, disarmament, and collective security. "Until justice is done to Hungary," he went on, "there can be no definitive systcmatization of the interests in the Danubian basin," and added, significantly, "Perhaps before long there will be a solemn occasion during which these feelings of the Italian people will be publicly and clamorously manifested." Here was revisionism with a vengeance to flutter the Little Entente dovecotes. But he proceeded somewhat unexpectedly to hold out the hand of friendship to Yugoslavia, declaring that "by now necessary and sufficient conditions exist, of a moral, political, and economic character, to place on a new basis of concrete friendship the relations betwccn the two countries." There followed a passage in which the agreement with Berlin was described as "not a partition, but rather an axis around which all the European States animated by the will to collaboration and peace can also collaborate." The speech concluded with a reference to the Mediterranean where Italy's vital rights and interests must be respected. "If for others the Mediterranean is a route *(via)* for us Italians it is life *(vita)*." There was only one solution, Signor Mussolini declared: agreement between Italy and the British Empire based on the recognition of reciprocal interests.

These developments of the spring, summer, and autumn of 1936, Germany's defiance of the Western Powers and the fortification of the Rhineland, Italy's defiance of the League and the abandonment of sanctions, the compromise regarding Austria, and the formation of the Berlin-Rome axis, with its emphasis on revision and reconstruction, gave much food for thought in South-Eastern Europe. Both groups—revisionists and anti-revisionists—hastily took stock of the situation.

In the first place they saw the hopeless disruption of the Stresa

(i) A revolt against the Government broke out on July 18,1936, under the leadership of General Franco.

Front, and with it the end of all hopes of a general settlement in Europe on the basis of acceptance of the *status quo.* In its place they saw a new grouping of the Powers consisting, on the one hand, of the so-called Berlin-Rome Axis (supplemented in November 1936 by the German-Japanese "Anti-Comintern" Pact), the Rome Protocol bloc (Austria-Hungary-Italy) and Albania, and, on the other, a somewhat uncoordinated grouping based on Anglo-French collaboration, France's mutual assistance treaties with the U.S.S.R. and Czccho-Slovakia and her treaties of friendship with the other *status quo* States of the Little and Balkan Ententes. Somewhere between these two groups stood Poland, with a policy of "balance" and a foot in either camp.

Thi Situation at the end of 1936

The significance of the events of 1935 and 1936 had not been lost on the *status quo* States. Since the War they had relied on the League, that is to say France (and Great Britain in the last resort), to prevent the resurgence of the ex-enemy States and of Germany in particular. They did not conceive it possible that Germany would ever be allowed by France to rearm *up* to a point at which German plans and aspirations might once more threaten to upset the post-war applecart of Europe. They believed that Italy in her own interests could not allow Germany to become predominant once more in Austria, Central Europe, and on the Danube. In short they depended on the strength of France, the self-interest of Italy, and the political shrewdness and ultimate power of Great Britain to maintain the *status quo* to their advantage. On this view there was little to fear from the revisionist claims of Hungary or Bulgaria and little need to heed too much the demands of their minorities.

Germany's success in carrying out rearmament, first clandestinely and later in open defiance of treaties and Western Powers alike, and even in securing British agreement to the expansion of the Versailles fleet into a navy, was the first shock; but the direct significance forDanubian Europe of the re-occupation and rectification of the Rhineland was not missed. In 1935 they had calculated that Germany would take some years to train and equip an army which would be a match for the French, and that if the Reichswehr were to attack Austria and Czccho-Slovakia it would be exposing its right flank to counter-attack by France across Bavaria. But the fortification of the Rhineland, when completed, would mean that such a counter-attack would no longer be possible, while the crumbling of the Stresa front endangered, if it did not altogether cut, the principal alternative route to Central Europe.

On the economic side also there was a factor **of** paramount

The Situation at the End

importance, which must be mentioned here, although only briefly, for it is fully dealt with elsewhere.[1] This was the predominant share of Germany in the foreign trade of the countries of Central and South-Eastern Europe, which had been steadily increasing and amounted in 1936 to anything between 16 and 60 per cent. To grave political preoccupations had, therefore, to be added economic considerations of a vital character, more particularly pressing in the case of those countries, such as Bulgaria, Greece, and Turkey, whose prosperity was virtually bound up with the disposal of a single crop (tobacco) of which Germany was the principal purchaser. In the case of the others, Austria, Czccho-Slovakia, Hungary, Rumania, and Yugoslavia, if economic dependence was slightly less, geographical proximity and the difficulty of avoiding entanglement in the power-politics of Central Europe brought anxieties of a different kind. They were uncomfortably placed on the horns of a dilemma; if they drew a distinction in their minds between a peace-time policy in which economic interests tended to predominate and a war-time policy when strategic interests became the governing factor, they had at least to live and to find the means of disposing of their produce. They had been only too thankful in recent years when Germany had bought up their surpluses of tobacco, grain, and foodstuffs, and that at prices above those obtaining on the world markets, and had given little thought as to how their blocked mark balances in Germany would be liquidated. Now, thanks to Dr Schacht's economic diplomacy, they were bound to Germany by a double bond—as the principal market for their produce and as a debtor who was unwilling or unable to liquidate his debt except by specified exports. Thus Germany was no longer isolated in Europe, was rearming rapidly, had successfully defied the Western Powers twice, and had attracted Italy and Japan (if not also Poland) into association with her.

In these circumstances it was hardly surprising that during 1936 Yugoslavia and Rumania (and Greece), uncertain or suspicious of the intentions of Russia, of the strcngthof France, and of the policy of Great Britain (whose rearmament seemed to be proceeding at an alarmingly slow pace), decided that, until the situation was clarified, the policy of "balance" pursued by Poland since 1934,[2] and adopted by Belgium in October 1936, was ideal for their purpose. In this way they hoped to reduce the pressure being

it) See Part I I , pp. 122, 135, 140, 165, 175, 183, and 193-203,

(a) Following the ten-year' Non-Aggression Pact with Germany of January 26, 1934, and the Non-Aggression Pact with the U.S.S.R. of January 25, 1932.

exerted upon them without sacrificing either their political or their economic interests. After May 1935 emphasis was laid increasingly upon their association with the Balkan rather than the Little Entente, for they, no less than Greece and Turkey, were anxious to avoid l)eingentangled by Czecho-Slovakia in Central European politics.

Turkish Policy 1933-7

Turkey, in any case, was preoccupied with the Mediterranean situation and with the necessity of keeping an eye upon the development of Italy's expansionist aspirations in the East. During the period from 1927 to 1932 (when Anglo-Turkish relations were still under the cloud of the Mosul Dispute of 1925), relations between the two countries had been amicable. A Treaty of Friendship was signed in 1928 and Italy's good offices in bringing about the *rapprochement* with Greece in 1930 were welcomed.

In 1932 Turkey was admitted to the League of Nations. Kemal, however, could not forget Italian aspirations in regard to Anatolia, as they were reflected in the Secret Treaty of London (1915) and in the Agreement of St Jean de Maurienne (1917).[1] Italy's retention and fortification of some of the Dodecanese Islands (Rhodes and Leros) were a particular source of anxiety; the Turkish General Staff was quick to notice the signs of a more aggressive foreign policy in 1933-4, and the Graeco-Turkish Treaty of Mutual Guarantee concluded in September 1933, though designed primarily as a defence against Bulgarian aggression, may also have been partly inspired by common fear of Italy's intentions. A further symptom was noted in Signor Mussolini's remarks in March 1934, when he gave three reasons why Italy should look to the Eastern Mediterranean for her development. He added, by way of reassurance: "There must be no misunderstanding upon this centuries-old task which 1 assign to this and future generations of Italians. There is no question of territorial conquest . . . The matter is one of natural expansion which will lead to a close co-operation between Italy and the peoples of Africa, between Italy and the nations of the Near and Middle East."

But Signor Mussolini failed to allay uneasiness in Turkey (mindful of St Jean de Maurienne) or the Levant. And, as if to confirm their suspicions, they saw in the following year the opening of the campaign for the conquest of Abyssinia. In the process of coordinating League action against Italy, a mutual assistance agreement was concluded between Great Britain and the other Mediter-

(1) The firft of thrse allotted to Italy in ftill sovereignty the Dodecanese Iilandfl (occupied since 1912) and "in case of the partition of Turkey" the region of Adalia; the second the whole of Southern Anatolia including Smyrna.

rancan Powers. Although this agreement lapsed with the abandonment of sanctions, relations between Great Britain and Turkey became increasingly close. An alliance was offered by the Turkish Government in the autumn of 1936, but, while the suggestion was welcomed in London in principle, it was felt that such a move would further exacerbate relations with Italy and destroy the hope of a *rapprochement,* which was earnestly desired, and found preliminary expression in the Gentleman's Agreement of January 2, 1937.

Montreux Straits Condention, 1936

One of the first results of the closer relations with Great Britain was the favourable response given by that country and France to the Turkish request in April 1936 for a revision of the status of the Straits as governed by the Lausanne Convention of July 23, 1923.[1] This was successfully secured at the Montreux Conference which ended in the signature of a new Convention on July 20, 1936. By an annexed Protocol the neutralization of the Straits was abrogated and Turkey obtained the right to refortify them. At the same time the Convention provided for the modification of the regulations governing the transit of warships whether in time of peace or war. In the first place, strict limits were imposed on the aggregate tonnage (15,000 tons) and number of vessels (9) which might at any one time be in transit (advance notification of an intention to pass through being required); an exception was made in favour of Black Sea States who might send capital ships through the Straits provided that they passed through singly. Secondly, in the interests of the security of the U.S.S.R., with whom Turkish relations had been friendly since the treaties of friendship and non-aggression of 1921 and 1925, new limits were imposed both on the type of warship (i.e. maximum displacement of 15,000 tons) and on the maximum tonnage (30,000 tons) which non-Black Sea Powers might send into the Black Sea at any time (with a further limit of two-thirds of this maximum in the case of any one Power). Thirdly, in time of war, Turkey being belligerent or being threatened, the passage of warships was to he left to the discretion of the Turkish Government; whereas in time of war, Turkey not being belligerent, belligerent war vessels were not to pass through the Straits except to execute obligations under the League Covenant or render assistance to a State victim of aggression in virtue of a treaty of mutual assistance "binding Turkey"[2] and registered with the League.

(1) This provided for a special regime supervised by an International Communion.

(2) These words were inserted in Article 19 as a compromise between the British view, which was opposed to this provision as introducing a new factor into the Mediterranean situation in the form of the Soviet fleet, and the Franco-Soviet view (supported by Rumania) which pressed for its inclusion.

The conclusion of this Convention greatly increased the importance of Turkey as "Guardian of the Straits" in the Eastern Mediterranean and to Bulgaria, Rumania, and the U.S.S.R. It was significant that Italy refused to participate in the Conference or sign the Convention, although, as a result of the Anglo-Italian Agreement of April 1938, she did eventually adhere on May 2, 1938.

In Europe and the Aegean, therefore, Turkey by 1937 had successfully secured her position by the Balkan Pact, the Treaty of Mutual Guarantee with Greece, friendship with the U.S.S.R., and the revision of the Straits Convention, in the Eastern Mediterranean by her cordial relations with the United Kingdom and her negotiations with France,[1] and in the Middle East by the Pact of July 7, 1937, with Iraq, Iran, and Afghanistan.

(hi) 1937-1939: THE ITALO-GERMAN CAMPAIGN AGAINST THE LITTLE ENTENTE AND CzECHO-SLOVAKIA

Campaign against Little Entents

The year 1937 saw the launching by the Berlin-Rome Axis of a campaign for the disruption of the Little Entente. (Simultaneously every effort was made to use the civil war which had broken out in Spain in July 1936 to drive a wedge into Franco-British co-operation.) In Rumania the dropping of M. Titulescu in the Cabinet reconstruction of August 1936 removed a staunch supporter of the League of Nations and of the collective security *cum* French alliance policy which had governed the Little Entente since the War. His advocacy of a mutual assistance pact with the U.S.S.R., with which he had restored diplomatic relations in 1934, had in large measure been responsible for his downfall. The proposal was in any case unpopular, and more particularly so at a time when thoughts were running along the lines already indicated and turning in favour of "balance" and "non-entanglement."

In the campaign against the Little Entente, the immediate objective of which was the isolation of Czecho-Slovakia, Germany sought to use Poland to detach Rumania, and Italy to wean Yugoslavia from allegiance to the Little Entente- The improvement of relations with their neighbours also suited the policy of Italy and Poland; both of them had good reason, either in the shape of German minorities or in their geographical situation on Germany's eastern and southern frontiers, to entertain some anxious doubts about the future and to wish to strengthen their own position. Neither of them had any particular love for Czecho-Slovakia, against whom Poland, and Hungary their common friend, had

(1) **Regarding the Sanjak of Alexandretta and** the future of Syria.

territorial claims. It appeared, therefore, that in playing Germany's game in so far as the Little Entente and Czechoslovakia were concerned they would be pursuing a policy of expediency, losing nothing vital and even gaining something. After the fall of M. Titulescu conversations were opened between Warsaw and Bucharest, the object of which was to strengthen the bond between the two States (Allies since 1921), and at the same time to suggest to Rumania that the partitioning of Czecho-Slovakia between Germany, Poland, and Hungary would allow the two last-named to realize a common frontier and go some way to satisfying the hitter's territorial claims, the abandonment of which in so far as Transylvania was concerned Poland undertook to press in Budapest, in return for concessions by Bucharest to the Magyar minority in Transylvania. Bucharest, however, while glad to strengthen relations with Warsaw, refused to be drawn into this intrigue against Czecho-Slovakia, though I)r BcncS was warned both from Bucharest and Belgrade that any difficulties with Germany resulting from his entanglement with the power-politics of France and Russia and the handling of the Sudeten German problem, were his own responsibility. The other two members of the Little Entente refused in the summer of 1937 to extend the *casus foederis* of their association beyond the existing limits, that is common action against Hungary and the Habsburgs, and rejected the proposal of a general mutual assistance pact to operate if any one of them were to be the victim of aggression.

Bulgarian rapprochement, January 1937

Meanwhile important developments had been taking place in the Balkan Peninsula itself. On January 24, 1937, Bulgaria and Yugoslavia signed a Pact of Perpetual Friendship, ft has already been recounted[1] how the incipient *rapprochement* between the two countries in the autumn of 1933 had received a setback when Bulgaria refused to join with Yugoslavia in the Balkan Pad a refusal which inevitably gave the pact the aspect of an anti-Bulgarian alliance, instead of an instrument of Balkan understanding and co-operation to the exclusion of the influence of foreign Powers. From 1936 onwards, however, German diplomacy, in the person of General Goering and others, had striven to bring Yugoslavia and Bulgaria together, thus creating a strong South Slav bloc[2] under German influence. It is difficult to say what was the exact motive behind this move, but it may be conjectured that in Berlin the creation of such a *bloc* may have been considered as a weapon which

(1) See above, p. 27.

(a) The podsibiutv of a Personal Union under a single monarch ha* been mooted at times both in Bulgaria and Yugoslavia, as also that of a federation in which Croats and Bulgars would counterbalance the present predominance of the Serbs.

would be equally efficacious in bringing Greece, Turkey, or Rumania to heel or in exerting pressure even on Italy. For if Yugoslav (or rather Serb imperialist) ambitions lay in the direction of Salonika, Fiume, and Scutari, Bulgarian aspirations lay no less in securing the incorporation of Macedonia (at the expense of Greece and Yugoslavia), the recovery- of access to the Aegean, and the retrocession of the South Dobrudja. Finally, the creation of such a *bloc* with its potential threat to Italy on the Adriatic might be a useful lever with which to make sure not only of Italy's abandonment of Austria, but also in due course of the return of the South Tyrol and the cession of the Istrian peninsula and Trieste (the traditional port of the Habsburg Empire) to become the southern outlet of the Third Reich, the new Holy Roman Empire of the Germans.

Other influences, however, were also at work fostering this *rapprochement,* in the hope of creating thereby the essential condition for the formation of a comprehensive Balkan Union. These two movements, however different were the ultimate motives inspiring them, between them contributed to the successful conclusion of the Pact. Negotiations were initiated by the Bulgarian Prime Minister in September 1936. A draft text was submitted to Belgrade at the end of the year and was communicated by the Yugoslav Government to the other members of the Balkan Entente, who signified their approval, subject to various comments. The conclusion of this Pact was generally welcomed (though not without reservations in view of the possibilities already discussed)[1] as an important step towards the consolidation of peace in the Balkans; but much water had still to flow under the Danube bridges before the next stage in this process of consolidation was reached by the signature of a Non-Aijgression Pact between Bulgaria and her four neighbours of the Balkan Pact on July 31, 1938.

Italo-Agreement, March 1937

By the beginning of February 1937 negotiations were also in contemplation between Yugoslavia and Italy. In his speech at Milan on November 1, 1936, Signor Mussolini had set the ball rolling in his approach to Belgrade.[2] His outstretched hand was not ignored by Dr Stoyadinovic. An exchange of views followed, and

(1) It may be noted that on May 25„ 1937, Kemal Ataturk and General Metaxas exchanged messages as significant as the warning which they contained wan clear. Ataturk said: "The frontiers of the Allied Balkan States are a single frontier. Those who have intention* upon thi* frontier would expose themselves to the burning rays of the lun. I warn them to take care." General Metaxas in his reply confirmned this and spoke of "the unalterable friendship" between Grecer and turkey. Ataturk re-&pwr*drd with the further declaration that "our frontiers are the name and the forces which defend them arc equally one and inseparable." To this General Metaxas replied: "We are completely ami forever agreed upon thi*."

(a) See above, p. 34.

Czechoslovakia and the members of the Balkan Entente were also informed in general terms of the position. Dr Benes was due to pay an official visit to Belgrade at the beginning of April, and in the middle of March it was announced in Rome that Count Ciano would shortly visit Belgrade. Dr Stoyadinovic was requested to fix as early a date as possible for this visit, and it was intimated that it should in any case take place before that of Dr Benes. After some hesitation Dr Stoyadinovic complied with this request and Count Ciano arrived in Belgrade on March 25. On the same day a Treaty of Friendship was signed, the provisions of which and of the annexed agreements, not all of which were published, appeared to be particularly advantageous to Yugoslavia, though Dr Stoyadinovic' was strongly criticized in Athens, Bucharest, Prague, and Ankara for signing the Treaty under pressure from Rome, before its final text had been communicated to his friends and allies in accordance with the procedure laid down in the Statutes of the Little and Balkan Ententes.

Main Provisions of the

While Italy gained Yugoslavia's recognition of the conquest of Abyssinia, her acceptance of the *status quo* in Albania, her partial adherence to the Rome Protocol *bloc,* the promise of her neutrality (subject, however, to the fulfilment of her existing treaty obligations) in the event of a conflict between Italy and another Power and provision for the development of Italian trade with Yugoslavia[1]; Yugoslavia secured, in addition to very substantial economic advantages, a guarantee of respect for her existing land and maritime frontiers, an Italian undertaking to abandon the giving of support to the Croat terrorist *Ustase,* and a promise in regard to the proper treatment of Slovene and Croat minorities on the Italian side of the frontier.'

Three further events must be recorded in order to complete the record of diplomatic developments in the year 1937—the adherence of Italy on November 7 to the Anti-Comintern Pact signed by Germany and Japan in the previous year, Italy's notice of withdrawal from the League on December 12, and the negotiations between the Little Entente and Hungary. The first two of these events, while significant, need no special comment; the third requires a little explanation.

It will be recalled that the Stresa Conference in April 1935 had recommended the Little and Balkan Ententes to examine the re-

(1) The trade lost by Italy as a result of sanctions had not been recovered after their abandonment, but had been secured largely by Germany.

(a) The last two points were covered by supplementary agreements which were not published and were not referred to by Count Ciano.

quest of Austria, Hungary, and Bulgaria for the removal of the restrictions upon their armaments "with a view to a settlement by mutual agreement within the framework of general and regional agreements of security." In view of the uncertainty of the times nothing was done and on April 1, 1936, Austria, benefiting by the general preoccupation with German affairs, announced the introduction of compulsory national service "with or without arms." At the same time rearmament, though on a limited scale, was more or less openly put into execution. The formal protests of the Little Entente States against this further instance of unilateral repudiation were noted in Vienna and rejected.

There was some anxiety lest Hungary might follow suit; but Hungary did not share the somewhat privileged position of Austria, and any action by her inevitably involved joint counter-action by the Little Entente. Discretion, in consequence, prevailed in Budapest and also in Sofia, for Bulgaria had equally to reckon with the Balkan Entente.

Relations between Hungary and Little Entents, 1936-7

In May 1936 the Hungarian Foreign Minister, M. de Kanya, declared his willingness to participate in negotiations for a Danubian settlement, provided that Hungary's full legal equality was recognized, that the possibility of peaceful change and of a discussion of the Peace Treaty settlement was not ruled out, that the protection of Hungarian minorities was guaranteed, and that the question of mutual assistance was not raised. He rejected, in fact, the essential condition stipulated by the Little Entente—Hungary's acceptance and guarantee of the *status quo.* By the end of October 1936, however, the signature of the Austro-German Agreement in July (with its implicit warning of *Anschluss),* the death of General Gombos in October, and the formation of the Berlin-Rome Axis had combined to make the Hungarian attitude towards the Little Entente less rigid. Dr Daranyi, the new Prime Minister, was more conscious than had been his predecessor (who was a strong admirer of German drive and efficiency) of the threat to Hungary's independence which Germany's domination of Central Europe would entail. Hungary was in a difficult position. On the one hand, any substantial measure of territorial revision at the expense of Czechoslovakia, Rumania, or Yugoslavia could be achieved only with the support of Germany; on the other hand, if such support were bought at the price of helping Germany to dominate Central Europe, the price to be paid might be regarded as being too high. How far then would it be possible to make the best of both worlds? By using the increasing pressure of Germany on Central Europe to

secure attention for Hungary's reasonable claims as a preliminary to political and economic co-operation in the Danube area? In the early months of 1937 Dr Daranyi expressed his readiness to negotiate with his neighbours on a basis of equality. Conversations proceeded during the summer and centred round the following points: Hungary requested the recognition of her right to rearm (pointing to the action already taken by Germany and Austria); the Little Entente agreed to this on condition that Hungary recognized their existing frontiers; this Hungary declined to do, or to make any concession in exchange for the recognition of a right which, she claimed, was wrongfully withheld from her. She offered, however, to sign a non-aggression treaty with each of her neighbours in return for a guarantee from them of fair treatment for their Hungarian minorities. Thin they declared to be unnecessary, and in any case insisted that any agreement between Hungary and themselves should be in multilateral and not in bilateral form. This point had been reached when the negotiations were temporarily suspended in the autumn of 1937.

Parallel with these dicussions conversations had also proceeded between Prague, Vienna, and Budapest regarding the possibility of some triangular agreement lietween them (such as had been mooted in the early years after the War,[1] and had remained a dead letter). But the influence of Italy and Germany was exerted to frustrate these conversations and nothing came of them. Another difficulty which retarded progress was the question of a Habsburg restoration. The monarchist movement, with which Dr von Schuschnigg and other members of the Austrian Government were active sympathizers, had made great progress in Austria in 1936. This fact had caused suspicion and irritation not only in Czechoslovakia and Yugoslavia but also in Germany, where a successful restoration was regarded as the one obstacle to the attainment of the *Anschluss.* Under pressure, therefore, from Germany, supported by Italy, and from the Little Entente, Dr von Schuschnigg declared that the question was purely an internal one and that it was in any case not actual.

Monarchist Movement in Austria

(1) The Treaties of St Germain (Article 222) and Trianon (Article 225) provided that, notwithstanding the provisions of preceding articles which guaranteed most-favoured-nation treatment to the Allied and Associated Powers, the latter "agree that they will not invoke these provisions to secure the advantage of any arrangements which may be made by the Austrian Government with the Governments of Hungary or of the Gzecho-Slovak State for the accord of a special Customs regime to certain natural or manufactured products which both originate in and come from those countries, and which shall be specified in the arrangements, provided that the duration of these arrangements does not exceed a period of five years from the coming into force of the present Treaty.''

The Situation at the beginning of 1938

By the beginning of 1938 the general situation had developed as follows: The unity of the Little Entente had been severely shaken. Yugoslavia, courted by Italy and Germany, had satisfactorily settled her relations with all her neighbours, including Hungary and Bulgaria, and had also benfitcd economically. If, therefore, Rumania was prepared to sympathize with Czecho-Slovakia in her dispute with Germany over the Sudeten German problem, Dr Stoyadinovic, taking his stand on the fact that Yugoslavia's obligations did not extend beyond a case of aggression by Hungary, was not prepared to sacrifice the fruits of his diplomacy for the *beaux yeux* of Dr Benes, unless he could rely upon the direct and effective intervention of France and Great Britain and the neutrality of Italy in the event of military action by Germany. The same considerations applied to the question of Austro-German relations, which were of less immediate interest to Rumania. Both these countries, therefore, tended to base their foreign policy increasingly upon the Balkan Entente, concentrating upon the task of consolidating peace in the Balkans at a time when the *status quo* in Central Europe was endangered. Hungary was in two minds—anxious to prevent *Anschluss,* while ready to take her share of the pickings if Germany and Poland set about the dismemberment of Czccho-Slovakia. She had been willing to go some way to meet the Little Entente, in the hope of obtaining a measure of revision without the danger of German domination in the Danube basin. But the Little Entente had clung rigidly to the *status quo* and the negotiations had been suspended. Bulgaria, meanwhile, was pursuing a discreet policy and was hopeful that, as a result of the *rapprochement* with Yugoslavia, the latter's good offices with the partners in the Balkan Entente would yield some results. Finally, Greece and Turkey were preoccupied with Italy's intentions in the Mediterranean, while Great Britain and France were carefully watching their interests in Spain and the Far East, where war had broken out in July 1937 bet ween Japan and China.

Austrian Chamellor's Visit to Berchtesgaden, February 1936

Such was the situation on February 12, 1938, when Dr von Schuschnigg, the Austrian Chancellor, visited Berchtesgaden at Hcrr Hitler's suggestion. Relations between Germany and Austria had been deteriorating and on more than one occasion Dr von Schuschnigg had complained of German interference in Austrian internal affairs in contravention of the Agreement of July 11, 1936. He had warned Germany in November that agreements were signed in order to be observed. Nevertheless he went to Berchtesgaden readily in the hope of clearing up a number of outstanding

difficulties by frank personal conversation with the *Fiihrer.* A shock awaited him, for in place of the conversations for which he had hoped, he was subjected to a harangue in which the *Fiihrer* spoke of his destiny and warned the Chancellor not to stand in his way.[1] An ultimatum was presented; the alternative to its acceptance was the invasion of Austria—a threat the force of which was emphasized by the presence of the General Staff in the adjoining room with the plans and maps necessary for the accomplishment of this operation. Dr von Schuschnigg obtained forty-eight hours' respite on the plea that he must consult President Miklas, and returned sad and disillusioned to Vienna. On the following day the terms of the ultimatum were accepted and the Ministers who were *petsonae gralae* to the Reich were introduced into the Cabinet. Dr Seyss-Inquart was given the key post of Minister of the Interior and of Security, with control of the police; an amnesty was granted to political prisoners; and the Austrian Nazis were granted the right of "legal activity" within the Fatherland Front.

Proposad

But Dr von Schuschnigg, though forced to yield at Berchtesgaden to *force majeure,* had not yet abandoned the struggle. Though the process of *Gleicfachaltung* had already begun, Austria still retained some semblance of independence and the maintenance of this was still believed to be a vital interest of Italy. Signor Mussolini (and also French and British Ministers) had repeatedly stressed this in the past. Dr von Schuschnigg, therefore, with more personal courage than political discretion decided to seize the initiative from Herr Hitler, and in a fighting speech on March 9 declared his readiness for friendly relations with the Reich as between two German States but his determination to preserve Austria's independence. He announced that on March 13 a national referendum would be held on the question: "Arc you for a free and German, independent and social, Christian and united Austria, for peace and work, for the equality of all those who affirm themselves for the people and Fatherland?"

German Occupation of Austria, March 1938

This sealed the fate of Austria. Herr Hitler, furious at "the trick" (as he subsequently called it) played upon him, ordered his plans for the invasion of Austria to be put into immediate execution. On March 11 an ultimatum was sent to Vienna. The Chancellor and the Cabinet resigned and Dr Seyss-Inquart took control of the situation and invited German troops to cross the frontier "to restore

(1) On January 30* 1939, in the Reichstag, Herr Hitler said: "In January 1938 I finally resolved that in the course of that year, in one way or another, I would fight for and win the right of self-determination for the 6½ million Germans in Austria."

and preserve order." On March 13 the incorporation of Austria in the Reich was proclaimed and Dr Seyss-Inquart was appointed Governor of the new province, which was to be called the *Ostmark.*

No finger was stirred to save Austria. Signor Mussolini was away ski-ing, and subsequently described the annexation of Austria as inevitable. In return he received a message from Herr Hitler: "I will never forget this of you." France was in the midst of one of her periodical political crises and was without a Government. In these circumstances consultation regarding joint action according to the terms of the Stresa Agreement and the Tripartite Declarations of 1934 appeared to be impracticable. The military occupation of the country was rapidly completed by mechanized columns, and by March 12 German troops were in position on the Brenner Pass and on the Czechoslovak and Yugoslav frontiers. In the circumstances M. Litvinov's suggestion on March 18 of an immediate conference to be attended by France, the United Kingdom, the U.S.S.R., and the Little Entente met with no favour.

Effects of Annexation

Apart from its economic effects,[1] the annexation of Austria had immediate and far-reaching repercussions upon the situation in Central Europe. Austria was in fact the keystone of the Central European arch and the strategic key to the Danube valley. By the incorporation of Austria Herr Hitler placed himself in a position not only to isolate Gzecho-Slovakia, with the support of Poland and Hungary, but also to dominate the Danube basin. Mastery of Vienna offered military and economic control of the communications of South-Eastern Europe by road, river, and rail. Furthermore, Greater Germany *(Grossdeutschland)* was, henceforth, in direct touch not only with Italy on the Brenner frontier, but also with Hungary and Yugoslavia, and was brought to within a hundred miles of the Adriatic at Trieste and Fiumc, the former ports of the Habsburg Empire. The significance of these facts was not overlooked in Prague, Belgrade, Budapest, or, indeed, in Rome.

The repercussions of this development were seen almost immediately in Czecho-Slovakia, where the solution of the German minority problem became a matter of urgency. This was further emphasized by the alarms of the week-end of May 21, when Czccho-Slovakia partially mobilized on receipt of reports of heavy German troop movements along her frontiers.

It became clear to the States of the Balkan and Little Ententes that a determined effort should be made to consolidate their position vis-*a-vis* Bulgaria and Hungary, if possible on a basis of friendship

(1) See Part I I , p. 186.

Agreement between Bulgaria and Balkan Enlsnts, July 1998

and co-operation, at a time when serious danger was threatening. Two developments in this direction during the summer of 1938 must be recorded. The first of these was the signature at Salonika on July 31 by Bulgaria and the Balkan Entente of a Treaty of Friendship and Non-Aggression. By the terms of this agreement the Balkan Entente recognized Bulgaria\s right to rearm, and the armaments limitation clauses of the Treaty of Neuilly were, in consequence, abrogated by agreement, the other signatories of the Treaty concurring. Secondly, while Bulgaria did not and was not asked to guarantee existing frontiers, she did undertake not to change them by force and also to submit all disputes with her neighbours to arbitration or judicial settlement. Finally, it was agreed that the clauses of the Convention of Lausanne (1923), providing for the demilitarization of the frontiers between Bulgaria, Greece, and Turkey in Eastern Thrace, should lapse. The signature of this pact aroused some hopes that the dream of Balkan unity was at last on the way to becoming a reality. It was felt that in the improved atmosphere which it brought about the problem of the Bulgarian minorities in the Dobrudja might be taken up and settled in a mutually satisfactory way, while the question of Bulgaria's access to the Aegean by the grant of free zones in the ports of Salonika or Dedcagach, with special transit rights over railway lines built to link the Bulgarian with the Greek railway systems (Pctric-Demirhissar), would present few other than technical or financial difficulties.[1]

Hungary

Entents, August 1998

In August, during the Hungarian Regent's State visit to Germany, when a military alliance was offered to Hungary by the Reich but rejected, the Hungarian Minister in Belgrade met representatives of the Little Entente States at Bled. On this occasion the negotiations suspended in the previous autumn were resumed and agreement "in principle" was reached upon a compromise providing for a mutual undertaking renouncing all recourse to force and for the recognition of Hungary's equality of rights in the matter of armaments. This was to be the basis for further negotiations regarding outstanding questions, in particular the treatment of the Hungarian Minorities. Agreement was understood to have been reached on this question with Yugoslavia and Rumania, but not in the case of Czechoslovakia, against whom the Hungarian demands were more far-reaching. But, while interesting to record, the agreement was soon of little practical significance in view of the

(1) In spite of the Agreement no progress was made towards the settlement of the* questions.

Munich Settlement and the subsequent Vienna award by Italy and Germany (whereby Hungary recovered those areas of Slovakia and Ruthcnia in which, according to the census of 1910, there was a 51 per cent majority of Magyars[1]) and the annexation of the rest of Rutheniain March 1939.

IV. THE SITUATION IN THE MIDDEE OF MAY, 1939

The destruction, by partition and annexation, of Czechoslovakia in the autumn of 193H and in March 1939 is still too fresh in the public mind to require detailed recapitulation here. This section, therefore, will be confined to dealing with its significance for Europe in general and South-Eastcrn Europe in particular.

Effects of the Destruction of Czechoslovakia

In the first place, the destruction of Czeeho-Slovakia (though not necessarily her annexation by the Reieh) was the logical sequel to the annexation of Austria and threatened to be the prelude to further developments immediately affecting Poland and the Balkan States, not to mention the whole question of the Balance of Power in Europe, The shortening by the annexation of Bohemia and Moravia of Germany's strategic frontier in the south-east along the line Vienna-Breslau (through the "Moravian Gate"), the disarming of the Czech Army, and the acquisition of an important armament industry completed Germany's strategic domination of *MittfUuro/w.* Henceforth this had to be accepted as an accomplished fact; no less had Hungary's difficulty in conducting au independent polity to be recognized. With German troops in Slovakia Herr Hitler was in a position to threaten Poland on three sides,[2] and also to drive a wedge between Poland, on the one hand, and Hungary and Rumania on the other, in spite of the common frontier between Poland and Hungary, finally attained by the latter \s annexation of Ruthcnia on March 16.

Secondly, Herr Hitler's "peaceful" method of conquest by propaganda, internal disruption, and ultimatum contained a warning to al! States with large German or other minorities such as Poland, Rumania, and Yugoslavia. The urgent need of settling the Croat problem in Yugoslavia was made especially clear to Belgrade,

("0 Hungary recovered a total population of 1,040,000, though in doing »o she complicated her own minority problem by increasing the number of her Slovak subjects from approximately t 150,000 to 250,000.

(2) Especially since the cession of Memel by Lithuania on March 33, and the signature cm the same day of a Treaty of Non-Aggression promising neutrality in the event of the Reich being involved *in* war with a third Power.

in the light of the part played by separatism in Bohemia and Moravia, Slovakia, and Ruthcnia in the disruption of Czecho-Slovakia.

Effacts of the Destruction of Slovakia

Thirdly, it was made abundantly clear by Herr Hitler's annexation of non-Germans that his ultimate aim went far beyond the immediate objective contained in Article i of the Programme of the National-Socialist Party, viz. "The unification of all Germans to form a Great Germany on the basis of the right of the self-determination enjoyed by nations." The declaration of the Protectorate over Bohemia-Moravia and the Agreements with Slovakia and Lithuania appeared to suggest a far-reaching scheme of Protectorates in Eastern Europe, all included in a vast Zoll*verein* or in a scries of Customs Unions with the Reich; with local autonomy, but little or no control over foreign, economic, or defence policy; committed to neutrality in the event of the Reich being involved in war with other Powers; acting solely as sources of supply and as buffer States, forming a *cordon sanitaire* protecting Germany's southern and eastern frontiers (just as the Kingdoms of Hungary' and Poland protected the Holy Roman Empire from the Turks and other invaders from the south and east). The references to the historic principle, the right of self-preservation, and the necessity of extending Germany's L*ebensraum*, contained in the Proclamation of the Protectorate of Bohemia-Moravia on March 16,[1] seemed to suggest that Herr Hitler had in mind the establishment of a Reich on the lines of the Holy Roman Empire of the German people—the First Reich--in which the southern partner in the Berlin-Rome Axis would take the place of the Papacy and the Habsburg territories might be combined with the traditional Imperial domains.

Finally, the most significant part of all for Europe as a whole was Herr Hitler's repudiation of his own principles and of the formal pledges given and repeated, verbally and in writing, to the world in general and to Mr Chamberlain in person, in September 1938. However dispassionately this breach of faith was viewed, it was impossible to avoid the conclusion drawn by Mr Chamberlain in his speech on March 17. "Does not the question inevitably arise in our minds/' he said, " i f it is so easy to discover good reasons for ignoring

(f) "Bohemia and Moravia have for thousands of yean belonged to the *Lebmsttmm* (living snace) of the. German people. Force and unreason have arbitrarily torn them from their old historical setting . .. Sooner or later the Retch, as historically and geographically the Power most interested in that region, would have to bear the heaviest consequences. It is in accordance, therefore, with the principle of self-preservation that the Retch is resolved to intervene decisively to re-establish the bases of a reasonable Central European order . . . For in its long historical oast it has shown itself, through the greatness and qualities of the German people, as being alone fitted to fulfil these tasks."

assurances so solemnly and so repeatedly given, what reliance can be placed upon any other assurances that come from the same source."

There is yet a further consideration. Hitherto, however much Hcrr Hitler's violent methods may have been deplored, there was, as Mr Chamberlain pointed out, "something to be said for the necessity of a change in the existing situation." But recent events, he continued, "in complete disregard of the principles laid down by the German Government itself, seem to fall into a different category, and they must cause us all to be asking ourselves: 'Is this the end of the old adventure, or is it the beginning of a new? ... Is this, in fact, a step in the direction of an attempt to dominate the world by force?' " If this were so, he concluded, "no greater mistake could be made than to suppose that this nation ... will not take part to the utmost of its power in resisting such a challenge if it were ever made."

In the light of these considerations, how may the position and policy of the States of South-Eastern Europe in the middle of May 1939 be summed up?

Hungary

The position of Hungary was one of extreme difficulty. Dominated by Germany there appeared to be little chance of Hungary being able to pursue any policy not in consonance with that of the Axis. In fact, already on February 24 Hungary had adhered to the anti-Comintern Pact, and two days earlier the Prime Minister, Count Teleki, had emphasized the unchanged attachment of his country to the Berlin-Rome Axis "to whom Hungary owed the liberation of the northern provinces." He went on to add significantly that he hoped that the future policy of Rumania towards her minorities would bring about normal relations with Hungary, a warning to which point was given when Hungarian troops collected on the Rumanian frontier during the crisis in March. But while co-operation with Italy and Poland appeared to offer to Hungary the only chance of escaping German domination, Hungarians may resign themselves to it in the hope that in co-operation with Germany there might be the possibility of regaining Transylvania from Rumania. In fact some Hungarians appear to consider that the recovery' of this lost province would compensate them for the effects of the domination by Germany, to which by geography Hungary would appear to be condemned.

Rumania

For Germany, Hungary's claims against Rumania arc a useful lever with which to secure Rumanian co-operation. If this were refused, and support for Rumania were not forthcoming from other quarters, it would lie in Germany's power to threaten to give active

support to Hungary's claims. Conversely, Germany could offer to bring pressure to bear upon Hungary to abandon those claims, should King Carol show himself to be accommodating. The German-Rumanian Trade Agreement signed on March 23[1] may mean everything or very little according to the way in which its provisions are carried out during the next twelve months. The same considerations also apply to Yugoslavia.

Yugoslavia

With Czecho-Siovakia destroyed, the Little Entente, which had already lost its effective force in I93[r]) b, finally ceased to exist. Rumania and Yugoslavia had for some years based their policy on the Balkan Kntente. They shared with Greece and Turkey the desire to restrain Bulgarian revisionist aspirations, and with one another an anxiety regarding Hungarian revisionism. But if Rumania had greater claims to meet, Yugoslavia was by no means blind to the ultimate consequences for herself of the successful attainment of Hungary's aims in Transylvania and the Vojvodina. Since the conclusion of the Agreement with Italy in March 1937 relations between Yugoslavia and Hungary, thanks partly to the influence of Italy, had been friendly, less being heard of Hungary's territorial claims. This was a welcome, if temporary, improvement as far as Yugoslavia was concerned. But the annexation of Albania iu April 1939, which confirmed Italy's control of the Straits of Otranto and facilitated the occupation by Italian forces of strategic "bridgeheads" commanding the passes into Southern Serbia (Skoplje) and North Greece (Salonika), and the increased pressure upon her by the Axis Powers, changed the position; for, a policy which hitherto had been one of expediency had become one almost of necessity. How far this process of change had gone by the end of May 1939 may be judged from a protest made by Belgrade to Ankara regarding the announcement of the Anglo-Turkish Fact without prior consultation with Belgrade[2] and in alleged contravention of the policy of neutrality and non-entanglement in non-Balkan affairs hitherto pursued by the Balkan Entente.

Bulgaria

Bulgaria, like Hungary, finds herself in a quandary, though unlike her she has not gained any measure of revision at the expense of any of her neighbours. The repercussions of the events of the autumn were seen in Bulgaria in the cries for revision which were raised on the anniversary of the Treaty of Ncuilly in November, and in the brake put upon the process of Balkan *rapprochement* which

(1) For details, see pp. 136-7.

(a) It may be noted that a similar protest was made to Yugoslavia by her co-signatories of the Balkan Pact regarding the Agreement with Italy in March 1937.

had begun in 1933, and had led up to the Pact with Yugoslavia in January 1937, and the Salonika Agreement with the Balkan Entente in July 1938. Before the Bucharest Conference of the Entente at the end of February 1939, hopes were expressed that the way would be found to secure Bulgaria's adherence, either to the Balkan Pact, or to a Black Sea Pact. The Conference, however, terminated without any new development coming to light, and in view of recent events it would appear to be unlikely, to judge by the result of M. KiosseivanofPs visit to Ankara, that King Boris will commit himself or tie his hands as long as revision is in the air. Nevertheless, Bulgaria must reckon with the restraining influence of Greek and Turkish forces should territorial claims against Rumania or Yugoslavia be pressed, in conjunction with Hungary and Germany, to the point of hostilities.

Greek and Turkey

Greek policy continues to centre upon the Balkan Entente and on the maintenance of friendly relations with the maritime Powers of the Mediterranean, notably Great Britain, caution being exercised in regard to any possible entanglement which might involve the open hostility of Italy unless adequate support were assured. For Turkey the maintenance of friendly relations with all her neighbours is a cardinal principle of foreign policy. Protected in the Balkans by the Balkan Pact, in the Aegean by the alliance with Greece, in the Black Sea by friendship with Russia, in the east by the Middle Eastern Pact, in the south by friendship with France, and in the Eastern Mediterranean by the mutual assistance agreement with Great Britain, Turkey, also "the Guardian of the Straits" since 1936, has cause for self-congratulation in the successful results of the foreign policy laid down by Kemal Atatiirk, and so ably pursued up to November 193B by Dr Rustu Aras.

By both these States any possibility of the domination of the Eastern Mediterranean by Italy or of the Balkans by Germany, Italy, or a South-Slav b*loc* under German influence would be regarded as dangerously prejudicing their independence, if not also their territorial integrity, and as necessitating resistance by force. Mutual support within the Balkan Entente, and friendship with Great Britain, whose navy protects them in the Mediterranean, remain the cardinal principles of Greek and Turkish policy, the latter also stressing the importance of Soviet friendship.

Attitude towards U.S.S.R.

In conclusion, a word must be said regarding relations with the Great Powers. The question of relations with Russia is one of great difficulty. This is partly due to the uncertainty which exists regarding **the** aims of Soviet foreign policy, **the** nature of Soviet defence

policy, and the **real strength** of the Soviet armed forces (especially after the " Purge"), of the industrial power, and of the lines of communication upon which their maintenance depends. It is also due to dread of Communist influence, to antipathy and prejudice (White Russian influence is strong at the Yugoslav Court), and finally to fear in Rumania (and even more so in Poland) that once Russian troops had entered the country, and Bessarabia in particular, serious internal complications might ensue. In this connection it may be recalled that it was M. Titulescu's advocacy of a Mutual Assistance Pact with the U.S.S.R. which was primarily the cause of his downfall in the summer of 1936. The more immediate threat of German domination implied by the events of March 1939 had by the middle of May overshadowed these uncertainties and suspicions, although they had not been entirely removed.

Attitude towards Germany

Little need be added to what has already been said about Germany, except to add that the relations of the States of South-Eastern Europe with that country are governed largely, except for the special political considerations already discussed, by the degree of dependence of the States of South-Eastern Europe upon the German market. Such dependence had not, until the conclusion of the German-Rumanian Trade Treaty, had irremediable effects on the internal structure of the States concerned, even if, in order to liquidate balances in blocked marks, it may have entailed the import of certain goods, armaments for example, which these countries would have preferred to buy elsewhere. Anxiety lest in the future this economic dependence might be exploited for political ends is ever present in the minds of the statesmen, who follow closely developments in Western Europe, where there is not only a potential market and an unlimited supply of "free" exchange, but also an absence of those ideologies whose active propagation is a cause not only of external complications, but also of internal disruption.

Attitude towards the Western Powers

They note the growing armaments and increased determination of the Western Powers, supported in the background by the great Transatlantic Democracy, the recovery'of France, and the immense financial strength and resources of the British Empire; they appreciate the fact, that, if *the fait accompli* in Central Europe had been accepted after Munich in the interests of appeasement, no uncertain warnings have been uttered regarding the consequences of an expansionism which might seek "to dominate [Europe or] the world **by fear** of its force." This warning by Mr Chamberlain during the **course** of his broadcast on September 27,1938, was repeated by him **on March 17,** and again on March 23,1939, when he said:"... the

recent actions of the German Government have raised the question whether that Government is not seeking by successive steps to dominate Europe, and perhaps even to go farther than that.

[44] Were this interpretation of the intentions of the German Government to prove correct, His Majesty's Government feel bound to say that this would rouse the successful resistance of this and other countries who prize their freedom, as similar attempts have done in the past...

"We are solely concerned here with the proposition that we cannot submit to a procedure under which independent States are subjected to such pressure under threat of force as to be obliged to yield up their independence, and we arc resolved by all means in our power to oppose attempts if they should be made to put such a procedure into operation."

Change in British Foreign Policy

These words were followed by deeds, for, if further evidence were needed of the determination of the United Kingdom and France to put an end to aggression, it was provided by the guarantee of Poland's independence on March 31 and the ensuing reciprocal Anglo-Polish pledge, the significance of which went far beyond the intrinsic importance of the commitment it involved, for it represented nothing less than a revolution in British foreign policy.

The Italian invasion of Albania on April 7, 1939, and its subsequent occupation and annexation in contravention of the Anglo-Italian Agreement of April 16, 1938[1] together with (he dispatch of large numbers of troops to that country, caused further uneasiness and increased international tension. The British Parliament was recalled for an extraordinary session on April 13, when the Prime Minister and the Foreign Secretary made statements of far-reaching importance. A declaration along similar lines was made simultaneously by M. Daladicr.

Mr Chamberlain, referring to Italian action in Albania, said: *'... Of course, it is not only the future of Albania which is at stake. Unmistakable signs of disquiet and uneasiness have been manifested not only in the adjacent areas, but in other countries bordering on the Mediterranean or included in the Balkan Peninsula . . . His Majesty's Government feel that they have both a duty and a service to perform by leaving no doubt in the mind of anybody as to their position. I, therefore, take this opportunity of saying on their behalf that His Majesty's Government attach the greatest importance to

ft) This reaffirmed the declaration in the Agreement of January 2, 1937, that: "The two *Governments disclaim* any *desire* to modify or, so far as they are concerned, to see modified the *status quo* as regar ' of territories in the **Mediterrancan area."**

the avoidance of disturbance by force or threats of force of the *status quo* in the Mediterranean and the Balkan Peninsula.

Anglo-French Plsdges to Greece and Rumania

"Consequently, they have come to the conclusion that, in the event of any action being taken which clearly threatened the independence of Greece or Rumania, and which the Greek or Rumanian Government respectively considered it vital to resist with their national forces, His Majesty's Government would feel themselves bound at once to lend the Greek or Rumanian Government, as the case might be, all the support in their power. We are communicating thisdeclaration to the Governments directly concerned, and to others, especially Turkey, whose close relations with the Greek Government are known.[1] I understand that the French Government are making a similar declaration this afternoon ..."

Anglo-'Turkish Agreement

Finally on May 12 simultaneous declarations in London and Ankara announced that, pending the conclusion of "a definite long-term agreement of a reciprocal character in the interests of their national security," the British and Turkish Governments "in the event of war in the Mediterranean area would be prepared to co-operate effectively and to lend each other all the aid and assistance in their power. . . The two Governments recognize that it is also necessary to ensure the establishment of security in the Balkans. They are consulting together with the object of achieving this purpose as speedily as possible."

* * *

Such is the picture of South-Eastern Europe, with its hopes, fears, aspirations, and disappointments, in the middle of May 1939. If the racial jealousies and conflicting nationalist aspirations of the Balkan States permit them to be played off against one another, and to be used once more as pawns in power politics, at a time when they have come nearer to Balkan unity than ever before, then history will indeed repeat itself, and "The Balkans" will once more become a term synonymous with conflict rather than co-operation.

(1) In view of Turkey's control of the Straits, her co-operation is clearly essential if the pledge to Rumania is to be fully effective. It was to discuss this that the Rumanian Foreign Minister, M. Gafencu, visited Istanbul on April 8, 1939.

IV. INTERNAL POLITICS

1. HUNGARY

UNLIKE other Central FAiropean States, post-War Hungary has at no time enjoyed more than nominally democratic institutions. Her political system, based on a restricted franchise and—until recently—on the open ballot except in the case of the cities, resembles in many ways that of Great Britain in the eighteenth and early nineteenth centuries, and reflects a semi-feudal social structure which has only recently begun to show signs of crumbling.

Magnates versus Gentry before the War

Until the various National-Socialist groups began to make noticeable headway from about 1933 onward, Hungarian politics could be interpreted almost exclusively in terms of the relationship between two important social groups which shaded into one another: namely the magnates, or great landed proprietors, and the more numerous gentry, or small land-owning and official class. During the period between the Compromise of 1867 and the end of the World War in 1918 almost the only point at issue between these two groups was the question of Hungary's relations with Austria social reform being left virtually in abeyance, while in the question of national minority treatment both parties were at one in their advocacy of the unitary Hungarian State. While the Liberal Party (and still more the extreme Right, consisting of the magnates and higher Catholic clergy, whose associations with Vienna were so close that they had gradually ceased to entertain Hungarian nationalist sentiments) held to the Austrian connection as a safeguard of Hungarian independence, the more nationalist trend of opinion represented in the Party of Independence looked upon it as a danger, and was prepared to seek contact with almost any adversary of the Habsburgs, not excluding Prussia itself.

On the collapse of the Central Powers and the fall of the Dual Monarchy in 1918, short-lived Socialist and Communist Republics were set up successively in the rapidly diminishing Hungarian Kingdom the first by the aristocrat Count Mihaly Karolyi (November 16, 1918-March 20, 1919), and the second by Bela Kun (March 2-August 1, 1919). The *Red* Terror was followed by a counter-revolutionary White Terror at the end of 1919, and finally by a reinstatement of the old reactionary political system intact, except for the substitution of a Regent, Admiral Horthy, in place of the King.

For the next twelve years Hungary war. administered by three magnate Prime Ministers—Count Teleki (July 1920-April 1921),

Count Bethien's

Count **Bethlen (April 1921-August** 1931**), and Count Gyula Karol**yi (August **1931**-September 1932). At the first post-**War** elections to the National Constituent Assembly—held in January 1920, under the auspices of the Allied Powers, on the basis of the secret ballot and in accordance with the new franchise act drafted by Count Mihaly Karolyi's Socialist Government in 1919—a considerable smallholders* and peasants' Opposition had been returned (the Social Democrats had abstained from voting). By its First Act of 1920 the new Government had proceeded to annul ail measures taken by the two Republican Governments, while Count Bethlen's subsequent re-establishment of the open ballot at the elections of 1922 resulted in the return of a purely negligible peasant and working-class Opposition. Post-War agrarian reform, which was being carried out on a large scale in most other Central European countries, was limited, in Hungary, to a comparatively moderate measure pushed through the Constituent Assembly by M. Szabo's Smallholders' Party in December 1920. Even when the operations under this law had been completed (by about 1927), the large and medium estates accounted for over 50 per cent of the 16 15 million yokes left to Hungary under the Peace Treaty; about 46 5 per cent were smallholdings; while there were from two to three million dwarf-holders and landless peasants, who depended for a livelihood mainly on casual labour and payments in kind.[1]

In the meantime the old political line of division between the two great conservative groups, the magnates and the gentry, had become obliterated. The constitutional issue of the Austro-Hungarian connection no longer existed; the question of a Habsburg restoration in Hungary alone had been settled, at any rate for the time being, by the failure of the ex-King Charles's two attempts to stage a return in March and October 1921—a failure which Was due largely to the determined opposition of the Little Entente and Allied Powers, but also in some measure to the armed resistance offered by Captain Gdmbos and other prominent gentry, and sanctioned by the Regent himself as well as by Count Bethlen, under pressure of the Allied Powers and threat of armed intervention by the Little Entente.[1] Thus Count Bethlen, a very able Parliamentary

(1) In an article on "Big Estates in Hungary," published in the *Hungarian Quarterly* (Spring 1937), M. Kormendy-Ekes states that in 1934 there were 1,228 estates of over 1,000 yokes (1,422 acres), covering 20 5 per cent of the total area of Hungary, and estimates that: "Half the country *is* shared between about 840,000 smallholder*; one fifth between 10,000 middle-sixed estates; and the remaining three-tenths between 1,228 big estates."

(9) A law disinheriting the Habtburgs was passed, under pressure from the Supreme Allied Council, by the Hungarian Parliament in November 1921.

tactician, was able to unite almost the whole propertied class into a **single** *"Party of National Unity"* and in 1921 the *Smallholders' Party*, representing the peasants, joined this *bloc* in return for **the land reform mentioned** above.

A certain **amount** of extreme Legitimist opposition to the Government did exist, but it was expressed mainly in the activities of secret societies and of an extra-Parliamentary group led by Count Jozsef Karolyi, Counts Johann and Aladar Zichy, and the Markgrave Sigray; and the Legitimist issue was the more willingly left in abeyance in view of Charles's death in April 1922, and of the fact that his son, the Archduke Otto, did not attain his majority (18) until 1930. Left Wing opposition, on the other hand, was reduced to a minimum by Count Bethlen's conclusion of a pact with the Social Democrats in 1921,.whereby the latter apparently agreed to support a nationalist foreign policy, and to confine their activities at home within modest limits, in return for the enjoyment of a certain amount of latitude in respect of free speech and demonstration, and the continuance of such trade unions as had not already been dissolved.

In domestic affairs, Count Bcthlen was chiefly preoccupied to maintain the *status quo.* The supreme and ultimate aim of all foreign policy was, of course, revision of the Treaty of Trianon. In this it was to be expected that Germany might ultimately prove an ally, but for the time the German Republic was impotent or disinterested. The only open friend which Hungary acquired was Italy, with whom an understanding was reached in 1927. The help which Italy might afford Hungary was not, indeed, very effective, but it was something, and it presented the additional advantage that it might serve in the future as a defence, not only against the Little Entente, but against Germany also.

Decline of the Magnates,

In August 1931, Count Bcthlen, weary of office after ten years, resigned. Difficulties had accumulated for the Administration as a result of the disastrous repercussions on Hungary's agrarian economy of the world economic crisis and of the Austrian Credit-Anstalfs failure, of its administrative extravagance and mismanagement of State enterprise, and of a number of financial and political scandals -including the Forged Francs Affair of 1927.

From now on the Government *bloc* became increasingly disunited. Already **in** January 1931 anew party of *Independent Smallholders* **and agricultural labourers, formed under the** leadership of **M. Eckhardt (a dissident from the extreme Right) and M.** Gaal,

had begun to press for moderate agrarian and electoral reforms; in 1932 M. Mcsko and a number of other dissidents formed a *Hungarian Swastika Party;* while within the National Union Party itself the gentry and middle-class elements began to predominate—the magnates tending more and more to join the extreme right Clerical and Legitimist *Christian Social* wing, which finally seceded in 1933 and re-formed as an Opposition party.

General Government 1932- 6

With the resignation of Count Bethlen's supporter and successor, Count Gyula Karolyi, in September 1932, the rule of the magnates came virtually to an end; for the new Premier, General Combos, and his colleagues in the Cabinet were representatives of the gentry, and strong anti-Legitimists. As a keen revisionist, an anti-Habsburg, and a military man, Gombos showed marked sympathy with the rising power of Nazi Germany; and he entertained also vague but vigorous ideas of "Right Radical'' social reform similar to those current in certain Nazi circles in Germany. He did not, indeed, carry his plans for reform, either agrarian or constitutional, beyond the stage of promises; but the threat of them involved the intensification of party dissension, the beginning of a bitter quarrel between the Premier and Count Bethlen who, after relinquishing the leadership of the National Union Party to the former, finally left it altogether in 1935 -and the final alienation of the Legitimist element, which suspected General Gombos of aiming at the establishment of a semi-Fascist dictatorship.

M, Dardnyi's Government

General Combos died in October 1936, and was succeeded in office by his former colleague, M. Daranyi, who had been deputizing for him, during his illness, since the previous May. By this time the Hungarian Nationalist-Socialist movement or rather movements, for there were many of them had become the major political problem of the day. While this development was due to a great extent to the successes achieved in 1935 and 1936 by the Nazi regime in Germany, and to German propagandist activities among the Magyars as well as among the considerable German minority[1] in Hungary itself, it would be a mistake to underestimate the strong attraction which the revolutionary and social element in such a movement was bound to exercise in a country where all progressive movements had been repressed as "bolshevism," and where vir-

(1) In the census of 1931* 478,000 Germans were returned; according to German estimates they number nearly 600,000. Most of them are descended from the "Swabian" colonists who settled round Budapest and In south-western Hungary in the seventeenth and eighteenth centuries, and are by now very largely Magyarized. Formerly they played a predominant part in the commercial life of the country, but have more recently yielded place to the Jews.

tually no attempt had been made to alleviate the lot of the peasants.

Growth of National-Socialist Movement

Combos had to some extent united all the different National-Socialist currents in Hungary under his own leadership, and had kept them within the channel of the Party of Unity. On his death, however, and when the more conservative elements in the Party of Unity began again to raise their heads under M. Daranyi, a number of Nazi groups began to form outside the Party. These are distinguished by a great variety of leadership, if not of programme. At the time of writing, the most important groups arc: (i) the *United National Socialist Party* or "Hungarists," formed in August 1938 by the fusion of the National Will Party (led by Major Szaiasi, Count Szechcnyi, and M. Hubay) with the "Arrow-Cross^ or Hungarian Swastika Party of Count Alexander Fcstctics and M. Mcsko; (2) the *National Front* of M. Rainis; (3) M. Matolczy's Right extremist agrarian group, which recently seceded from M. Eckhardt's Independent Smallholders' Party; (4) M. Mecser's group of deputies within the National Union Party; (5) a group of members of the Christian Social Party, led by M. Csillery; and (6) the *Turul* Association of radical students and ex-students.

While the various groups differ to some extent in respect of their field of activity the Szalasists, for instance, are reputed to have made most headway in Army circles, the National Front in the Civil Service, and the "Arrow-Cross" amongst, the peasantry—their programmes are practically undistinguishable. Each alike appeals to the landless section of the population with promises of revolutionary agrarian and electoral reform, and offers to the official and professional classes (which are suffering not only from the budget economics necessitated by past ministerial extravagance and present economic difficulties, but also from a plethora of university-trained candidates for the very limited number of posts available) the panacea of anti-Semitic legislation. In foreign policy, these Nazi groups are all strongly nationalist and revisionist, while they usually repudiate the charge of financial dependence on Germany.

There seems little doubt that the National-Socialist movement has attracted considerable popularity among the poorest peasants and workers, the anti-Semitic middle classes, the unemployed intellectuals, and the Army. Against these arc ranged the big landowners, the churches, the constitutionalists, the orthodox Social-Democrats, and, of course, the Jews.

The spread of National-Socialist doctrines throughout the country placed the Government in an extremely difficult position. On **the** one hand **they were** reluctant to break with the tradition of

parliamentary feudalism, and, on the other, they were faced with the fact that police measures alone would not suffice to curb the movement; if the ground were to be cut from beneath it, some amelioration of the social conditions which it was exploiting was essential, besides being, in the eyes of Imredy at least, eminently desirable. Thus the policy of the Daranyi and Imredy Cabinets was something in the nature of a compromise between the magnates and the constitutional elements on the one side, and the Hungarian Nazis and German Reich on the other. While endeavouring to repress the more extreme propagandist activities of the various groups— Major Szalasi, for instance, was several times arrested during 1937-8, and is now serving a three-year term of imprisonment, while in November 1937 Dr BocszoermcnyPs "Scythe Gross" group was dissolved, and himself and some eighty peasant followers tried and imprisoned —both Governments introduced moderate agrarian and electoral reform legislation, and tried to "take the wind out of the sails" of the Nazi movement by passing laws restricting to some extent the part played by the Jews in economic and professional life.

Constitutional Changes

Care was first taken, however, to strengthen the existing constitutional safeguards against a possible preponderance of the radical elements in Parliament in the future. In July and December 1937, respectively, two laws were enacted increasing the powers of the Regent and of the Upper House. The former was granted the right to refer bills twice for reconsideration by Parliament; while he might also dissolve that body in the course of such reconsideration, he was, however, obliged to sanction an identical bill passed by its successor. More important were the provisions made for the nomination of his successor. The Regent himself might nominate three candidates, while Parliament might name another three, each of which must have received nominations (by secret ballot) from at least one quarter of the members of the Lower House; both Houses would then proceed to the final election by secret ballot. The second Law provided that, in the event of disagreement between the two Houses of Parliament, issues were in future to be settled not—as hitherto—by the bill going forward in the form passed by the Lower House, but by vote (without discussion) at a joint session of the two Houses.[1]

(1) It should be explained that the Upper House, as reorganized by an Act of 1996 under the Bethlen regime, consists of (a) all members of the House of Hahsburg-Lorraine established on Hungarian territory, aged at least twenty-four yean, and with the normal property Qualification for the franchise; (b) a number of lay and ecclesiastical ex *officio* members; (c) thirty-eight members of the high aristocracy

Anti-Semitic Measures

M. Daranyi then proceeded to table an electoral reform **bill** in December 1937, and an anti-Semitic "Bill for the Protection of Civil and Economic Equilibrium" in April 1938. The former abolished the open ballot in the country districts, while at the same time raising the educational qualification for the franchise from the fourth to the sixth class in elementary schools, and the age qualification for men from twenty-four to twenty-six years—thereby eliminating a number of the more youthful citizens from whom the Nazi movements are mainly recruited.[1] The anti-Semitic Bill fixed a *numerus clausus* of 20 per cent for Jewish employment in business and the professions, to be brought into effect within five years, and provided for the revision of citizenship acquired by alien Jews since 1914; Jews baptized before August 1919, however, as well as those who had fought in the War, were classed as true Hungarians. In estimating the effects of this, as of subsequent anti-Semitic legislation, it must be borne in mind that the confessional Jewish minority numbers some 500,000, i.e. about 5 per cent only of the total population, but that, owing to the Magyar's traditional distaste for finance and commerce, the middle and upper class Jews have acquired a virtual monopoly of the banking, commercial, and industrial interests throughout the country.[2] Moreover, they have become to a very great extent Magyarizcd, and in many cases are connected by marriage with Magyar families.

Dr Imsedy's Government

The incorporation of Austria in the Reich in March 1938 resulted in a further acceleration of the tempo of Hungarian Nazi propaganda, and in the awakening of serious alarm among the conservative elements in Parliament. M. Daranyi was suspected of weakness in his handling of the situation, and on representations being made to the Regent by a number of prominent leaders, including Count Bethlen and M. Eckhardt, he was superseded in May 1938 (shortly after the initiation of a grandiose five-year plan for ccon-

efected by their peers; (d) 112 members elected by the counties, municipal cities, Chambers of Agriculture, Commerce, and Industry, schools and universities, etc.; and (d) a maximum of forty life-members nominated by the Regent.

(i) Voters must also have possessed Hungarian nationality for more than ten years and have resided in one commune for six (formerly ten) years. Women over thirty yean are entitled to vote on the same conditions as men, provided that they arc either self-supporting or the wives or widows of qualified voters. The number of Deputies is to be raised from 245 to 260.

(2) The following figures have been given by L. Ottlik in an article on the "Hungarian Jewish Law" published in the *Hungarian Quarterly* (Autumn 1938): Jewish share of ownership of industrial undertakings, 46 per cent; membership of boards of business firms, 70 per cent; share of commerce, 45 per cent; representation on boards of leading banking houses, 74-60 per cent; membership of medical profession, 34*4 per cent; of legal profession, 49-2 per cent; of journalism, 3 1 7 per cent; share in national income, 28·86 per cent.

omic reconstruction and the passing of the anti-Semitic Law, but while the electoral bill was still under discussion) by Dr Imredy, president of the Hungarian National Bank and Minister without Portfolio in the Daranyi Government.

Dr Imredy carried on the policy of his predecessor, but with considerably greater firmness. His programme included the establishment of compulsory labour service, fiscal reform in the interests of the "small man," the acceleration of land reform, leisure organization for the worker, and increased armaments expenditure. It was immediately followed up by the introduction of two bills prohibiting membership of secret societies or political parties requiring vows of allegiance, and tightening up repressive measures against subversive activities.

Projected Legislation

At the end of December the full draft of the Government's electoral reform bill was published, and a new and more severe Jewish Restrictions Bill was introduced in the House of Deputies, reducing the *numtrus damns* of Jews in the liberal professions to 6 per cent, and in business (with certain exceptions) to 12 per cent; it provided, among other things, that Jews[1] should vote separately for lists of Jewish candidates at parliamentary and municipal elections, while the numbers of their elected representatives might in no case exceed 6 per cent of the total membership of any public body. Finally, in January 1939, in accordance with promises made in the previous September, Dr Imredy launched a moderate Land Reform Bill providing for the conversion, by gradual stages, of some 1½ million yokes from the big and middle-sized estates into small holdings.

It was not to be supposed that these measures could be carried through without considerable opposition from conservative as well as other quarters. Dr Imredy's first Cabinet had included several politicians known to have pro-Nazi sympathies -notably MM. Bornemisza and Sztranyavszky. When the Cabinet was reconstructed following the occupation of the regions transferred from Czecho-Slovakia to Hungary by the German-Italian Award of November 2, 1938, these Ministers were dropped—possibly as a concession to the growing suspicion of the conservative and landowning elements that Dr Imredy intended to set up a semi-military dictatorship.

Shortly afterwards a Cabinet crisis arose, ostensibly over the Premieres attempt to speed up parliamentary procedure by intro-

(1) The Bill described as Jews al) those with Jewish parents and grandparents, but not those with Christian parents but Jewish grandparents.

ducing amendments to the Standing Orders, but probably also as a result of the agrarian reform programme. On November 22, the Speaker, eight former Ministers, and fifty-six other Deputies withdrew from the Government Party of National Union on the ground that they could not support Dr Imredy's revolutionary measures, and formed a new "Nationalist Party of Unity" under the leadership of M. Sztranyavszky.[1] The following day the Government, thus left with a minority of 101 in a House of 245 deputies, was defeated on a minor issue by 115 to 93 votes—the hostile majority being composed not only of the dissident members, but also of Independent Smallholders, Christian Socialists, Liberals, and Social Democrats.

In spite of this defeat, the Regent refused, after some consideration, to accept Dr Imredy's resignation, and the hitter's third Cabinet took office unchanged on November 2. M. de Kanya resigned (nominally on grounds of age) on November 28 and Count Csaky succeeded him as Foreign Minister on December 10. Early in January 1939 Dr Imredy made a bid for a united political front of national Right Wing elements by the foundation of a "Hungarian Life Movement,'* whose activities have not yet been very clearly defined. But the Governmental majority in the Chamber of Deputies remained insecure, and the Premier's position was undermined, not only by the Conservative opposition to his land reform policy, but also by personal attacks regarding his Semitic ancestry. Finally, on February 14, Dr Imredy resigned, ostensibly as a result of his recent discovery that one of his great-grandfathers was a Jew who had been baptized before the age of seven.

Count Teleki's Government 1939

His Minister of Education, Count Teleki, who succeeded him as Premier with a practically unchanged Cabinet, is an aristocrat, a strong Constitutionalist, and a friend of Count Bcthlen; and although he declared his intention of carrying on Dr Imreely's policy, including the anti-Semitic and agrarian measures, it was generally believed that he would proceed at a slower pace than his predecessor. On February 24 the National-Socialist "Hungarist" Party was dissolved by decree on the grounds of terrorist activities and of an alleged plot to establish a dictatorship by violent methods,* while in March, apparently with a view to modifying the semi-Fascist

(1) M. Sztranyavszky's group later adopted the title of *the* "Christian-National Independence Party."

(a) On March 12, however, M. Hubay announced in Parliament that, in anticipation of the elections which were due to take place within the next twelve months, he had founded a new "Iron Crow" Party, which would be represented by three members in Parliament, in place of the dissolved "Hungarist" Party.

character of Dr Imredy's "Hungarian Life Movement," the Premier announced that the latter would be incorporated in the Government Party, which would be re-christened the "Hungarian Life Party."

In many quarters Count Tcleki's appointment tended to be regarded as a reverse, not only for extremist elements at home, but also for Germany. While the Hungarian Government's relations with the latter Power since the Munich Agreement had been somewhat obscure, there was clearly considerable and widespread distrust and alarm—particularly, of course, among the Conservatives, the Churches, and the Jews—at the prospect of increasing German influence in Hungary's domestic affairs. Already the Government had been obliged to make concessions to the German minority, which was now permitted to organize itself in a *Volksbund* on Nazi lines; while the second anti-Semitic Bill was widely believed to be the direct result of German pressure.[1]

The break-up of the Czecho-Slovak State in March 1939, however, created a new situation, in which—notwithstanding Hungary's annexation of Ruthenia and'her establishment of a common frontier with Poland—it became increasingly doubtful whether Count Tcleki's Government had the power to withstand pressure from Berlin.[2] Nevertheless, it should be noted that in statements made immediately after the elections of May 30 both Count Teleki and Count Csaky pressed their determination to brook no outside interference in Hungary's internal affairs and to pursue a policy dictated solely by Hungary's interest.

(i) According to the latest reports, however, modifications in the Jewish laws wane introduced in Parliament on February 4, 1939, giving full political rights to Jews who had lived in Hungary since 1867, and full civic rights to half-Jews who had been baptised before their seventh year. Moreover, following a bomb outrage on Jews leaving a Budapest synagogue on February 3, the Government provided for the trial of terrorists under Martial Law.

(a) Some clarification of the rather obscure political situation may result from the general election held on May 28- 9. At the time of writing the results in all but ten out of the 1260 constituencies had shown that the Government's "Hungarian Life Party** had gained a large majority, with 180 seats (as against 171 in 1935); that M. Hu bay's "Iron Cross" Naai Party had increased its seats from 3 to 28; and that the Left and moderate elements had been severely defeated, M. Eckhardt's Independent Smallholders bring reduced from 23 to 14, and the Social Democrats from 11 to 5. In assessing the strength of the co-called "right radical" (i.e. Nasi) elements account must also be taken of a large group led by Dr Imredy within the Hungarian Life Party itself, which is apparently sympathetic to the National-Socialists and which might conceivably combine with the latter to force the pace of Count Teleki's more conservative faction.

2. RUMANIA

SINCE February i o, 1938, Rumania has nominally been governed by a "Cabinet of National Union," under the leadership first of Dr Cristea (Orthodox Patriarch of Rumania), and later—since the latter's death on March 6, 1939—of M. Calincscu, aided by a Crown Council consisting almost entirely of former Prime Ministers drawn from various parties. Actually, the new regime is a form of royal dictatorship. Martial law and a press censorship arc in force. The democratic Constitution of 1923 has been abolished, and was replaced (on February 27, 1938) by one which, while it provides for a greatly reduced bi-cameral legislature elected on a semi-corporative basis,[1] confers on the King such wide powers as the right to declare war and make peace, to conclude treaties with foreign Powers, to issue decree laws valid while Parliament is dissolved or in recess, to veto parliamentary legislation, and to appoint and dismiss Ministers, who are responsible solely to him. Moreover, by a decree law of April 14, 1938, all the existing political parties and associations were dissolved, to be replaced in the following December by a single party—the "Front of National Rebirth*'—which was entrusted with the task of preparing a programme of "national regeneration," and equipped with a para-military organization known as the "National Guard."

To understand the significance of these measures it is necessary to examine briefly the chief forces which have hitherto influenced the course of domestic affairs in Rumania.

Effects of the World War

The pre-War political system in Rumania was modelled on that of Great Britain and provided for parliamentary government through the alternation in office of two parties: the *Conservative,* which represented the landowning class, and whose leaders were pro-German; and the *Liberal,* representing the business and banking interests and the intellectuals, which was pro-French.

At the end of the War the Conservatives, already discredited by Germany's defeat, were still further disintegrated by the execution of the land reforms; and the Liberals now became by far the strongest force in the country. The orientation towards France involved by this internal shift of power was all the more natural and

(i) Members of the Chamber of Deputies, at well as their electors, mint be at least thirty years of age, and must be actively employed in agriculture or manual labour, commerce or industry, or an intellectual profession. Voting, which is secret and compulsory, must be cast within one or other of these three categories, to each of which eighty-six seats are allotted. The Senate is to consist—apart from hereditary and *ex officio* member*—of nominces of the King, and of members elected by the "constituted bodies of the Senate," *in* equal proportion*.

pronounced in that the latter Power had become the chief guardian of the post-War territorial settlement from which Rumania had benefited so largely. The chief rival of the Liberal Party was now M. Maniu's pre-War Rumanian National Party of Transylvania, which in 1926 was fused with M. Mihalache's pre-War Peasant Party (of old Rumania) under the name of the *National Peasant Party*[r], and which shared the Francophil sympathies of the Liberals while differing from them in domestic issues.

This unanimity of opinion in the sphere of foreign policy accounts in part for the fact that, for many years after the War, Rumanian internal politics were dominated almost entirely by economic and financial problems. Up till the end of 1937 these were handled—except for two brief interruptions in 1926 and 1931-2—by the two leading parties, the Liberals and the National Peasant Party, in turn.

Conservative Elements

The *Liberals* governed almost continuously from 1922-8, and without a break from December 1933 to November 1937. Representing the commercial and financial oligarchy, they favoured a policy of centralization and self-sufficiency, the nationalization of the subsoil, forests, and mines, and the commercialization of State-owned enterprises, and vigorously opposed the introduction of foreign capital (admitting it in the case of the oilfields only, and even then under the most exacting conditions). The party was led, successively, by the three Bratianu brothers, of whom M. Gonstantine Bratianu....now titular President—is the sole survivor; by M. Duca (until his assassination in 1933); and by M. Tatarcscu, who was Prime Minister from 1934-7- Although the Liberals were partly responsible, in 1926, for the decision of Carol (then Crown Prince) to renounce his right to the Throne, and were unwilling at first to accept his restoration in 1930,[1] a *modus vivendi* was later effected by one of their leaders, M. Titulcscu, who, as the price of his acceptance of the Portfolio of Foreign Affairs in January 1934, secured from the King certain concessions which it was hoped would moderate the undue influence of court circles—and especially of the King's friend, Madame Lupescu—over State affairs. This intervention was much resented by King Carol; and when, under the subsequent Premiership of M. Tatarescu, the Liberal Government became to an increasing extent the mouthpiece of the

(1) King Ferdinand died in July 1937; a Regency was then formed to govern for the young King Michael (Carol's son), composed of his uncle, Prince Nicholas, the Orthodox Patriarch, Dr Miron Griatea, and M. Buzdugan, President of the Court of Appeal. After the latter', death in 1929, M. Saratxeanu was appointed in his place.

King, relations between the Premier and his Foreign Minister became more **and** more strained, until, in August 1936, the King finally dismissed M. Titulescu.

Three less important groups, differing little in principle from the Liberals, were: (1) the *People's Party*—the descendant of the pre-War Conservative Party—led by General Averescu, who held office for a year after the Liberal Party's unfortunate economic policy had resulted in its defeat at the poll in 1926; (2) the *National Democratic Party* of the King's former tutor, Professor Jorga, who headed the coalition Cabinet of "King's Friends" in 1931-2; and (3) the *Dissident*, or *Young Liberals*-, led by M. Gcoi^e^Bratiajuj^who seceded from the Liberal Party in 1930 in protest against the hitter's opposition to King Carol's return.

Elements

Largely as a result of the post-War agrarian reforms, which had created a large class of peasant smallholders, Communism was at no time a vital force in the country. By 1937 the *Tsaranist,* or *National Peasant Party,* which had been enlarged by the addition of Dr Lupu's dissident Peasant Party in 1934, was the only important Left Wing group. Its economic and financial principles were diametrically opposed to those of the Liberals, involving as they did the admission of foreign capital, the lowering of tariffs, and the encouragement of agricultural interests (as opposed to the Liberal attempts at "forced industrialization") embodied in the notion of a "Peasant State." In the political sphere the Party stood for a strictly constitutional monarchy, reform of the franchise, free elections, and the elimination of political corruption and graft.

The National Peasant Party held office for two periods only: i.e. from 1929 until the spring of 1931, and from June 1932 to November 1933. That its influence was not in any way commensurate with its real strength in the country—the peasants constitute about 80 per cent of Rumania's total population—or with the high reputation of M. Maniu (who has been described as Rumania's only disinterested statesman) was due to a variety of circumstances. In the first place, although it was M. Maniu who, in the hope of clipping the wings of the Liberal oligarchy, secured Carol's return from exile in June 1930, the new King's conception of the royal prerogative (as well as the political influence exercised by Madame Lupcscu and the court *camarilla)* soon proved incompatible with the Peasant leader's constitutional ideas; and the latter's resignation of the Premiership on October 6, 1930, was the beginning of his permanent **estrangement** from the King. Henceforth the Premiership **in the National Peasant Party Government** was **taken** over either

by Dr Vaida-Vocvod (who later seceded from the Party altogether) or by M. Mironescu. In the second place, the Liberals had introduced an electoral law in 1926, whereby the Party heading the poll was bound—provided that it had received at least 40 per cent of the total number of votes—to secure half the scats plus a share in the remainder in proportion to the votes obtained; while elections were almost invariably conducted in such a way that the Government presiding over them was certain of securing the majority. Finally, the National Peasant Party's attempts at economic and financial reconstruction were discredited and deprived of any chance of success owing to the fact that they coincided roughly with the worst years of the world economic crisis.

Fascist and Anti-SSemitic Elements

From 1933 onwards economic questions yielded in prominence to the problems arising out of the rapid growth of anti-Semitic and Fascist groups, which received encouragement from the success of the Nazi movement in Germany. Not that anti-Semitism was a novel phenomenon in Rumania. On the contrary, Professor Cuza's Christian Defence League dated from pre-War days, while its more extreme off-shoot, M. Codreanu's "Iron Guard," had first come into prominence following the attempted murder of M. Angelescu in 1927, and later—in retaliation for its dissolution on the eve of the election in December 1933—with the assassination of the Liberal Premier, M. Duca. Indeed, the defeat of the National Peasant Party at the poll in that year was due in part to the failure of Dr Vaida-Vocvod's Government to cope adequately with this movement. After its nominal dissolution the Iron Guard appeared in a new form under the name of the *AU for the Fatherland Party,* and its vigorous but not entirely successful repression was one of the chief features of the new Liberal regime. The Iron Guard recruited its members largely from among the dispossessed *bqyars,* from the "high society" of Bucharest, and from the young people—particularly those of the professional classes, who found it increasingly difficult to obtain employment. Besides anti-Semitism, its programme included further land reforms and a campaign against administrative corruption.

In 1935 the anti-Semitic element was strengthened by two fresh developments. On the one hand the hitherto insignificant National Agrarian group led by M. Goga united with the Christian Defence League to form a new *National Christian Party,* with an anti-Semitic and authoritarian programme which, though less extreme than that of M. Codrcanu, was none the less modelled on German Nazi lines. On the other hand Dr Vaida-Voevod seceded with a number of

followers from the National Peasant Party to form the new "Rumanian Front" with the anti-Semitic and anti-minorities slogan of "Rumania for the Rumanians." Both these groups were to some extent encouraged by King Carol and by the Liberals, as a counterpoise to the National Peasant Party. While each of them showed signs of developing pro-German sympathies, M. Codrcanu's All for the Fatherland Party was the only group which openly avowed its desire for the replacement of Rumania's connection with France by an alliance with the Reich.

Finally, anti-Semitic and Fascist sentiment found a favourable ground among the Germans, Saxons, and Swabians (forming a minority of some 740,000) who have for generations inhabited Transylvania and theBanat. Two German groups existed, the older and the more conservative of which co-operated in electoral pacts, first with the National Peasant Party (which was returned to power by the elections of 1932) and later with the Liberals, who took office after the elections of 1933. The younger group, led by MM. Fabritius and Wolff, was strongly National-Socialist and pro-German.

"Splint" Partus and Minorities*

In addition to the political groups described above, there were several smaller "splinter" parties which carried no weight except in so far as they supported or seceded from the Government or Opposition. These included M. Argentoianu's Agrarian Union, M. Filipescu's Conservative Party, M. Junian's dissident Radical Peasant Party, M. Florescu's dissident Liberal Democrats, and several others. To these must be added the groups representing the more important national minorities, i.e. the Hungarian, Jewish, Ukrainian and Bulgarian parties.[1]

Before turning to the events immediately leading up to the establishment of the present dictatorship it will perhaps be appropriate to conclude this brief inventory of the main forces influencing normal political life in Rumania with a few words on the part played by King Carol. It is hardly too much to say that, from within a year or two of his return in 1930, the King was the most powerful force to be reckoned with in his country. His chief assets have been

(1) The population of Rumania according to the census of 1930 was:—

	Total	*Reman ten*	*- tan*	*German*	*Hunger Jewish*	*Ukrain- ian*	*Russian*	*Bulgars*	*Gypsies*	*Others*
Peroentage..	—	71·9	7·9	4	1	40	3·2	2·3	2·0	1·6	3·1
Approximate abaolute 0OO')	..18,053	12,960	1,426	740		722	$78	415	361	271	600

lactading Crachs and Slovaks,, Serts sad Croats, Turks, Tartan sod Gaugaz, Poles, Grecks, Albaniaus, and Arminias.

The King

the loyalty of the Army, the support of the Orthodox Church, and, above all, his own political astuteness in playing off one group against another, in encouraging the secession of dissident parties, and in weakening the allegiance of the two major groups towards their real leaders by persuading lesser personalities to accept office in their stead. Thus Dr Vaida-Voevod was persuaded to fill M. Maniu's place in 1930, while M. Tatarescu—and not his titular chief, M. Bratianu—was chosen to be Liberal Prime Minister from 1934-7 .

While it has always been clear that King Carol wishes to be, and is, the real ruler of his Kingdom—whether behind the facade of a constitutional monarchy, or as an undisguised dictator—it is only recently that he has become identified with a positive and constructive policy, as distinct from the more general objective of the preservation of a balance between the various political forces in the country. The circumstances which led him to give a more definite "lead" than he had hitherto done arose in the following way.

In November 1937, the four-year term of the Parliament elected in 1933 expired. On the eve of the new elections the King invited the National Peasant Party's leader, M. Mihalache, to form a coalition government, but on the unacceptable condition that he secured the co-operation of Dr Vaida-Voevod's anti-Semitic *Rumanian Front.* On M. Mihalache's inevitable refusal, the Liberal Cabinet continued in office (with certain slight changes) over the election period. In spite, however, of an electoral pact with Dr Vaida-Voevod, with M. Jorga's National Democrats, and with the German Minority group, the Liberals unexpectedly failed to secure the 40 per cent of votes which was necessary to give them a clear majority. This failure was clue partly to their unpopularity after four years of uninterrupted power, partly to the increased strength of M. Codrcanu's All for the Fatherland Party, and partly to the "pact of non-aggression" concluded between the latter, the National Peasant Party, and M. George Bratianu's Dissident Liberals, with a view to ensuring free elections. As a result, the Government cartel obtained a total of only 152 seats (38 per cent); the National Peasants 86 (22 per cent;) the All for the Fatherland Party 66 (17 • 2 per cent); M. Goga's National Christians 39 (8-7 per cent); and the Dissident Liberals 16 (3 -9 per cent).

With the Liberals thus defeated, and the National Peasant Party and All for the Fatherland Party both hostile to the King and to the court *camarilla.* King Carol resorted to the appointment (on December 28,1937) of the anti-Semite M. Goga as Prime Minister,

The Goga Government

although the National Christians had polled less than 10 per cent of the votes cast at the election. His object in taking this step appears to have been to weaken both the Right-extremist groups by the device of allowing the more moderate and weaker of them to discredit its principles in the eyes of the nation, while at the same time keeping the stronger and more dangerous organization out of office. Indeed, the ease and rapidity with which the dictatorship was installed and the new Constitution produced, under M. Goga's successor, in February 1939 seem to indicate that the King had anticipated, and was prepared for, the early demise of the Christian National Government.

M. Goga's administration, which lasted only forty-five days, resulted in general confusion at home and considerable apprehension abroad. The uncertainty caused by its anti-Semitic programme-which included the suppression of certain important Jewish-owned newspapers, the withdrawal of Jewish licences for the sale of alcohol, the re-examination of post-War citizenship granted to Jews, and the "protection of Rumanian labour" in commercial undertakings (whether financed by Rumanian or foreign capital) — virtually reduced economic and financial activity to a standstill. The imposition of martial law and a strict press censorship, the replacement of all prefects and municipal officials by nominees of the National Christian Party, and, finally, the dissolution of Parliament before it had even met, coupled with the announcement of fresh elections, provoked the hostility of practically every other political party. Leaders of the Liberal and National Peasant Parties alike attacked the regime, while the four members of the latter who had accepted seats in the Cabinet were expelled from its ranks; the Liberals and Dissident Liberals settled their differences; while the Iron Guard, which had already quarrelled with the National Christians during the electoral campaign in the previous November, now refused to take part in the new one.

Outside the country, the Government's anti-Semitic measures drew forth reminders of Rumania's obligations under the Minorities Treaty of 1919 from both Great Britain and France; while Soviet Russia[1] and Rumania's allies were disturbed by the announcement that M. Goga hoped to conclude treaties of friendship with Germany and Italy. On February 10, 1938, M. Goga was compelled to resign; and on the King's invitation Dr Cristca formed a

(1) Early in January 1938 the Soviet Minister in Bucharest was recalled to Moscow on the ground that his presence was no longer considered useful, in view of the political developments in Rumania.

Cabinet from which members of the National Peasant and National Christian Parties, as well as of the Iron Guard, were excluded.[1] The elections were suspended; all party political activity was forbidden; and the regime described at the beginning of this section was inaugurated.

Dissolution of hen Omni

The chief features of the new regime have already been described. It remains to note briefly the subsequent history of the Opposition. On February 21, the day after the proclamation of the new Constitution, M. Codreanu dissolved the All for the Fatherland Party and disbanded its legions, on the ground that it had been made impossible for him to continue his activities. Both the Iron Guard and the National Peasant Party abstained from voting in the plebiscite held on the Constitution on February 25.[2] This was hardly surprising, in the former's case, since some of its provisions were specially directed against the Iron Guard: for instance, the raising of the age qualification of voters from twenty-one to thirty years involved the disfranchisement of most of M. Codreanu's following, which consisted largely of young men; while the restriction of the right to sit in the Cabinet to persons who could prove their Rumanian nationality for at least three generations affected M. Codreanu himself, since he was of mixed Ukranian and Hungarian descent.

While any organized expression of opposition was made impossible by the decrees prohibiting normal party activity, criticism continued until the crisis of March 1939 among the former Liberal and National Peasant followings. On the other hand, the National Christians were weakened by the death of their leader, M. Goga,on May 7, while a vigorous and apparently successful campaign has been prosecuted against the Iron Guard. Following the alleged discovery of a Fascist plot in April 1938, M. Codreanu and many more of its members were arrested, tried, and imprisoned. Finally, a recrudescence of terrorism in the following autumn, culminating in the attempted murder of the Rector of Cluj University, was followed, on November 30, by an incident in which M. Codreanu and fourteen other leaders were shot dead by their guards while

11) Two members of the National Peasant Party were included, however, in the Cabinet as reconstituted on March 30, 1938. At the same time most of the former Prime Ministers who had been given seats without portfolios in the former Cabinet were now transferred to the new Crown Council. The latter included Marshals Averescu and Prezan, Dr Vaida-Voevod, M. Tatarescu, Professor Jorga, Dr Angelcscu, and M. Mironescu.

fa) 4,283,395 votes were cast in favour of the Constitution, and 5,413 against, (Most of the peasants were reported never to have seen its text, while abstention was punishable by fine.)

attempting (according to the official report) to effect an escape during their transfer from one prison to another.

Even the death of its leader did not suffice, however, to put an end to the activities of the movement; and in January and February 1939 terrorist plots to overthrow the regime and to assassinate its strongest bulwark, M. Caiinescu, then Minister of the Interior, were discovered. Twelve of the ringleaders, including Lt Dumitrescu and Professor Cristescu, were reported as having committed suicide, either in their cells or in the course of clashes with die police.

The Present Regime

Under the existing royal dictatorship a number of reforms have been planned, and many already set in motion.[1] These include a vigorous campaign against corruption and political careerism in the administrative, judicial, provincial, and municipal services; educational reorganization, and the promotion of public health and of a scheme for the social regeneration of the villages; the achievement of budgetary equilibrium and the lowering of interest rates; and the strengthening of the armed forces. The Front of National Rebirth has been created to unite all elements in the nation, and the German, Hungarian, and Bulgarian minorities have joined it under conditions which are claimed to allow them to carry on their own social and cultural activities.

With regard to the Jews, the Government's policy is as yet somewhat obscure, but there is evidence that it is becoming milder. Anti-Semitic propaganda in the press and elsewhere appears to have been discouraged, while some of the more extreme anti-Jewish measures taken under the Goga regime are reported to have been annulled. On the other hand, the right of Rumanian Jews to citizenship is still in process of revision, and some 30,000 are reported to have been deprived of their passports and of the right to own a business or practise a profession, on the ground of fraudulent naturalization.

The cornerstone of the regime is, of course, the King. In his Prime Minister, M. Caiinescu[2] —a man noted for his vigour and courage, who was responsible, as Minister of the Interior in Dr Cristca's Cabinets, for the suppression of the Iron Guard—he has an able co-adjutor in the execution of his policy.

(1) In the first election* held under the new Consitution on June 1, 1939, all candidates were nominated from the list of the Front of National Rebirth. Voting was compulsory, and some 80 per cent of the electorate went to the poll.

(a) ML Calinescu became Prime Minister at the death of Dr Cruteaon March 6, 1939.

3. YUGOSLAVIA

Centralism persus Federalism

The struggle of nationalities[1] within the State has influenced the political **situation in the Kingdom** of **the Serbs, Croats, and Slovenes perhaps more than** in any **other** composite post-**War** State. **The** chief issue **has been whether the Yugoslav nation should enjoy a** centralized or a federalized regime.[2] Since 1931 there has been **a** demand for the revision of the existing Constitution on more democratic lines, including a measure of devolution, but as **a** result of **recent** developments **the** issue appears to have been reduced to that of decentralization *versus* centralization. The fundamental problem which thus expresses itself is that of the relations between the Croats and the Serbs. From the foundation of the Kingdom of the Serbs, Croats, and Slovenes, the Croats have formed an Opposition pledged to secure a more democratic regime, based on Croat autonomy. Croat peasant radicalism has, moreover, been a greater danger in that Croatia lay on the periphery of the new State and was therefore exposed to centrifugal forces such, for example, as that exercised by the possibility of a Habsburg restoration. The situation has in addition been complicated by religious and cultural differences between the two peoples. Orthodox Serbs have always been antipathetic to the Roman Catholic Croats and Slovenes; moreover, the two latter peoples regard themselves culturally as part of the Central European tradition by reason of their membership of the former Austro-Hungarian Empire, and thus in some way superior to the Serbs, who, as part of the Turkish Empire, had an entirely different Balkan tradition. A third factor tending to

(1) *Population of Yugoslavia on a Basis of Nationality (/#?/ Census)*

Serbs and Croats .. .. .. (of whom 3,500,000 [approx.) Croats and 600,000 Macedonians)	10,839,424
Slovenes	1,135,410
Orrnans.	.472,358*
Magyars	442,069*
Albanians.	.448,332*
Total (1931 Census)	13,934,038
Total (1938 estimate)	15,630,129

* Not including Jews and foreigners of German or Hungarian speech.

Chief Religion of Yugoslavia (1031 Census)*		*Percentage of Population*
Serb Orthodox ..	(6785,501	48·70
Roman Catholic ..	5,217,847	37·45
Moslems.	.1,561,106	11·20
Jews.	.-68,405	0 4 9

(si) On this point the Pact of Corfu signed on June 20, 1917, by representatives of Serbia and Montenegro, on the one hand, and of the South Slav Provinces of Austria-Hungary, on the other, was silent. It provided merely for "a constitutional, democratic-, parliamentary monarchy," under the Serbian (Karageorvevic) dynasty, with a constituent assembly elected by universal, secret, and direct suffrage.

antagonize the two races has been the trend of commerce and banking, which, since the foundation of the Serb-Croat-Slovene Kingdom, has been away from the Croat capital of Zagreb towards Serbian Belgrade.

Finally, difficulties have arisen out of the tendency of the Serb imperialists (especially during the lifetime of Nicola PaSic) to regard the new State as a greater Serbia, and the new territories as the fruits of victory, rather than as a triune South Slav kingdom.

Political Background

As a result the Croat Peasant Party, under the leadership of Stefan Radic, having failed to secure by the Constitution of 1921 the autonomy which Croatia had enjoyed under Habsburg (Hungarian) rule, refused until 1924 to take any part in the political life of the State. While this Party boycotted Parliament, its leader Radic spent almost as much time in prison, on various political charges, as out of it. In 1925 he changed his tactics for a policy of co-operation, becoming Minister of Education for a short time in 1925. This interlude, however, was short-lived, and even the death of PaSic in 1926 did not solve the problem.

Following the democratic fashion of the post-War period, the Kingdom of the Serbs, Croats, and Slovenes duly became, under a Constitution enacted in June 1921, a unitary State with a constitutional monarchy and a single-chamber Parliament based on manhood suffrage. But such a Constitution was inappropriate to a country in which 51 • 5 per cent (in 1921) of the population were illiterate; and in which, in spite of the creation of new departments for local government and administration, local sentiment remained strong. Such circumstances made corruption and "pressure'* in elections only too easy, and prevented any real correspondence between party government and national interests.[1]

By 1928 political confusion both in the SkupStina and in the country threatened to produce chaos. The climax came on June 20, 1928, when, during a debate in the Skupstina, Radic, who bitterly attacked the Government for its proposal to ratify the Ncttuno Convention with Italy (on the ground that it favoured the Serbs at the expense of the Croats), was shot, with two colleagues, by a Government supporter, who drew a revolver and fired at the Croat deputies. As a result they withdrew as a body, Radic became a martyr, and parliamentary government broke down. Led by M.

(1) Between 1921 and 1929 there were twenty-five Ministries, and frequently at many as twenty-one different parties.

Pribicevic and Dr Matck the Croats threatened to carry on their own administration independently of Belgrade. On January 6, 1929, therefore, King Alexander considered that he had no choice but to assume absolute power, establishing and maintaining a dictatorship until 1931.

Constitution

The existing Constitution of Yugoslavia was proclaimed by King Alexander on September 3, 1931. Under it the legislative power is exercised by the King and a National Assembly of two Houses, a Senate and a Chamber of Deputies. Senators are elected by members of the Chamber, Provincial Chambers, and Mayors.[1]

The Chamber (SkupStina) is elected by direct manhood suffrage, but by open ballot. To obtain election, a party must put up a list of candidates in every constituency and obtain the signatures of a sufficient number of electors in each. All societies or parties based on regional, religious, or class foundation are forbidden. The executive power is exercised by the King through his Ministers, who are nominated by him and are independent of a parliamentary majority in the SkupStina. Yugoslavia is divided into nine districts or Banovinas, each theoretically possessing administrative autonomy under a "Ban" nominated by the King, assisted by an executive committee, chosen in its turn by an elected council.

The Constitution, which may be suspended "whenever the public interest is generally menaced," was clearly intended to concentrate power in the hands of the King and his Ministers until such time as they judged that "ordered Government, a sense of unity in the State, and a return to prosperity" had been achieved. It was, moreover, accompanied by a new Electoral Law[8] so rigid as to preclude any revival of the old parties and to impose a single party*—the Government party—upon the country. The new Constitution and this law involved the exclusion of whole sections of the community from any effective influence on the Government, let alone from the prospect of actually attaining power. Real power continued to lie in the hands of the King, but by means of the new Constitution his control could be relaxed or tightened at will.

(1) For six years, one Senator for every 300,000 inhabitants. Candidates must be over forty years of age.

(3) By this law, votes recorded openly and verbally must be given for party lists; each list must be endorsed by twenty electors in each of the 305 constituencies, and the party leader's name endorsed by sixty signatures. The leading list obtains two-thirds of the seats in the Skupatina and a proportionate number of the remaining one-third. None of the old parties could hope to secure a sufficient number of signatures in every part of the country.

(3) From 1931 to 1935 Governments and Prime Ministers (General Zivkovic, Dr Martnkovic, Dr Srikic, M.Uzunovic, and M. Jevtic) were drawn from a newly formed Yugoslav National Party, a coalition of the principal former political parties.

Events in Yugoslavia and in the rest of Europe since the assassination of King Alexander at Marseilles in October 1934 have significantly modified this situation in certain respects without as yet bringing about any definite change.

Th Regency*

As the young King Peter, who succeeded to the throne, was only eleven years old, three Regents were appointed (in his father's testament) to rule the country in his name until he attained his majority in 1941. They are Prince Paul (senior Regent), Dr Stankovic, a Serb from the Banat, and Dr Perovic, a Dalmatian Croat. The assassination of King Alexander had temporarily a unifying effect on the rival political factions of the country. An attempt was made to capitalize this by granting an amnesty to all political prisoners and by announcing a programme of decentralization and reorganization of the Administration on more liberal lines, designed to conciliate Croat opposition to the Serb hegemony brought about by the concentration of power in the hands of the King and his Government at Belgrade. Elections were held in May 1935, with the inevitable result that the same party was returned to power and continued to form the Government until August 1935.[1]

Political Partus

(i) Government

From August 1935 until February 1939, the Government was composed of members of the *Yugoslav Radical Union,* with the chairman of the party, Dr Stoyadinovic, as Prime Minister. The Radical Union came into being in August 1935. It included most of the members of the Serb Radical Party, the Catholic Slovenes, under Father KoroSec, and the Bosnian Moslems, led by M. Spaho.

This Party has consistently aimed at the maintenance of the unity and integrity of the State under the kingship of the Karageorgevid dynasty, and believed that this could best be achieved by upholding the Constitution of 1931, while meeting the political, social, and administrative needs of the various sections of the population by a policy of decentralization on a regional basis. The Party looked for its support mainly to official and conservative interests and, in particular, to the Serb portion of the nation. It must, however, be remembered that, in view of the terms of the Constitution, its tenure of power in actual fact bore little relation to any popular support.

In the autumn of 1938 the *Yugoslav People's Parly,* a small Right Wing group which had previously attacked the Government, particularly on the subject of the Concordat, also joined the Government *bloc,* and its leader, M. Hodjera, was given a portfolio. A

(1) The Croat Deputies refused to take their seats in the new Skupatina and the resignation of Dr Jevtic in August was due to difficulties over the Croat question.

Croat group opposed to Dr Madek's United Opposition, the *Croat Nationalists* of Dr Buc and General Sarkotic,, who had hoped for a Habsburg restoration which would reunite Austria, Hungary, and Croatia, lost their "programme" as a result of the *Anschluss.* Another dissident Croat group (M. Mastrovid) supported Dr Stoyadinovic at the election, on a basis of autonomy for Croatia and Dalmatia, but within the limits of the existing Constitution.

(it) ***Opposition*** The Opposition consists of the *Croat Peasant Party* (Dr Mafcek), the *Independent Democrats* (Serbs in Croatia)—forming together the Peasant-Democratic Coalition—the *Yugoslav Democrats* (M. Davidovid), and the *Agrarian Party* (M. Yovan Yovanovic, with M. Dragolyub Yovanovic' as leader of a Left Wing). These formed themselves into a "United Opposition" under the chairmanship of the Croat leader,[1] Dr Macek, in October 1937.[2] Their policy was formally stated in a manifesto issued the following month, demanding unrestricted freedom of speech and of the press (involving, of course, amendment of the 1931 Constitution) and autonomy for Croatia. Social reform, with the primary object of improving the lot of the peasants,[3] both in Croatia and in the rest of the country, is another important plank in their programme.

Two other Opposition parties are worthy of mention: the semi-Nazi *Zbor*[4] *and* the *Yugoslav Nationalists.* The former, under the leadership of M. Lyotirf, succeeded in securing sufficient support to enable them to run candidates, although in the December 1938 list they obtained only 0 8 9 per cent of votes, as against the Government's 58 • 9 per cent and the Opposition's 40 • 9 per cent. The *Yugoslav Nationalists* arc composed of the Right Wing of the old Radical Party which split off when the Yugoslav Radical Union was created in 1935. The policy of the Party is rigidly centralist and was opposed to the allegedly liberal tendencies of the Stoyadinovid Government. **Its** present leaders—following a period of permutation and combination due to factions within it—are General Zivkovic and M. Jcvtic\ After opposing Dr Stoyadinovid's theoretical policy of con-

(1) The Croat deputies elected in May 1935 and December 1938 consistently refused to tit in the Situ pi ti na, as a protest against pressure and corruption in elections.

(a) The formation of this front had been in progress since the elections of 1935 and WM assisted by the political upheaval caused by the Government's attempt to enact a Concordat in the summer of 1937. See below, p. 83.

(3) About 80 per cent of the population of Yugoslavia is agricultural; the density of population is, approximately, 126 persons to 100 hectares (247 acres).

(4) The Germans in Yugoslavia are, like other Germans in foreign countries, formed into a *Kulturbund,* directed from Germany. According to the Census of 1931, Germans in Yugoslavia number 409,326, or 3*30 per cent of the population; about 350,000 in Vojvodina, 135,000 in Croatia-Slavorua, and 40,000 in Slovenia, See also, C. A. Macartney, *National States and National Minorities,* Appendix I.

cessions to **the** Groats, as well as what they believed to be his pro-Axis foreign policy, they threw in their lot with Dr Macek for the purpose of the elections in December 1938.

Elections of 1938

These elections revealed quite clearly the extent to which Yugoslav party groupings should be regarded as *manages de convenance,* in which the leaders are concerned more with power than with principles. The adherence of the Yugoslav Nationalists to the United Opposition meant that the Opposition simultaneously included rigid centralist Conservatives, whose primary aim is the maintenance of a strong Government based on Belgrade and the Serbs, as well as Croat Radical Federalists. It is worth recalling in this connection that in 1932 the present leader of the Yugoslav Nationalists, General Zivkovic, the strong man who served King Alexander as Prime Minister—during the period of absolutism and after—sentenced the Croat leader, Dr Macck, to a term of three years' imprisonment on a charge of planning to disrupt the State.

But if the party groupings seemed to indicate that difficulties might ensue should the Opposition be returned to power, the election results showed that the Government had made no headway in the country (in spite of the advantage of being in possession of power and therefore able to influence the votes of sections of the electorate—those of officials, for example) while the United Opposition had made substantial gains. The Government list obtained 1,643,783 votes (58·9 per cent) against 1,364,524 (40-9 per cent) cast for the Opposition; thus the former received approximately 52,000 fewer, and the latter 250,000 more, votes than in 1935. Of the votes cast for the Opposition list, 650,000 were those of Serb electors, and of these votes probably about 130,000 represented the votes of the Yugoslav Nationalist Party.[1] But if this transference of support should be remembered when assessing Opposition gains, it should equally be borne in mind that a Government gain of 30 per cent in Belgrade may well be accounted for by the votes of officials. In short, it seems probable that the fall of Dr Stoyadinovil in February 1939 was due largely to the Croat question and foreign affairs, and that it was not necessarily the corollary of the Opposition gains in the elections of December 1938.

Dr Sloyadinovic's Government

When Dr Stoyadinovid's Government was returned to power in August 1935, he soon ceased to talk of restoring political or public freedom, and the Opposition demands for reform were once more rejected as dangerous to national unity. The pressure exercised on

(1) *L'Emrops ovelle Docmrurtiaire,* **February** 25, 1939.

the Government internally by the Opposition, or externally by the dynamic of events in Europe, had not until February 1939 sufficed to shake the Government's position. Although Dr Stoyadinovid at first gradually and tentatively steered a course between nationalist and centralist tendencies on the one hand, and the federalist and liberal aspirations of the Opposition on the other, he persistently refused to consider their demands for a revision of the Constitution. Supported by the Regent, he declared that such a change could not be made during the minority of the King; that to listen to Croat demands for autonomy would be to concede the principle of secession; and that any further measure of decentralization must inevitably involve a period of time during which public order would be menaced. He described himself recently as prepared to "go to the Left with the methods of the Right."[1]

Developments in the sphere of economic and foreign relations undoubtedly assisted Dr Stoyadinovic's Government in strengthening their position. Yugoslavia's economic progress is fully dealt with elsewhere.[8] It is only necessary here to point out the political implications of the fact that Yugoslavia's exports to Germany alone have increased from 11 per cent of her total exports in 1932 to 22 per cent in 1937—increased by the *Anschluss* to 34 per cent—and, in particular, the high percentage of her agricultural produce now taken by that country. The Yugoslav Government's neglect of the agrarian interests of the Croat section of the community had long been an important plank in Opposition policy, to whom constitutional reform was always as much a means of obtaining better social and agricultural conditions as it was an end in itself.

Infruence of Forrign Affairs on I ugoslov Politics

In the realm of foreign policy developments since 1936 also had their influence on internal politics. Till that year Yugoslavia's policy was based on the alliance with France, the Little Entente, the Balkan Entente, and the League of Nations. In this way possible dangers arising from Italian, Hungarian, or Bulgarian territorial aspirations, or a return of the Habsburgs, were countered. With the resurgence of Germany and the beginning of Dr Schacht's trade drive in the Balkans, Yugoslavia not only benefited economically from trade exchanges with Germany but was also able to play off Germany against Italy. The Austro-German Compromise of July 1936, and the formation of the Berlin-Rome Axis in October of 1936, put an end, though not entirely, to this possibility, and the change in the balance of power in Europe caused Yugoslavia to

ft) *Thi Tisus*, December 12, 1938.
(a) See below, Part I I , p. 149, and Bulletion o*f International News*, April 93,1938.

alter her tactics.[1] Good relations with the Axis became a matter of expediency for both political and economic reasons, and Dr Stoyadinovic profited by Italy's good offices in improving relations with Hungary and in carrying out the *rapprochement* with Bulgaria in January 1937. He was also prepared to accept the *rapprochement* offered by Italy in March 1937, especially as economic as well as political concessions were offered. From this time onward Yugoslav policy approximated more closely to that of Poland. A policy of "balance" and of "friendship with all, dependence upon none" seemed to secure both political and economic ends without involving the abandonment of any of Yugoslavia's former friendships or alliances. The friendly relations which existed henceforth with the Axis Powers, however expedient politically and economically, were bitterly opposed on ideological grounds by the Opposition.

Th Concordat*

The desire to cultivate good relations with Italy was, indeed, probably one of the two chief reasons for the extraordinary episode of the Concordat, which was made the occasion of prolonged and embittered political strife in Yugoslavia during the summer of 1937. On July 25, 1935, a Concordat had been signed between the Yugoslav Government and the Holy See, by which the position of the Roman Catholic Church in Yugoslavia was "regularized."" The terms of the Concordat granted to the Roman Catholic Church were, in the view of the Orthodox Church, advantages denied to other Christian communities, and when the Government sought to pass a ratification bill through the SkupStina in the summer of 1937 fierce opposition was aroused, which was not in the slightest degree appeased by the Government's proposal to insert a clause in the Bill extending the same privileges and concessions to all other recognized religious communities.[8] There followed a period of violence in which processions of protest headed by the bishops and other leading members of the Orthodox Church came into conflict with the police, a situation not improved by the fact that the Minister of the Interior responsible for the police and for maintaining order was Father Korosec,, leader of the Roman Catholic Slovenes. The Orthodox Church excommunicated all members of the Government who voted for the Bill, while all members of the Radical Party who did not vote for it were excluded from party

(1) See above, p. 36 and pp. 39-42.

(a) The Kingdom of the Serbs Croats, and Slovene* had acquired, at a result of the incorporation of parts of the former Austro-Hungarian Empire, a Roman Catholic population of approximately 5,000,000 (37 • 45 per cent of the total) as against (according to 1931 Census) approximately 7,000,000 Serb members of the Orthodox Church (48' 7 per cent of the total).

(3) *The Times*, July 8, 1937.

membership. The Opposition parties, including the Croat Peasant Party, on the other hand, seized the opportunity to embarrass the Government by making political capital out of what was in origin a religious dispute. Although on July 23 the Concordat Bill was passed by the SkupStina by 167 votes to 127, the not inappropriate culmination of this strange episode was the Government's announcement in January 1938 that the Concordat would not be enacted.

If one of the motives of the Yugoslav Government in introducing the Concordat Bill, forcing it through, and then dropping it in face of violent opposition, was a desire to placate Italy, it is probable that another was the hope that the privileges granted to the Roman Catholic Church might have had the cfFect of detaching Catholic Croat support from Dr Ma£ck and his Radical peasant party, and transferring it to a Croat Clerical party supporting (like the Slovene Clericals of Father Korosec) the Belgrade Government. The Right Wing Parties, it may be noted in passing, alleged that the whole affair was a subtle attempt (by whom was never clearly specified) to destroy Yugoslav unity by weakening the Serb Orthodox Church and thus the position of the Serbs, hitherto the bulwark of the new State.[1]

Fall of Dr

The Government in Yugoslavia is to all intents and purposes a virtual dictatorship, even though it is that curious hybrid, a parliamentary dictatorship. Dr Stoyadinovid was supported by those sections of the population which appeared to have benefited by the increased prosperity brought to Yugoslavia by Germany's trade drive in South-Eastern Europe. After the elections of December 1938, it seemed reasonable to presume that Dr Stoyadinovid was still securely in the saddle. But there occurred in February 1939 a Cabinet crisis, resulting in the resignation of Dr Stoyadinovid and his replacement as Prime Minister by M. Cvetkovid, the outgoing Minister of Social Policy and Health, which demonstrated anew the fundamental importance of the Croat question in Yugoslav politics. In the election campaign in December Dr Stoyadinovid gave a pledge to negotiate with the Croat Opposition should he be returned to power. But on the eve of the first meeting of the new Parliament, the Croats reiterated their demand to be sole masters in their own territory, and 103 Croat deputies once more refused to take their seats. A speech by the Minister of Forests, in which he spoke of the urgent necessity of making the Croats see reason, is also alleged to have contributed to the decision to resign of five non-Croat members of Dr Stoyadinovid's Cabinet. Quarters

(1) *Thi Turns*, August 4, 1938.

friendly to Dr Stoyadinovic professed to sec no more in this **than** a move to enable negotiations with the Croat Opposition to take place, since Dr Macek had repeatedly refused to negotiate with Dr Stoyadinovid personally. The Cabinet of M. Cvctkovie" contains two Croats (of whom one, M. Ruiid, Minister of Justice, is a former Ban of Zagreb and a personal friend of Dr MaCek), two Slovenes and two Bosnian Moslems, and has the support of the Government party, the Yugoslav Radical Union, of which Dr Stoyadinovid remains the president. M. Gvetkovid's Foreign Minister is M. Cincar-Markovid, former Yugoslav Minister to Berlin.

Serb-Croat Negotiations

Although the Cabinet crisis was without doubt primarily an internal one arising out of the Croat question, it is possible that foreign affairs may have had some influence on the situation. The Czecho-Slovak crisis and the Munich Settlement were an unpleasant shock to Yugoslavia. Since October it had looked as if Germany were increasing her hold over Hungary. There had been a systematic buying up by Germans of land and property in Slovenia, particularly in the neighbourhood of Maribor (Marburg), lying on the route between Vienna and Trieste.[1] At the end of January Count Ciano visited Dr Stoyadinovid. This visit was unpopular in the country at a time when the attitude of the Balkan Entente was stiffening *pari passu* with the growing strength of the Western Powers. Although it was suggested that it may have resulted from Italian anxiety at the extension of German influence in Slovenia and Croatia, various rumours were current that pressure had been brought to bear upon Yugoslavia to modify her policy to suit the aims of the Axis. A week later the Rumanian Minister of Foreign Affairs, M. Gafencu, paid a visit to Belgrade. However ail these factors may look on balance, it was obviously essential that at a time of stress and political crisis Yugoslavia should be without internal dissensions.

Even if the Government of Yugoslavia can to-day regard the Croat question as an internal problem less likely than formerly to break up the State, it is still a fundamental and potentially dangerous problem. There is no longer any possibility of a Habsburg restoration; nor is it likely that the small German minority in Slavonia and Slovenia could provide the basis for a minority movement on Sudeten lines, and there is little real evidence that the Croats to-day have any desire to throw in their lot with any other **State. But** the existence of discontent in Croatia is itself a

(1) See R. Jelacsn: "Achat de terrain par let allemands en Slavonic," *Voix Europrens* March 1933, pp. 136-8-

danger, since troubled waters are proverbially attractive and profitable to fishermen. It was, therefore, essential that the Yugoslav Government should make every effort to secure Croat co-operation in the Government within the framework of the 1931 Constitution, which meant, of course, to induce Dr Macek to accept something less than his minimum demands.

In a declaration to the SkupStina on February 17, the new Prime Minister, M. Gvetkovic', declared that he would work in a clear and resolute manner for a solution of the Croat problem on a basis of absolute equality and equity. He asked the SkupStina to empower him to provide by Royal Decree for decentralization and extension of local autonomy, in particular by amendment of the press and election law and the laws concerning political parties and public meetings. On March 10 he further stated that he proposed to enter into short and decisive negotiations on the Croat question, but gave no details of the intended settlement. Dr Ma£ek at first allowed it to be known that he regarded the first declaration, although it contained nothing new, as marking a return to the *status quo ante* StoyadinovicV and therefore offering a basis for discussion. Later, on March 22, he appears to have made the crisis, arising from the German occupation of Czecho-Slovakia, the occasion for the demand that a government of national concentration should be set up in Yugoslavia to undertake immediate measures for the final solution of the Croat question on federal lines. He is alleged also to have stated in this declaration that the Croat question must be resolved rapidly. On April 4 it was reported that good progress in this direction had been made in his talks with M. Gvetkovic*, and that a measure of agreement existed regarding the nature of the problem and the manner in which it should be solved. It is understood that on April 27 some form of agreement was arrived at between Dr Gvetkovic and Dr Macek, but that its terms were not wholly acceptable to the Regents, who submitted certain counter-proposals. These in turn were found unacceptable by Dr Macek. At the beginning of June little further progress had been made towards a final settlement.

(1) Le *Temps*, February 18, 1939.

4. ALBANIA

Factors

MODERN Albania dates from July 29, 1913, when, at the end of the Balkan wars, the former Albanian provinces of the Turkish Empire were constituted a neutral autonomous principality under the sovereignty of Prince William of Wied. During the Great War Albania was overrun by seven different armies, and barely escaped partition. Italy's demand for a mandate over Valona and Central Albania (in accordance with the Secret Treaty of London, 1915) was rejected at the Peace Conference, the Italian troops occupying the country were withdrawn, and in December 1920 Albania became a member of the League of Nations. Her frontiers were finally settled by the Conference of Ambassadors on November 9, 1921, after a tug-of-war between Italy and Yugoslavia, and a long drawn out dispute with Greece. Henceforth two considerations governed Albanian policy: the need to obtain foreign loans for economic and administrative development, and the maintenance of independence. The difficulty of reconciling these two requirements was considerable. While Albania was to some extent successful in obtaining the first, it was in great measure at the expense of the second, for the country was from 1926 to 1939 virtually an Italian dependency. For this her key position in relation to the Adriatic was responsible. But if she did not lose her independence altogether until 1939, it was due to the importance attached to its maintenance by Yugoslavia and Greece and other, non-Balkan, Powers.

It would be difficult to over-emphasize the extent to which the internal progress and prosperity of Albania were dependent on her external relations. The defensive alliance signed with Italy in 1927 for twenty years determined the main lines of Albania's foreign policy, and was followed by economic and financial agreements which enabled King Zog to tranquillize and reorganize the country.

Establishment of Monarchy 1928

A so-called democratic government ran the country under a Council of Regency from 1920-4; a Republic was proclaimed in 1925 after a rebellion led by the exiled Ahmed Bey Zogu, who had been the outstanding figure in Albanian politics since the Great War, and who became its first President. On September 1, 1928, he was proclaimed as Zog I, King of the Albanians, by unanimous vote of a Constituent Assembly. The Constitution declared the Kingdom of Albania to be a democratic, constitutional, and hereditary monarchy, in which the legislative power was vested in the Kinj2 and in a parliament of one house (Chamber of Deputies, with 58

scats) elected by free, secret, and indirect vote, based on adult manhood suffrage. As was perhaps inevitable in a backward country, with a largely illiterate population and a nominally democratic form of government, the electoral system was complicated. The King was assisted in the administration by a Council of Ministers appointed by him. He was in command of the armed forces and had power to conclude treaties without the consent of Parliament. There was no official State religion, but all religions were free and equal before the law; the principal religious bodies in the country are Moslems, Orthodox Christians, and Roman Catholics.

Administration

Although the outward form of the State changed in 1928, the Government continued to be in the hands of King Zog and his immediate clique (the Bektashi Beys). Moreover, since the King appointed his own ministers, Cabinet changes, although generally frequent, were without significance.[1] The most urgent need confronting King Zog when he became President was to bring law and order to Albania as the first stage on the road to modernization. Between 1925 and 1928 military service was instituted and Italian officers took over the training of the Army; the gendarmerie was reorganized under British officers, and the population was disarmed. It thus became possible for the first time to travel in Albania without fear—if not yet with any degree of comfort, in view of the primitive system of communication. In 1927 and 1928 Ministries of Agriculture and Education were set up; the foundation was laid of a health organization, while new Penal and Civil Codes came into force on January 1, 1928, and April 1, 1929, respectively. But all this could only be achieved, as has already been emphasized, by foreign help and, above all, by foreign loans. For example, although Zog had secured control in 1924-5 with Yugoslav help, he was soon compelled, against his own inclinations, to turn to Italy for assistance since Yugoslavia could not provide the necessary loans. As early, therefore, as March 15, 1925, a convention was signed providing for the establishment of the Italian-run National Bank of Albania and the *Societaperlo Sviluppo Economico del[1] Albania* (S.V.E.A.).

In spite of the effects of the world economic crisis, with the aid of Italian money, technical assistance, and advice generally, bridge and road building, agriculture, and public health services were slowly extended. In 1935 King Zog declared, in a press interview,[2] that his plans for his country's future could be summed up as

(1) M. Koco Kotta continued in office as Prime Minister from 1936 to April 1939.
(2) *Daily Telegraph,* January 18, 1935.

"roads, agricultural development, and education of the right kind."

Relations with Italy

From 1925 onwards Italy progressively strengthened her hold on the country, and in that year the National Bank and the S.V.E.A. were established. In 1926 the bonds were drawn closer, for Zog, faced with a serious rebellion, turned to Signor Mussolini for assistance, which the latter readily afforded—at a price. By the Treaty of Tirana signed in November 1926: "Italy and Albania recognized that any disturbance directed against the political, juridical, and territorial *status quo* of Albania is opposed to their reciprocal political interest." To safeguard this the two Parties undertook "to give their mutual support and collaboration." In an annexed Note Italy acquired the right to intervene in the external or internal relations of Albania whenever the latter so requested. In the following year a Treaty of Defensive Alliance was signed for twenty years. Italo-Albanian relations went through various periods of tension in subsequent years. During the period 1932 to 1934, in particular, attempts were made by King Zog to lessen Italy's growing influence. A Customs Union was rejected in 1932, and in 1934 tnc King attempted to check Italian immigration and free the army from Italian control. These efforts were answered by an Italian naval demonstration at Durazzo in June 1934—a warning which did not pass unheeded.

During 1936-7 Italo-Albanian relations became closer once more when Italy showed herself prepared to be accommodating in such matters as repayment of loan capital and interest, and succeeded thereby in strengthening the political bonds binding Albania to her.

At the time of writing the exact sequence of events leading up to the Italian invasion of April 7, 1939, was still somewhat obscure, though it appeared that King Zog had attempted to resist demands designed to increase Italy's political and military hold on his country. The occupation was virtually completed within a few days, and on April 14 it was announced that the Italian Government had accepted on behalf of King Victor Emmanuel the Crown of Albania which had been offered by an Albanian Constituent Assembly on April 12. Henceforth Albania will be under the sovereignty of King Victor Emmanuel, King of Italy and Albania and Emperor of Ethiopia.[1]

(1) A new Constitution promulgated on June 3 vested executive power *in* the King and also legislative power, with the assistance of a Supreme Fascist Corporative Council. The King had the power of veto, thus ensuring Italian control. By a separate treaty Italy assumed the direction of Albania's foreign relation*, when her separate foreign representation was abolished. Defence bad already been transferred to Italian hands.

5. GREECE

Rigins

ON August 4, 1936, General John Metaxas, Prime Minister of Greece, obtained the permission of King George to abolish Parliament, arrest all suspect persons, and establish martial law and a rigorous censorship of the press. Since that date he has conducted the Government on totalitarian lines, and has not hesitated to describe his regime as "The Third Greek Civilization."[1] He stated that no other course was open to him if Greece were to be saved from a Communist revolution, the first stage of which, according to General Metaxas, was to have been a general strike, planned for the first week of August. During the six months between the return of King George and General Metaxas' seizure of power, the King had proved himself a popular monarch, determined to rule constitutionally. It is not possible to account for the sudden reversal of the situation by which, since August 1936, General Metaxas has become a popular figurehead while the King has receded into the background merely by the facile assumption that "dictatorship is in the air," and reference to the parallel situation in Italy. In order to understand fully the circumstances in which General Metaxas came to power, and to form any opinion as to the justification for his actions, it is necessary to go behind the immediate and ostensible reasons for the success of his *coup cTitat.*

Historical Background

The brilliant successes of Greece in the Balkan Wars were due to the collaboration of her soldier King with her statesman-like Prime Minister, but the Great War led to a division between them which developed into bitter enmity. King Constantine was convinced of the invincibility of the German army in which he himself held the rank of Field-Marshal. M. Venizelos held equally strong convictions regarding the justice of the Allied cause and was gready attached to Great Britain. As a result of this division of opinion Greece observed an uneasy neutrality in the early days of the War, until in 1917 a revolutionary Government was established in Salonika under the triumvirate of M. Venizelos, Admiral Condyriotis, and General Danglis, and a Greek army of volunteers was raised to join with the Allies. The revolutionary Government in a short time displaced the central Government and King Constantine was deposed in 1917 in favour of his second son, King Alexander, his eldest son, the present King George, being considered "pro-German." After the premature death of King Alexander in 1919

(1) Ancient Greece and the Byzantine Empire were respectively the First and Second Greek Civilizations.

and **the** defeat of M. Vcnizelos at the elections in 1920, King Constantine was recalled. There followed the Asia Minor disaster in which Greece was driven from Turkey and the town of Smyrna razed to the ground; King Constantine again abdicated in September 1922, and was succeeded by his eldest son, King George. His reign only lasted until December of the following year and was largely nominal, as the Army took over the task of government and left an indelible mark on Greek political life by the execution of five Royalist Ministers whom it held responsible for the Greek defeat in Asia Minor. On March 25, 1924, the 103rd anniversary of Greek independence, Greece was proclaimed a Republic. The new Constitution took some years to draft and was finally promulgated at the end of 1928. It provided for direct and secret manhood suffrage; bi-cameral legislature; the control of finance by the Chamber; and it included "impressive guarantees for freedom of opinion and liberty of the subject."[1]

Party Politics, 1924-35

The Royalist-Republican dispute thus became the fundamental dispute of Greek party politics; and, owing to the dominant personality of M. Venizelos and his long opposition to the King, the terms "Venizelist" and "Anti-Venizelist" became almost synonymous with "Republican" and "Anti-Republican," although M. Venizelos never expressed any antagonism to monarchy as such. The chief parties within these two main groups were as follows:

(1) *Anti-Republican:*	
Populists (successors to old "Royalist" party)	M. Tsaldaris
National Democrats	General Kondylis
Party of Free Opinion ..	General Mctaxas
(2) *Republican:*	
Liberal Party ..	M. Venizelos
Conservative Republican	M. Mk halakopoulos
Progressive Liberals	M. Kaphandaris

Moreover, events in the post-War history of Greece, like the rout of the Greek army in the Graeco-Turkish War in 1920-2 and the shooting of the Royalist Ministers, left bitter memories and personal animosities in Greek political life,[2] and account in some measure for the readiness of officers of the armed forces to enter the political

(i) Mavrogordato: *Modern Gretce*, p. 198.

(a) After the disaster of the Graeco-Turkish War and also as a result of the Convention with Turkey of July 1923 for the exchange of populations, over 1,000,000 Greek refugees returned to the country from Asia Minor. Their political sympathies and votes were anti-Royalist and pro-Venizelist, for they blamed the King and the Royalist Ministers for their misfortunes.

arena for motives of revenge or honour. It is also difficult to resist the conclusion that some Greek political leaders were more concerned with attaining and keeping power than with the "condition of the people," although, of course, to keep the country prosperous was the surest way of remaining in office.[1] M. Venizeios, for example, became Prime Minister in 1928 and remained in control of the situation till 1932 when financial difficulties, caused by the depression and a scries of bad harvests, began to undermine the popularity of the regime. This period was also marked by defects and abuses in internal administration, and its claim to the gratitude of the country arises in the notable conclusion of an alliance between Greece and her old enemy Turkey. This affords another illustration of M. Venizclos's brilliance as an international statesman, and his comparative failure as an internal administrator.

By passing a bill through the Chamber for proportional representation, M. Venizeios staved off defeat till the elections of 1933 when the Populists (Royalists) returned to power with M. Tsaldaris as Prime Minister. M. Tsaldaris continued to govern constitutionally, but hesitation and inactivity characterized his administration.

Insurevection 1935, and Restoration of the Monarchy

The gradual ousting of Republicans, not only from Government posts but also from the armed forces, which followed the return to power of the Royalists, led to a revolt by discontented elements in the Army and Navy in March 1935. Unfortunately, M. Venizeios allowed himself to become involved in the insurrection, thus providing his political opponents with another "handle" against him. The Government, which at this juncture was joined for a few weeks by General Mctaxas as Minister without Portfolio, easily quelled the revolt by the strenuous measures adopted by its War Minister, General Kondylis, who ultimately became the "General Monk" of the Greek restoration. A vigorous purge of the Government services, the armed forces, and even the Universities followed; the Chamber was dissolved and the Senate abolished and a commission set up to draft a new Constitution. The suggestions sent to this commission by the Tsaldaris Cabinet show that they contemplated a restriction of legislative power by the institution of Single Chamber Government, an increase in the authority of the executive, and a restriction of the rights of freedom of the press and freedom of association by the legislature. In October a *coup d'etat* by army officers forced the resignation of M. Tsaldaris. General Kon-

(1) "A resident in Athens tor twenty years" in a recent letter to the pre* observed that in his experience party politics in Greece had always been a game carried on for the amusement and profit of the few at the expense of the many.

dylis was appointed Prime Minister and Regent, **the** National Assembly voting **the** abolition of the Republican Constitution and **the** re-introduction of **the** Monarchist Constitution of 1911. The plebiscite, which is generally alleged to have been artificial, was then held under the direction of General Kondylis on the question of the restoration of the Monarchy. Its ostensible object, with which King George publicly associated himself, was to secure the return of the King by the wish of the whole nation, as an umpire between parties and not as the leader of one party. In reality, the plebiscite—which resulted in a 97 per cent majority—was stage-managed by the Army, under General Kondylis, and it has been suggested that this was done to make sure that the King should owe his restoration to them.

Period of Constitutional Monarchy

King George at first tried to rule constitutionally. He granted an amnesty to all political offenders, but he did not reinstate the Republican officers in the armed forces, and the demand for their reinstatement then became the chief party issue during this period. He politely dismissed General Kondylis and called upon Professor Demerdjis to form a non-party Government of experts with a programme of free elections, budget economy, and reinforcement of the national defences. The elections, however, resulted in something approaching a stalemate, the Venizclist parties securing 142 seats out of 300 (Liberals 127), while the Anti-Venizelists numbered 143 (Populists 69; Kondylis Coalition 63; Metaxas Party 7). The balance between the two practically equal Vcnizclist and Anti-Venizclist *blocs* was held by fifteen Communists. There was no clear party issue beyond the reinstatement question, and some kind of coalition or all-party Cabinet seemed inevitable but was never actually achieved, largely, if not entirely, owing to the unwillingness of the various political parties to forget the past and to work together under the aegis of the King. Unfortunately, at this critical period when the new constitutional order was being severely tested, the deaths occurred in close succession of General Kondylis, M. Venizelos (who, from France, had expressed his goodwill towards the King), M. Demerdjis and M. Tsaldaris. Fate thus removed from the scene the only men who might have assisted the King to maintain constitutional government. On the death of M. Demerdjis in April 1936, the King called on General Metaxas, then Minister of War, to form **a** new Cabinet on the old non-party basis. The spring **and** summer saw **a** recurrence of labour troubles and **a** succession of strikes **and** abortive risings; **and** by August it had become **plain than when the Chamber next met** in **October there** would be

no vote of confidence for General Metaxas, whose policy was increasingly vigorous and unparliamentary. The General himself gave as the actual reason for the *coup d'etat* he carried out on the night of August 4 the need to forestall a general strike—the culmination of the scries of industrial disputes which, in his view, threatened to become a Communist revolution.[1]

The following statements made by General Metaxas soon after he attained power summarize his aims:

> "I took the minimum of power necessary to face the Communist danger, but I am not going to relinquish it until the country is cleared of Communism and the social order made unshakable. The Greek press as well as all the Greeks will have to abide by national discipline . . . For the time being there is no question of new election* being held*. . . Those of you who in the past have belonged to parties are now under the obligation of forgetting them utterly; there are no more parties in Greece*.. .The old parliamentary system has vanished for ever; the Government *is* stable and permanent and will apply the existing system until it has achieved a complete rcrstablishnient of Greek society[4]. . ."

General Metaxas later explained that the new State would be corporative in form, and on December 17, 1936, he announced that a law would be promulgated setting up regional arbitration Councils for the settlement of class disputes, and a central arbitration Council, under the Presidency of the Head of the Government. At the time of writing, however, the Corporative State has not yet come into existence.

Nature and aims of the Disctatorship

Undoubtedly, the lack of statesmen, aggravated by the death in a short period of all the more important personalities (both M. Papanastasiou and M. Michalokopoulos have since died), and the selfish and shortsighted policies of the old political parties, have largely contributed to the institution and continuance of the present authoritarian regime. It remains to consider first the balance sheet of that regime during its two and a half years of tenure of power, and, secondly, its future prospects. No one accuses General Metaxas of lack of energy: his Ministers arc chosen for specialized knowledge, or as retired Army and Navy officers for their trustworthiness; he and they work, it is claimed, over twelve hours a day. Order Is maintained throughout Greece, and the last flicker of opposition died in February 1938, when former party leaders contrived to publish and circulate manifestos against the regime and were

(t) It was afterwards learned that the strike was planned to last only twenty-four hour* and that the Federation of Conservative Workers had in any case advised its members not to participate; but there is no doubt that Communist agitators had become increasingly active and the twenty-four hour strike was a device to cause as much disturbance as was compatible with the law (strikes lasting longer than twenty* four hours were illegal).

(9) Statement to the Foreign Press, August 6,1936.

(3) Speech to Mayors of Athens district, August to, 1936.

(4) Speech at Salonika, September 7, 1936.

"humanely banished*' to the Greek islands for their pains. Some criticism of the Government arose at the end of 1938 over the election of the new Archimandrite of Athens, but, after some changes in the Cabinet, this too appears to have died down.

General Metaxas* dual aims of promoting social legislation, and training the Greek people in the discipline necessary to fit them for constitutional government, have been vigorously pursued on the one hand by minimum wage regulations, unemployment insurance, maternity benefits, etc., and, on the other, by youth movements, a Greek version of the *Kraft durch Freude* organization, and so forth. A ten-year programme of public works, financed from the internal resources of the country, has led to a resumption of land reclamation and other schemes started by M. Vcnizelos with the aid of foreign borrowing, and severely interrupted by the world crisis. The programme covers the draining of the Macedonian marshes, irrigation improvements in Thessaly, and the construction of roads and railways. The Government has also done much to improve the amenities of Athens, and through its tourist office to increase the number of foreign visitors.

Balance Sheet

The Government had the misfortune to encounter a severe failure in the wheat crop and a poor olive harvest in 1936 which involved extensive distress in agricultural districts, and necessitated the importation of large quantities of grain, with a consequent strain upon the exchange resources of the country. The harvests of 1937, on the other hand, were exceptionally good, and the 1938 results arc also expected to be favourable. Industrial activity, which has shown marked increases since 1933, did not altogether maintain its rate of progress in 1937, but there has been no sign of a serious recession. As a consequence, unemployment has fallen to a very low figure and the balance of trade and the standard of living have both improved. On the other side of the account the cost of living has risen, largely owing to increased taxation, higher wages, and shorter working hours; and this rise in costs has largely offset wage adjustments, and therefore caused discontent. In financial matters, severe measures have been adopted to check tax evasion, and an increase in taxation has been necessary to meet not only the cost of social legislation, but heavy expenditure on rearmament and some increase in the public services, in particular the police force. Elaborate and strict exchange regulations have also been imposed, and a censorship on all correspondence by letter and cable, introduced ostensibly to prevent infringement of these regulations. The foreign exchange position has been improved, but no agree-

ment has yet been reached with the bondholders for the resumption of the service of the Greek external debt: and the consequent continuation of default has not improved relations between Greece and Great Britain, where the majority of the bonds are held.

In the political field General Metaxas presumably argues that the recent history of Greece has proved the bankruptcy of parliamentary institutions in that country, and the ineffectiveness of half measures in curbing Greek individualism. He has effectively suppressed all freedom and established a strict press censorship. As examples may be cited the suppression of local government and suspension of seven town councils; the abolition of the Chair of Constitutional Law in Athens University; refusal to allow public performances of the *Antigone*^ unless the text is cut, or the reading in schools of Thucydidcs' version of Pericles' Funeral Oration, on the ground that it is a subversive hymn to democracy. It would, however, be a mistake to attach too much importance to these incidentals of dictatorship in Greece, as anywhere else. The most apt comment in the case of Greece is, perhaps, provided in a letter from Athens[1]: "The Greeks retain their political sense of humour; they arc beginning to laugh."

Future Praspects

The difficulty of forming any conclusion as to the stability of the dictatorship in Greece, or the general trend of its foreign policy, Is enhanced by the violence of the reactions it has provoked. The Greek press is rigidly censored, but the press of other countries contains alternately paeans of praise and hymns of hate on the subject of the Metaxas regime. Articles and letters describe Greece to-day either as the heaven of a people who had never before known good government or as the hell of the most liberty-loving and democratic nation in the world, groaning under a tyrant's yoke.* Only 2 per cent of the population, according to one estimate,* arc unsympathetic to the regime; on the other hand, in July 1937 the end of the regime within a year was held to be self-evident, while at the time of writing there is a noticeable slump in prophecy as to its downfall, even among those who continue to decry it as hateful to the Greek people.

A factor which must be taken into account in assessing future developments is the apparent absence of any alternative leader. Thus there not only seems to be no strong rallying point for any opposition, but also no natural successor to General Metaxas; and

(1) Manchester Guardian, May 4, 1937.
(2) See especially correspondence in the *Manchester Guardian,* May and November,

(3) *The Spectotor,* August 5, 1938,

this must, in its turn, aggravate the difficulties of the Monarchy, even if it does not prejudice its stability. A further consequence is that the future largely depends on the stamina of General Metaxas himself, who is no longer a young man (he is sixty-eight years old), and who, as Dictator, must bear at least as heavy a burden as a constitutional Prime Minister. At the present time he personally holds, in addition to the premiership, the portfolios of Foreign Affairs, War, and Air.

Attitude to Germany

General Metaxas, who had a distinguished career as a staff officer, is known to be skilful, intelligent, and ruthless. His military training in Germany, and his activities during the Great War, would in themselves tend to indicate that he has "pro-German" sympathies, and his preference for efficiency rather than liberty is certainly a German characteristic. General Metaxas has repudiated such sympathies and has declared: "Greece is not 'pro-German*; it is a question of finding a market for her tobacco crop." The extent of the economic dependence of Greece on Germany is fully explained elsewhere[1]; and the increased trade between the two countries has of necessity created a position in which a growing number of Greek Nationals are dependent for their livelihood on friendly relations with Germany.

The Germans have now for some years past been very active in Greece: Field-Marshal Gocring and Dr Gocbbcls, as well as Dr Schacht, have all paid personal visits to Athens. Large sums arc being spent by Germany on cultural propaganda and archaeological research; and German trade agents have been as noticeable for their numbers as for their persistence. With the people at large, the Germans are not popular and the Italians less so, despite the similar nature of the Greek regime and such manifestations as the Fascist salute, which is given by members of the youth organization. But the increasing prestige which Germany certainly, as a result of the Ozecho-Slovak crisis, and Italy possibly, owing to the breakdown of sanctions, have gained at the expense of the Democracies, and the trade bonds forged by Dr Schacht between Greece and Germany, have undoubtedly weakened the natural sympathies of Greece with Great Britain. On the other hand, according to a writer who has recently visited Greece: "Whatever the leanings of the Greek Government, the Greek people are true to their old loves, the English for strength and the French for culture."" The same writer describes the warm affection of the Greek people for

(1) See below, p. 165.
(2) Elizabeth Monroe: *The Maditerraness in Politics*, 1938, p. 22.

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the English, and recalls the fact that, on the occasion of the marriage of the Greek Crown Prince to a German princess, the Government sought to popularize the wedding by instructing the press to emphasize the bride's descent from Queen Victoria. It is true that warm affection cannot satisfactorily be measured against German goods and German armaments, and it would be dangerous to take refuge in a comfortable belief in the "heritage of Greece." But it is also essential to remember that it is not the memory of "Lordos Byron" which keeps, or may keep, Greece faithful to Great Britain. British naval supremacy in the Mediterranean and a British market for Greek tobacco are factors likely to weigh more heavily with a Dictator while the Franco-British pledge of April 13 is likely to give great encouragement to the natural sympathies of the mass of the population for the Western Democracies.

6. BULGARIA

DEVELOPMENTS in Bulgarian politics, subsequent to May 19, 1934. have consisted of attempts to fill the constitutional vacuum created by the sudden abolition of the democratic regime. It did not prove easy to reconcile the determination of the Army that there should be no return to party politics with the desire of the masses for some form of representative government, and the electoral law, which was finally published on October 21, 1937, was essentially a compromise solution.

In accordance with this law the Sobranye is now sitting, but the ban on political parties remains and the press is still censored. This somewhat anomalous state of affairs, where authoritarian and democratic forms of government arc so closely interlocked, can only be explained in the light of past developments in Bulgarian politics.

Any examination of Bulgarian post-War history shows that past judgements and future speculations on the course of Bulgarian politics must assess the influence exercised on such developments by the King, the Army, the Macedonian revolutionaries, the National and Social Movement, and the particular nature of the Bulgarian economy.

Thi Agrarian Leagus, 1919-23

With over Bo per cent of the population engaged in, or dependent on, agriculture Bulgaria is essentially a peasant State, and consideration of agrarian interests must always play a dominating part in determining the policy of any Bulgarian Government. But only once, in the years 1919-23, when M. Stambolisky, the redoubtable "peasant dictator," was Prime Minister of a purely agrarian Government, has the Agrarian Party achieved supreme political power.

Valuable as were his agrarian reforms, M. Stambolisky intensified the existing antagonism between town and country—always a dominant factor in Bulgarian politics—by his elevation of peasants to high ranks in the Administration. This subordination of all other elements to the peasant interest and the increasing radicalism of his programme alienated the professional classes and the Army, whilst the Macedonian revolutionaries[1] were bitterly opposed to M. Stambolisky's policy of close collaboration with Yugoslavia.

(1) The greater part of Macedonia had been ceded to Serbia and Greece after the second Balkan War of 1913, but the Internal Macedonian Revolutionary Organization (*founded in* 1893 to obtain independence from the Ottoman Empire) retained it* headquarters in Bulgaria, and carried on a terroristic campaign against Yugoslavia and Greece.

The success of the Agrarians in the elections of March 1923 convinced these various Opposition groups of the necessity for immediate action. Accordingly a *coup d'etat* was planned by a group of intellectuals, headed by Professor Tsankoff, and the League of Reserve Officers, among whom Colonels Veltcheff and GheorghierT were prominent, and carried out with the assistance of the Army and the Macedonian revolutionaries.

M. Stambolisky himself was murdered, and the next few years were to witness a violent terroristic campaign against the Agrarians and the Communists. Both parties were to emerge again at the General Election in 1927—the Communist Party being known as the Labour Party -and from 1931 -4 the Agrarians were represented in the Government. At no time, however, did they regain the predominance they had previously enjoyed.

Party Politics and the Macadonian revolutionaries,

The *coup d'etat* of 1923 inaugurated a period of party politics, during which Bulgaria was ruled by a series of coalition governments,[3] for which personal politics tended to become the main consideration. That this was so was hardly surprising in a country where political experience was limited, the standard of living and education was low, and the resignation of a government entailed far-reaching changes, involving even the most subordinate posts. The evils of the spoils system and the inability of the Administration to deal with the economic crisis intensified public criticism of the Government, the peasants in particular being critical of the politicians' failure to produce any constructive proposals for the solution of their economic difficulties. A glaring advertisement of the incompetence of the Government was provided by the fact that the terroristic activities of the Macedonian revolutionaries were left unchecked. In fact, their power increased during the years 1926-31 when M. LiaptchefT, himself a Macedonian, was Prime Minister.* During these four years their exploits became an international as well as an internal scandal, threatening seriously to compromise Bulgaria's relations with Greece and Yugoslavia; for the greater part of this period the Bulgaro-Yugoslav frontier was almost continuously closed. But the activities of the I.M.R.O. did not cease with M. I JaptchefFs resignation in 1931, and their continued interference in Bulgarian political and military matters, and their

(1) On April 12, 1933, the Labour-Communist Party was dissolved.

(2) Via. the Tsankoff Government, 1923-6, the Liaptcheff Government, 1926-31 the Malinoff-Muahanoff Democratic Entente Government of 1931-4.

(3) It has been alleged that contacts were maintained between the Mihailoffist section of' them and officials in the War Ministry, by whom they were regarded not only as a useful instrument in keeping the revisionist campaign alive, but also for exerting pressure upon political opponents.

influence in the highest circles, became intolerable. Moreover, the formation of the Balkan Entente in February 1934 virtually isolated Bulgaria, and convinced many of those formerly opposed to a policy of friendship with Yugoslavia of the necessity of establishing more favourable relations between the two Powers. It was realized that, in these circumstances, the Macedonian revolutionaries were a luxury which Bulgaria could no longer afford, and the suppression of the I.M.R.O. became a matter of paramount importance.

Coup d'atat '934

Colonel Damian Vcltcheff, one of the assistants of General VolkofTin the organization of the *coup d'etat* of 1923, was prominent amongst those who felt the urgent necessity of rescuing the country from the inefficiency, party intrigues, and terrorism which had characterized recent years; he was convinced that the political parties were incapable of performing such a task. His attitude was of particular importance in view of his connection with the Army, for during his time as Commandant of the cadets' school in Sofia he gained many adherents amongst the younger officers, while from 1930 onwards, as secretary and organizer of the *Military league,* he was in close touch with prominent military officials.

He was also connected with the *Zveno,* a small group of political reformers whose leader was his friend and collaborator in the *coup* of 1923, Colonel Kimon Gheorghieff. This civil group, founded in 1930, had developed aims and tendencies parallel to those which inspired the Military League, both being desirous of abolishing the political parties and establishing, through the political organization of the State on corporative principles, a "strong" Government, free from the influence of the High Command and the intimidation of terrorists, and capable of dealing with the political and economic crisis.

The two bodies, the one military, the other civil, had collaborated closely since October 1933. A Cabinet crisis, precipitated by the demand of the Agrarians for greater representation, and the knowledge that Professor Tsankoff was also planning to intervene, convinced Colonel Vcltcheff and his colleagues that the time had come to strike. On May 19, 1934, the capital and the principal towns in the country were occupied during the night by the Army, a virtual military dictatorship was installed, and the King, who had been attempting to form an administration of senior Army officers of the Reserve loyal to himself, was confronted with a *fait accompli.*

At this moment the Army was supreme and the position of the

King, Boris I I I , [1] precarious in the extreme. Colonel Veltcheff had been foremost amongst the King*s critics,[1] but, although he had organized the *coup d'etat,* Colonel Veltcheff was unwilling to participate directly in the Government. His decision to take the position of "Adviser" to the Prime Minister, Colonel GhcorghiefT, facilitated the King's acceptance of the *coup d'etat,* for King Boris' relations with Colonel Gheorghieff and with General Zlateff, the new Minister of War, were good. But for the next few months the King had no direct influence on policy and was forced to leave the government of the country in the hands of the Army and their collaborators, the *Zveno group,* who proceeded to put their political programme into operation.

Army

1934-3

Parliament was dismissed, the political parties dissolved, and an official censorship was imposed on the press. But if political freedom was for the moment suppressed, so also were the Macedonian revolutionaries, against whom an intensive and successful campaign was carried out. The I.M.R.O., for so long a scourge to Bulgaria, was dissolved, its leaders fled abroad,[3] and its power has not since revived. Nor, so long as the Treaty of Perpetual Friendship with Yugoslavia[4] remains in force, is the Bulgarian Government likely to relax its campaign against the Macedonian movement.

But the suppression of the I.M.R.O. was one of the few positive achievements of Colonel Gheorghicff 's Government. The Sobranye was dissolved and plans were drawn up by the "Department of Social Renewal" for the establishment of corporations in a State which could, of necessity, hardly be more than one big corporation of peasants, and these proposals never went beyond the experimental stage.

But the Government, even if Unabolished corruption, proved as incapable as its predecessors of dealing with the financial crisis, and the severe criticism of the Government's fiscal policy, administered by the League of Nations' Financial Committee, increased the dissatisfaction of the people with a Government which had promised so much and had so for produced so few material results. The decisive factor, however, which induced the Army once more to intervene was its loyalty to the King's person awakened by the fear

(i) King Ferdinand abdicated on October 3,1918, and has tince lived in Germany. He was succeeded by hit son, Boris I I I .

(a) He had been dismissed by the King in 1998 from his pott as Commandant of the Military Academy as a result of his opposition to the policy of General Votkoff, the War Minister. A further clash took place in 1930 when he intervened in the Marino Polaki affair on behalf of officers unjustly accused of expionage.

(3) Notably Ivan Mihailoff, who fled on September 16,1934, to Turkey.

(4) Signed on January 24, 1937.

that Colonel Veltcheff and M. Pctar Todoroff(Minister of Finance) were planning to establish a Republic. Whether or not Colonel Veltcheff was prepared for such drastic action, he was known to be hostile towards King Boris and he was undoubtedly anxious to impose severe limitations on the King's prerogatives.

End of the Gherghief-Veltcheiff regins

Colonel Veltcheff's radical views and his alleged advocacy of a Republican form of government alienated the older elements in the Army and, on January 22, 1935, Colonels Veltcheff and Gheorgh-ieffwere forced to resign from the Military League and to abdicate from the Government. The new Government, with General Zlatcff as Prime Minister, was still a military government, but the King's position had been greatly strengthened, and his desire for a return to civilian government was facilitated by the growing dissatisfaction of the Army with its incursion into politics. This feeling was crystal* lized in a resolution passed by the central committee of the Union of Reserve Officers advising the Army to abandon politics and "re-turn to the barracks." In view of this change of opinion in the Army, although there were dissentients,[1] and of the restricted basis of support which the Government had in the country, General Zlatcff was forced to resign on April 18, 1935.

Thi Army's "return to barracks'

His resignation signalized the retirement of the Army from direct participation in political affairs, but the Army retained a "watching brief," and the knowledge that it was opposed to too rapid a return to party politics, and that a return to political chaos might induce the Army once more to intervene, acted as a brake on Government legislation. Colonel Veltcheff was known to have many supporters, and so long as he remained in the country his incursion into politics had to he reckoned with. He was, therefore, "advised to go abroad" in the summer of 1935, but in October 1935 he was arrested with many of his former adherents during a visit to the country, and later tried on a charge of conspiring to overthrow the Government. The trial was held in strict secrecy, but it gradually became clear that the charges had been greatly exaggerated. Colonel Veltcheff was sentenced to death on February 23, 1936, but this penalty was commuted to imprisonment for life, and he subsequently benefited from the general amnesty which was proclaimed on the birth of a son to King Boris, when his sentence was reduced to fifteen years' imprisonment.

(1) Colonel Koleff, a member of General Zlateff's Government, and of the Military League, was found guilty, on March 30, 1936, of trying to use the Army to prevent the formation of M. Tosheff's Government. He was Sentraced to imprison-ment for life.

The process of attempting to persuade the Army not only to "return to the barracks," but also to stay there, was continued by the dissolution, on March 3, 1936, of the Military League. The Army's present abstention from political activities, however, is probably due not so much to the imprisonment of some of the more politically-minded officers, or to the disbanding of military associations, as to its preoccupation with the intensive programme of rearmament.

Dictatorship, April 18,

The Government, under the premiership of M. Toshcff, which succeeded that of General Zlateff in April 1935, was formed by the King, who was henceforth to be the dominating personality in Bulgarian politics. His present Prime Minister, M. Kiosseivanoff—who succeeded M. Tosheff on November 23, 1935—is a close friend of the King and their relationship is in many ways reminiscent of the connection between George I I I and Lord North. King Boris had extricated himself with remarkable dexterity from the difficult position in which he had been placed by the *coup d'itat* of 1934, and he was to show the same diplomacy in his subsequent attempts to guide his country back, stage by stage, to some semblance of parliamentary government. The royal manifesto, of which the issue on April a 1, 1935, was symbolic of the re-establish ment of the King's authority, was indicative of the rift which existed between the various elements in Bulgaria and of the difficulties which the King would have to face. On the one hand, there was the declaration that there would be "no going back," which was interpreted as a promise to the Army that there should be no return to party politics. On the other hand there was the undertaking that, in the near future, a new Constitution would be drafted which would satisfy the popular desire for some form of representative government.

Social

This latter promise proved more difficult of realization than had been originally anticipated, for the nominally non-partisan Cabinets, through which the King governed the country, were confronted with opposition not only from the Veltchcff clique in the Army, but also from the local National-Socialist Movement. The latter was led by Professor Tsankoff, one of the instigators of the *coup d'etat* of 1923, who, as leader of the Democrat coalition, had succeeded M. Stambolisky as Prime Minister. His administration, however, was less successful than his *coup d'etat,* and in 1926 he was forced to resign. His group suffered great reverses in the General Election of 1931, and by 1934 it had moved so far to the Right that it was known as the *National and Social Movement,* advocating authoritarian government with the King at the head.

Throughout 1935 and 1936 this movement carried on an intensive propaganda campaign, which came to a climax in the summer of 1936. It was then constantly reported that King Boris, on his return from his foreign tour—which included visits to Herr Hitler and Signor Mussolini—was contemplating the establishment of an authoritarian government under Professor TsankolFs leadership.

These fears were not realized, for public support was not forthcoming for such a move, and the autumn saw not an increase but a decrease in the power of the National and Social Movement. It had become increasingly clear that the movement was tending more and more to become National-Socialist rather than National and Social, and that it was not without inspiration from abroad. The King, whether he had seriously contemplated identifying himself with such a movement or not, did not fail to realize that his position in such a regime would amount to little more than that of a figurehead. The present strength of the National and Social Movement is hard to gauge owing to the closing of their headquarters on October 10, 1930, and to the absence of published figures of party membership. But the fact that supporters of Professor Tsankoif's movement have been included in most of the recent Cabinets—M. KojuharoiF is at present Minister of Commerce—is some indication that the strength of the movement could not be ignored. The recent intensification of the revisionist campaign may lead to a revival of the National and Social Movement, for it has always advocated an active revisionist policy. Bulgaria's desire to regain the Southern provinces of the Dobrudja, which she lost to Rumania after the second Balkan War in 1913, was sharpened by the events of September 1938, and demonstrations on the anniversary of the Peace Treaty were on a far larger scale than in recent years; this revisionist campaign may well have repercussions on Bulgaria's relations with some of her neighbours.

Present Situation

The present political situation in Bulgaria is somewhat ambiguous. A form of parliamentary government has been restored, but freedom of choice for the electorate, and freedom of expression for the candidates, are, to say the least, restricted. Elections were held in March 1938 in accordance with the electoral law of October 21, 1937,[1] and despite the complaints of the former party leaders that not since the election of 1878 had there been such terror, and the numerous restrictions, including arrest, which were placed on those

{1) 160 candidates, who had to be thirty year of age and not Communists or others advocating "violent methods in political and social struggles," were to be elected, the vote being given to all males over twenty-one years and all women who were, or had been, married Party organizations were prohibited.

candidates not accepting the Government programme, a surprisingly large number of Opposition candidates were elected.[1]

Subsequent debates in the Sobranye proved that the Opposition —a coalition of the former Agrarian, Liberal, Radical Socialist, and Democratic parties, known as the "Bloc of Five"—was no mere cipher. But so long as the formation of political parties remains illegal, effective opposition to the Government is of necessity extremely limited. The extent to which the formation of political parties will be permitted will probably depend on the general political situation in the country and on the course of outside events. In the latter connection the impact of German influence on Bulgarian political developments is of particular significance.

Bulgaria and Germany

Bulgaria owed her emergence from the economic depression to hrr greatly increased trade with Germany, and in a primarily agricultural country, where a good harvest is of even greater importance than politics, no Government could afford to alienate such a valuable customer.[2] But the extent to which German economic domination entails political control is uncertain. In several other Central European States Germany has a useful pressure point in the existence of a fairly large German minority and a strong anti-Semitic feeling, but neither of these factors is present in Bulgaria. In common with these States, however, Bulgaria possesses in the National and Social movement,[8] a Party which may prove of great assistance to Germany. Moreover, the fact that it is primarily in conjunction with Germany (and Italy) that Bulgaria can actively pursue her revisionist policy, and, above all, maintain her present economic recovery, renders her susceptible to German (and Italian) influence.[4]

King Boris has had a particularly difficult course to steer during the last few years, and his problems arc likely to increase rather than diminish during the next few months. The dynamic of external events will probably force him to concentrate, in the immediate future, on the maintenance of the *status quo*, rather than on the extension of civil liberties.

(t) It was estimated that of 160 deputies, fifty-six could be relied on to oppose the Government.

(2) See below, p. 175. In 1038 Germany (and Awtris) rook as much as 59 per cent of Bulgarian exports (mostly tobacco) and supplied 52 per cent of her imports. These figures compared with 47 per cent and 58per cent respectively in 1937.

(3) Professor Tsankoff's National and Social Movement which is ideologically sympathetic to German National-Socialiam, should be distinguished from Professor Kantarghieff's small Nasi Party, the *Retnizi,* which was dissolved in April 1938 and again in April 1939.

(4) In October 1930 Kins Boris married Princess Giovanna of Savoy, daughter of King Victor Emmanuel of Italy.

7. TURKEY

TURKEY'S history during the last fifteen years presents a somewhat curious paradox. On the surface, and in the purely political sense, there have been fewer changes and less complexity here than, perhaps, in any of the other countries with which this study is concerned. Thus, for example, the late Kemal Atatlirk enjoyed unchallenged supremacy as President of the Republic and as virtual dictator, from the time of its proclamation in October 1923 until his death in November 1938; his successor, General Ismet Inonii, was Prime Minister—except for one short interlude from 1923 to October 1937, and Dr Rustu Aras Foreign Minister from 1925-38; while the single-party system, dating from the law of 1925 forbidding all political associations except that of the Republican People's Party, survived a short-lived experiment in the creation of a Liberal Opposition under the leadership of Fethi Bey in 1930, and is still in force to-day. Nevertheless, behind this appearance of continuity, a social and cultural revolution of the first magnitude has been carried out under the direction of Kemal Atatlirk, whose self-appointed task it was—to quote one writer[1]—"to extricate the Turkish nation from the ruins of the Ottoman Empire, and to set this nation on its feet again by putting it through a 'totalitarian' conversion from a hereditary Islamic to a new-fangled Western way of life."

The Constitution

The dual regime which had existed since January 1920, with a Kemalist Government and Parliament sitting in Ankara and a reactionary Sultanate in Constantinople, was brought to an end by the Nationalists' expulsion of the Greeks from Asia Minor in October 1922, the subsequent dethronement and flight of the Sultan, and the conclusion of the Peace Treaty of Lausanne (July 24 1923) between the Kemalist Government and the Allied Powers. By the Constitution of April 20, 1924, the legislative and executive powers were vested in a unicameral Grand National Assembly elected by universal manhood and womanhood suffrage and by second degree voting. The executive power, however, was to be exercised through the President of the Republic, who was elected by the Assembly for a period equivalent to that of the parliamentary term (four years), and through a Cabinet chosen by him. Theoretically, Ministers are responsible to, and can be dismissed by, the Assembly, while the President has a purely suspensive veto on legislation.

(i) Dr Arnold Toynbee, in *The Spectator,* November 18, 1938.

Thi Republican People's Party

In practice the Grand National Assembly is composed—except for some ten to twenty "Independent" deputies whose function is to provide some element of criticism (of detail, though not of policy) — entirely of members of the Republican People's Party, and as such is subject to party discipline. Its programme of work is prescribed for it by the four-yearly Congress of the Party, whose elected titular President has so far been the President of the Republic. Moreover, practically all administrative posts are filled by party members, in many cases by former deputies. The cultural and social activities of the party are carried on through the "People's Houses" established throughout the country, but the paraphernalia of uniforms, badges, mass demonstrations, etc., usually associated with the single-party system in other totalitarian States, are absent from Turkish political life.

The peculiar appropriateness of such simplicity of structure, in Turkey's case, will be understood when it is remembered that some 70 per cent of the population arc peasants; that capitalist and bourgeois classes, in the western sense, hardly exist as yet; and that an industrial proletariat is still in process of being laboriously created from the backward and illiterate peasantry. Indeed, the Kcmalist regime has aptly been described as "a kind of democratic cducationalism put into practice by a benevolent dictatorship." Ataturk's ideal was the creation of a new Turkey that was strong, independent, and, above all, Turkish.

The Kinalist Reforms

Most of the reforms introduced under the Kemalist regime have been concrete expressions of one or other of the six fundamental principles of the People's Party: namely, "Republicanism, Nationalism, Populism, Etatism, Secularism, and Revolutionism," The first of these requires no further comment. With regard to the second, it is worth noting that the concept of Nationalism, in Turkey, implies national unity and self-sufficiency, and the cultivation of patriotism, rather than irredentism—against which Kemal Ataturk resolutely set his face from the very beginning of the Nationalist movement. It has, however, involved such radical changes as the abolition of the autonomy and privileges enjoyed by foreigners under the Capitulations, and by the non-Moslem minorities under the old *Millet* system, as well as the elimination of national minorities—where possible—by such measures as the Graeco-Turkish exchange of populations, or their forcible repression, as in the case of the Armenians and Kurds. Nationalism is symbolized, too, by the establishment of the capital in Ankara instead of in Constantinople, which was regarded as traditionally and geographically too sus-

ceptible to foreign influences, not to mention attack in time of war. In fact, military influence has been strong in the planning of industrialization, in the choice of areas in which vital industries arc being established, and in the construction of railways according to the requirements of military strategy.

By far the most important and startling reforms fall, however, within the category of "Secularism," with which may be coupled the notion of Westernization. They include the abolition of the Caliphate and the secularization of education in 1924[1]; the suppression of the religious orders and the confiscation of their property, and the ban on the wearing of the fez in 1925; the substitution of the Swiss Civil, and Italian Penal, Codes for the old Sheriat law in 1926; the final disestablishment of the Islamic religion, and the adoption of the Latin in place of the Arabic alphabet in 1928; and, above all, the complete emancipation of women, starting from the abolition of the veil and of the harem, and proceeding to the gradual attainment of full civic rights and equality of opportunity in every branch of public life.

Recent Changes

Rumours were current, after Kemal Ataturk's death on November 10, 1938, and the unanimous election of the ex-Premier, General Inonu, to succeed him both as President of the Republic on November 11) and of the Party (on December 27), that the change would be followed by reactionary measures at home, and possibly -in view of General Inonu's alleged pro-Soviet sympathies -by a reorientation of foreign policy towards the U.S.S.R. While it is too early to judge the accuracy of such predictions, there has been no indication, hitherto, that any important change of policy—either internal or foreign -is impending. There have, however, been certain changes in Government and personnel.

The Cabinet has been thrice reconstituted since Ataturk's death. M. Jelal Bayar, who had succeeded General Inonu as Prime Minister in November 1937, remained in office for a short time, although Dr Rustu Aras who had been Foreign Minister since 1925—was replaced by M. Sarajoglu (formerly Minister of Justice), and two other Ministers were dropped at the same time. At the end of December two more Ministers resigned on grounds of health. Finally, on January 25, 1939, after the Committee of the People's Party had taken a decision to hold general elections almost immediately (instead of waiting until the normal expiry of the Assembly's term in the following autumn), M. Bayar's Cabinet

(1) Primary education is now free and compulsory. Education and the drive against illiteracy have been one of the major concerns of the Kemalist regime.

resigned—ostensibly in order that the Party should "present itself at the elections with a new force," although it was widely alleged that the true cause was the disclosure of a number of financial scandals in which M. Bayar was involved. The new Premier, Dr Refik Saydam, was Minister of Health from 1923 until General Indnu relinquished the Premiership in 1937, when he resigned. After the elections to the National Assembly, which were held on March 26, 1939, General Inonu was re-elected President of the Republic, and the Cabinet was reconstituted under Dr Saydam.

Both President Inonu and the new Premier have been at pains to contradict reports that the Government contemplated any change in the existing political system, or any revocation of the Kemalist reforms; and the advancement of the date of the elections was justified by "the alarming turn taken by the international situation.'* It is interesting to note Dr Saydarn's statement[1] that: "no anti-Jewish feeling exists in Turkey, where Jews enjoy the full rights of citizenship; nevertheless Turkey cannot receive refugees from other countries."

(1) See *The Times* January 28,1939.

PART II

ECONOMICS, TRADE, AND FINANCE'

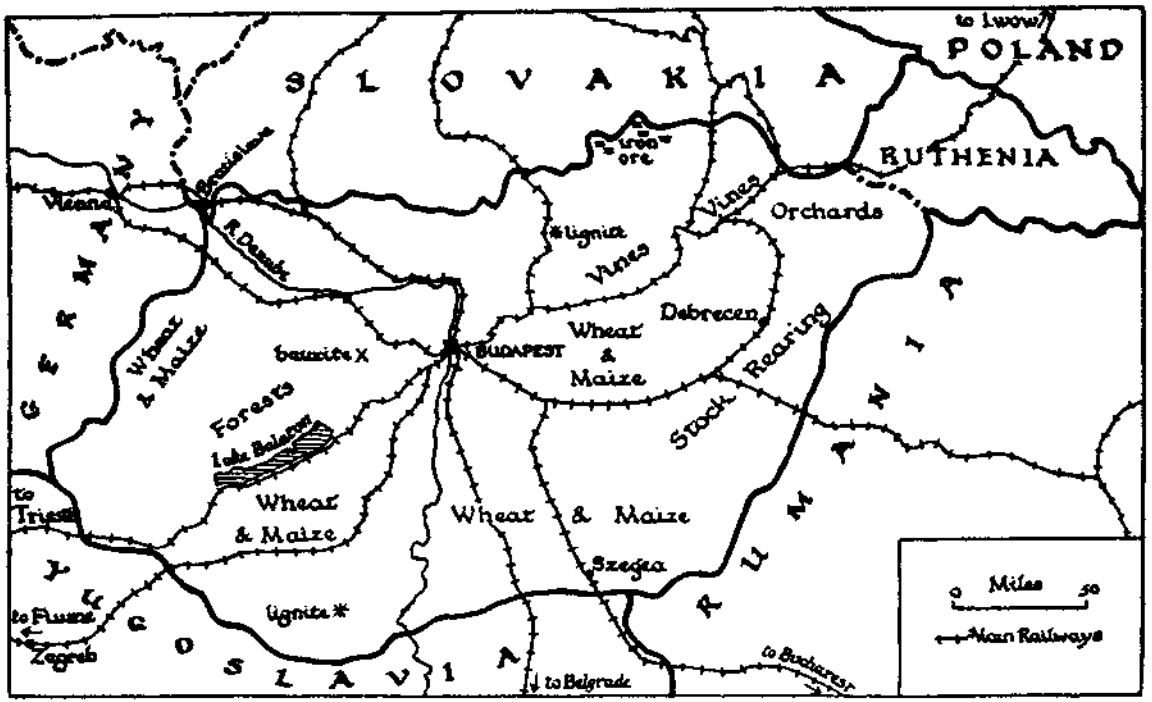
NOTE: ***The*** *five countries with which this survey is mainly concerned are Hungary, Rumania, Yugoslavia, Greece, and Bulgaria. For each of these a general economic survey is given, including some particulars of economic structure, resources, production, foreign trade, and important recent economic developments or problems; a statement of how exchange rates and foreign trade were controlled towards the close of 1938—there may, of course, be changes in the future; a summary of foreign indebtedness, public and private; and a brief analysis of relations with Germany. There are also notes on Turkey and Albania.*

It will be appreciated that the nominal value of foreign capital may not bear much relation to the present value of the corresponding assets. Figures of nominal value are, however, given for what they are worth, because they are not readily available elsewhere, and because the value of assets—even if it could be obtained—may change considerably from time to time. Too much weight should not be attached to these figures. Nor is it safe to attempt comparisons between the total national incomes of the various countries. They are calculated in different ways, and are mentioned in some of the general surveys only to show in what proportions different branches contribute to the total. To a less extent, this applies also to the figures of the numbers engaged in "Industry:'

The Summary and Conclusions contain material, notably facts about the German trade drive, much of which is not incorporated in the parts dealing with the separate countries.

(1) For a review of the economic and financial development of Albania, Bulgaria, Greece, Rumania, and Yugoslavia since 1919 see *Thi Balkan Statu I, Economic*, specially prepared for and with the assistance of the Information Department of the Royal Institute of International Affairs, Oxford University Press, 1936 (price 51.).

HUNGARY


to Lwow
POLAND
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Bratislava
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Iron ore
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Wheat & Maize
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BUDAPEST
Wheat & Maize
Forests
Lake Balaton
Stock Rearing
RUMANIA
to Trieste
Wheat & Maize
Wheat & Maize
Szeged
YUGOSLAVIA
to Fiume
Zagreb
lignite *
to Belgrade
to Bucharest
Miles 50
Main Railways

I. HUNGARY

POPULATION: .. **9,038,000 (1937: December estimate)**
(Since November 2, 1938, approximately 10,100,000)

1930 census: **8,688,000** *of which*
3,999,000 arc actively occupied,
50-8% in agriculture and forestry, and
25' 9% in mining, industry, and transport.

AREA: **35,740 sq. miles**

Arable	**21,700**	**60·7%**
Pasture	**6,230**	**17·4%**
Tree and bush crops	**1,280**	**3·6%**
Forest	**4,270**	**12·0%**
Uncultivated	**2,260**	**6·3%**

35,740 sq. miles 100-0%

Cereals 15,600 sq. miles 43·7% of total **area**

of which Wheat	**37%**	**16·3%** „ „
Oats	**6%**	**2·6%** „ „
Rye	**15%**	**6·6%** „ „
Barley	12%	5·1% „ „
Maize	**30%**	**13·1%** „ „

100%

Fodder	3,230 sq. miles	9·0%
Vegetables	1,590 „ „	4·4%
Industrial Crops ., (mainly sugar-beet)	430 „ „	1·2%

LIVESTOCK: 1938

Horses ..	814.000	Sheep	1 ,629,000
(battle . .	1,882,000	Pigs	3,110,000

p PRODUCTION

A agriculture . metrictions)

	1929	1830	1931	1832	1933	1934	1935	1936	1937	1938
Wheat	2,041	2,295	1.975	1,754	2,957	1,764	2,292	2.389	1,964	2.609
	411	261	194	316		259	246	262	270	278
	798	722	551	770	957	619	728	714	618	781
Barley	683	601	476	719 !	841	544	556	658	557	667
M*aize* "	1,794	1,407	1.518	2.432	1,809	2,098	1,418	2,593	2,759	2,581
	1.607	1.461		849	944	922	769	1.124	1.013	1,053

Mineral. *(thousands of*

	1929	1939	*1931*	1932	1933	1934	1935	1936	1937	1937	1938) rath*)
Coal	**812**		776	895	800	756	823	827	917	744	855
Ligests	7,044	6.176	6.197	5,931	5,907	6,199	6,718	7,105	8,055	6,394	8,582
Iron **ore**	252	157	**84**	53	50	69	192	280	290	238	248
Banxite	115		88	84	*66*	119	245		610	352	398

Industrial

Index of pre-	100	22.8	87.4	**76.9**	83.9	97.5	110.9	128.5	137.3		130 -4

MONEY AND PRICES

(in millions of Pengos)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Notes in circulation at the end of the year..	501	469	423	353	369	391	417	436	466	663
Deposits (*milliards of Pengos*)	1.9	1.9	1.6	1.5	1.5	1.4	1.5	1.5	1.6	1.5
Wholesale price index	100	79.3	78.5	70.0	62.7	65.3	74.1	73.6	76.0	79.8
Cost of living ..	100	90.6	85.7	83.3	77.3	75.8	77.7	82.0	87.3	87.9

Par rate of exchange (1929) 27.82 = £1
present rate of exchange 16.8 + 50% export premium = 25.2 = £1

FOREIGN TRADE

(a) Total value of imports and exports in millions of Pengos

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	1,064	833	530	329	313	345	402	437	484	419
Exports	1,039	910	570	335	391	404	452	504	588	529

(b) Percentage share of more important countries in imports and exports respectively

		1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany ..	Imp.	20.0	21.0	24.4	22.5	19.7	18.3	22.7	26.0	25.9	29.7
	Exp.	11.7	10.2	12.7	15.2	11.2	22.2	23.9	22.8	24.0	27.7
Austria ..	Imp.	13.2	11.8	12.5	15.5	20.0	23.4	16.6	16.6	16.0	11.2
	Exp.	30.4	28.2	29.6	30.1	27.0	24.5	19.1	17.2	16.8	16.2
U.S.A. ..	Imp.	4.6	4.7	4.3	3.9	6.8	5.7	5.1	5.3	4.7	5.1
	Exp.	1.1	0.4	0.7	0.9	1.5	1.1	1.9	2.6	2.9	2.4
Utd Kingdom	Imp.	2.8	3.0	3.9	4.7	4.4	5.3	5.3	5.1	5.3	6.0
	Exp.	3.6	5.4	9.8	6.9	8.0	7.6	8.4	8.7	7.2	8.0
France ..	Imp.	2.3	2.7	3.3	4.1	5.6	3.0	1.1	1.0	0.9	1.4
	Exp.	1.2	1.6	4.6	4.7	4.5	3.4	2.2	1.9	2.0	1.9
Italy ..	Imp.	4.4	4.9	6.0	5.6	7.4	11.9	7.5	7.4	7.0	6.1
	Exp.	6.9	12.8	9.8	7.6	8.6	8.3	13.5	13.0	12.3	8.5
Czecho-Slovakia	Imp	21.5	21.0	9.1	10.3	11.1	7.0	4.8	5.0	6.2	7.2
	Exp.	10.4	10.8	4.2	6.3	7.3	5.0	4.6	4.0	3.8	4.2
S.E. Europe ..	Imp.	15.8	16.0	21.8	18.7	15.3	13.5	20.6	18.9	16.0	17.3
	Exp.	12.3	10.2	11.2	11.3	9.4	8.5	8.6	9.1	8.6	8.5

(c) Percentage share of more important commodities in total value of imports

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Timber & wood ..	12.5	11.2	10.6	10.6	8.6	11.0	9.2	10.9	12.8	12.1
Raw cotton ..	3.1	3.5	3.6	5.5	7.6	7.6	6.3	6.9	5.7	3.4
Paper	4.1	4.6	5.3	5.4	5.9	5.8	5.0	5.6	5.9	5.2
Chemicals & dyes ..	3.6	4.6	5.9	8.3	9.7	8.8	8.3	7.6	7.2	§
Hides	2.1	3.0	3.3	3.6	3.5	5.1	4.5	5.0	6.2	4.8
Coal, coke & lignite ..	6.7	5.5	5.6	4.3	3.5	3.9	2.6	3.2	3.4	3.5

(d) Percentage share of more important commodities in total value of exports

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wheat	12.1	8.1	7.4	6.3	10.9	13.4	11.7	13.9	10.6	13.1
Animals for slaughter & working ..	14.6	20.7	15.2	13.0	13.8	10.0	11.8	11.7	11.9	12.8
Poultry & eggs ..	5.6	7.4	10.7	8.7	9.4	9.2	7.9	5.6	6.0	7.1
Electrical & other machinery ..	5.2	4.7	6.4	6.4	3.1	10.3	9.1	6.9	7.2	8.0

§Not yet available

1. GENERAL SURVEY

THE following remarks relate to the area of Hungary before November 2, 1938. The territory acquired from Czechoslovakia at that date has increased her population by nearly a million to some 10,100,000. It contains some iron ore and some forests, and, being almost entirely agricultural, will somewhat extend the market for Hungarian manufactures. The annexation of Ruthenia on March 16, 1939, added a further 500,000 to the total population and further increased Hungary's timber resources.

Before the War, 75 per cent of the trade of Hungary was with other districts of Austria-Hungary. In particular, most of her important wheat export found a market within this area, which was protected by high agricultural tariffs. Her wheat was exported mainly in the form of flour and she had a large and prosperous milling industry. Even at this time, however, she was relatively overpopulated. Between 1900 and 1914 well over a million persons emigrated, largely to the United States, from the territory which is now Hungary, and she was developing (somewhat to the concern of other parts of ^he Empire, notably Austria) various industries, particularly sugar, textiles, and electrical machinery. In 1913 as much as 16 per cent of the national income was produced by manufacturing.

Industrial Expansion

After the War, Hungary found her home market reduced from about 50 million to 8 million, and her exports confronted with tariffs. Her milling industry suffered considerably, as neighbouring countries wanted to import wheat rather than flour. Her population continued to increase, reaching 9 million at the close of 1937. It proved difficult to absorb more persons in agriculture, and she therefore encouraged her industries by high import duties. Between 1921 and 1938 the volume of her industrial output about doubled. The proportion of the national income contributed by manufacturingincreasedfrom20 percent in 1924-510 26 per cent in [1]937-8,* and over the same period the proportion of her total imports constituted by manufactures fell from a half to a quarter. The relative importance of the various industries and the extent to which they have grown is indicated by the following table showing the number of workers employed in thousands.[2]

(1) In addition, handicraft* contributed a proportion which remained constant at 8½ per cent.

(2) Reves *Hongroiss de Statistique 1938,* No. 4, p. 459.

Industry	*Number of workers (thousands)*	
	1921	1936
Metallurgy and engineering	57·2	730
Electric light and power	4'4	6'9
Stone, pottery, glass, *etc.*	149	26·1
Wood, leather, rubber, etc.	135	22·4
Textiles	13·0	654
Clothing	3·5	10·6
Paper	1·8	49
Food	31·4	34·5
Chemical	6·8	13·4
Printing	60	7·1
	152-5	264 3

The very large increase in textiles is particularly striking. The total number of hands employed in "manufacturing industry" in June 1938 is given as 702,000*; this no doubt includes handicrafts.

This industrial expansion was financed before the depression partly by foreign short-term credits (constantly renewed); the total value of such credits outstanding in 1931 was 1,157 million pengos —nearly as much as the long-term external debt of the State. Industrial expansion was also financed, especially after 1931, by existing firms out of their profits.

During recent years Hungary has been making more use of her lignite to produce electric power. Her imports of coal fell from over a million tons a year (1925-9) to less than 200,000 tons (1933-7), and the horse-power of electric motors in Hungarian industry more than doubled, being now around 600,000. In 1937 31 per cent of her total exports consisted of industrial products, including electrical and agricultural machinery, electric light bulbs, and wireless valves.

The high tariffs imposed by Hungary in the post-War years were partly responsible for her trade war with Czccho-Slovakia after 1930. Her exports to Czccho-Slovakia fell from 168 per cent of her total exports in 1930 to 42 per cent in 1931 and remained low during subsequent years. Her exports to Austria showed a downward trend from 38 per cent in 1922 to 17 per cent in 1937. She found some compensation in increased trade with countries further afield—Great Britain, Scandinavia, North America, and Eastern countries—and with Germany.

Despite the post-War development of her industry, 50 per cent of her population is still engaged in agriculture (as against 56 per cent in 1920). Her main crop is still wheat, and this forms over 10 per cent of her total exports. The other big crop is maize, but very

(1) Huneries *Commercial Bank of Puts Review,* No, 55, October 1938.

little is exported. Cattle, pigs, and poultry are important: their products constitute nearly a third of total agricultural output and about a fifth of total exports.

Agrarain Reform

Although there were land reforms after the War, Hungary still has a number of very large estates. Just about a quarter of the total area of agricultural holdings consists of estates of more than 1,000 cadastral yokes (i.e. of more than 1,420 acres), and there are some 700,000 agricultural workers who own no land. The large estates produce yields of crops 25 to 30 per cent higher per acre than the small holdings, but they concentrate more on wheat, most of the catde, pigs, and poultry being on relatively small holdings. A re-distribution of the big estates would probably make crop production less efficient and would probably not provide employment for more workers on the land. (At present, the Government forbids the use of harvesting machinery in order to provide more work.) On the other hand, it would tend to divert production away from wheat and towards stock-breeding, poultry', fruit, and vegetables, and such a diversion would seem profitable for the country as a whole. It would also enable the agricultural population to be more fully employed during the winter months: at present less than a third of their labour capacity is utilized during the winter. In January 1939 the Minister of Agriculture announced that the new Land Reform Bill would provide for the expropriation and parcelling-out of some two million acres belonging to the big estates, beginning with fallow and Jewish estates. Compensation will be paid up to half the total in cash, the rest being distributed over twenty-five yearly instalments plus 3 ½ per cent interest, and the land will be leased out in small holdings. As, however, the area to be so transferred is only 140,000 acres a year—0·6 percent of all agricultural holdings the measure is less important than might appear at first sight.

Agricultural Polity

After the War, economic policy aimed primarily at encouraging industry. Since the depression, the tendency has been more towards a policy of "saving agriculture." The measures taken to maintain the prices of wheat, wool, oil-seeds, and milk arc particularly worth mentioning.

The Government controls *Fulura,* which buys all the wheat offered to it at a price considerably above the world price. This favours the relatively large estates, which produce most of the wheat coming on the market.

Hungary produces low-quality wool. Much of this used to be exported at a low price, Hungarian textile factories importing **better-quality** wool from Australia and elsewhere. About four years

ago a law was passed compelling textile factories to buy Hungarian wool at a price considerably above the world price. It can be exported only in exchange for foreign wool. This has stimulated the production of wool (which rose from 4,000 tons in 1933 to 7,000 tons in 1938) but it has also raised the prices of Hungarian woollen goods. Hungary still exports such goods, but this is made possible only by a subsidy given by the industry from the proceeds of a levy on the output of the various firms.

In 1937 factories producing soap and similar products were forbidden to import fats. They were compelled to contract (through *Futura)* with the farmers to buy their oil-seeds (sunflower and rape) at a high price, fixed by the Government.

Hungary has a milk scheme similar to the British one, which keeps up the price of liquid milk by subsidizing the purchase of "manufacturing" milk for butter, etc.

In addition to all this there is a fund of about 50 million pengos a year obtained from taxation (nearly half coming from a tax on flour) which is used to subsidize agricultural exports.

It will be appreciated that most of the burden of encouraging agriculture falls on the Hungarian consumer. Recently an Office for Controlling Prices was set up, but it controls only industrial, and not agricultural, prices and profits.

Agricultural indebtedness was over 2 milliard pengos, with an interest-charge of 225 million pengos a year, in 1931. In 1938 the interest-charge had been reduced to 75 million pengos a year.

Mineral

The mineral resources of Hungary, apart from bauxite, are not important. The resources of bauxite arc estimated at 250 million tons, nearly a quarter of the world total. She now produces around 500,000 tons a year—some 14 per cent of world output. The coal resources were estimated in 1914 at about 120 million tons, the lignite resources at about 500 million tons, and the iron ore resources at about 20 million tons. Recently, the output of oil has been increasing. New wells have been sunk by the Standard Oil Company. The output is now around 200 tons of crude oil a day and it is hoped that this will become 600 tons (enough to cover internal consumption) before long.

fice four *Plan*

In 1938 the Government embarked on a five-year plan to spend 1,000 million pengos, 600 million on rearmament, and 400 million on public works (mainly roads and irrigation). Nearly 500 million pengos (including 100 million for mobilization in September 1938) have already been spent. The money is to be obtained by a capital levy of 600 million pengos spread over five years, the first instal-

ment of which was paid in 1938 without difficulty, and by internal loans, part of which have already been raised.

Anti-Semitic Polity

Early in 1939 the new Bill concerning Jews will come before Parliament. According to the 1930 Census there were then 445,000 confessing Jews, about 5 per cent of the total population. But the Jews play a very important part in the economy of Hungary. In 1930 45 per cent of ail employers and independent workers, and 53 per cent of all salaried employees, engaged in "commerce," were confessingjews. The new Bill proposes, *inter alia,* to restrict the number of Jews employed by any one firm in commerce or industry to 12 per cent of the total personnel and to restrict wages and salaries paid to Jews to 12 per cent of the total wage and salary bill. Jewish firms will not get Government contracts. Moreover, the number of "Jews" is considerably increased by the new definition, which covers many persons who are not confessingjews. If the Bill goes through without substantial modifications, a severe shock will he given to Hungarian commerce and industry, as many key positions are held by Jews and it will be very difficult to find Magyars capable of replacing them.

2. CONTROL OF EXCHANGES AND FOREIGN TRADE

The pengo was stabilized in 1925 at 3800 pengos to one kilogramme of fine gold, equivalent to 27·825 pengos per "gold" £. Since December 1935, when the various premia were unified, the National Bank has paid a premium of 50 per cent on free exchange and has charged a premium of 53 per cent, thus virtually recognizing a depreciation of the pengo, as against gold, of 31 • 4 per cent.

All free exchange must be surrendered to the National Bank at this rate. Thus the official sterling rate, for example, varies with the sterling price of gold — at the close of 1938 it was just over twenty-four {16-+-53 per cent) pengos to the £. A little free exchange is obtained from weak-currency countries, e.g. from Greece for wheat. The available free exchange is allotted to importers in the following manner. Precedence is given to imports of raw materials. Hungary's needs arc determined each month by the Foreign Trade Office (together with the National Bank) and this office allots the amount of free exchange decided upon, on the basis of applications submitted by importers.[1] (A quite minor point is that some large

(i) An interesting point is that—partly to discourage applications for a larger amount than is really required—there is a tax of 1 per cent on the value applied for.

firms arc permitted—subject to the control of the National Bank—to purchase raw materials for their own use from free-exchange countries out of the proceeds of their exports to such countries: apart from this there is no "private compensation".) In this way—together with the raw materials which some "clearing" countries, notably Germany, agree to supply in part payment for Hungarian exports—provision is made for imports of raw materials.

Of the free exchange which remains, the National Bank gives a varying amount each month to the Ministry of Commerce, which allots it (among commodities and countries) to importers for the purchase of manufactured goods etc. Priority is given to "more necessary" imports, but some free exchange is allotted for "luxury" imports also. The National Bank has retained some foreign exchange during the last two or three yean and has thus built up a substantial reserve: enough, probably, to cover two bad harvests.

The great majority of creditors in free-exchange countries have agreed to accept payment of the interest etc. due to them through the "additional exports" scheme. The Hungarian debtors pay their pengos, at the official rate, into a fund. This fund is used for subsidizing exports to free-exchange countries which could not be made without the aid of a subsidy. Thus the Hungarian exporter receives a higher rate than the official one (how much higher depending on the extent of the subsidy required to make any particular export possible: a matter carefully examined by the National Bank) and foreign creditors receive correspondingly less. In 1937 the total amount of interest etc. paid in this way was equivalent to some £'2· 5 million.

There are import quotas for most goods except raw materials. These import quotas arc by countries, being stated in the various trade agreements, as well as by commodities (for example, motor-bicycles from Germany) and in practice are treated as maxima, not to be exceeded. Similarly, most other countries allot quotas for various Hungarian exports.

The volume and direction of exports are controlled (a) by the National Bank and (b) for most exports, by the Foreign Trade Office. The National Bank issues the export licences. It tries to prevent the credit balance of Hungary with any particular "clearing" country from exceeding a certain level. The Foreign Trade Office controls the flow of particular exports to particular markets in the interest of the producers—for example, it may limit the export of cattle to a particular country if cattle prices there arc falling. Exports to clearing countries are in effect taxed to subsidize exports

to free-exchange countries. The extent of Governmental control was considerably extended in 1938, in order to ensure that the benefits from exports to fill limited quotas went to producers. It was alleged that, previously, exporting firms (mainly Jewish) had refrained from competing with one another, so that they, and not the producers, received these benefits. Hence export licences were not given to exporting firms but to farmers, who are grouped in organizations under the Foreign Trade Office. This applies to nearly all agricultural exports except wheat, which, as mentioned above, is exported by *Futura.*

Hungary has payments agreements, in the strict sense, with Great Britain, France, and Belgium: that Is to say, she limits the value of her imports from such a country to a proportion of the value of her exports in the preceding period, receiving the difference in free exchange available for any purpose she pleases.

Hungary used to have clearing agreements with weak-currency countries. The National Bank paid the Hungarian exporter, at the fixed rate of exchange, as soon as his creditor had paid. Thus the National Bank bore the risks and performed the "waiting." This system was replaced some years ago by payments agreements, with a kind of "centralized compensation." The Hungarian exporter or importer makes his own arrangements with the foreign firm and deals through any of nine authorized Hungarian Banks. These banks meet every day at the National Bank to buy and sell foreign currencies among themselves, and in this way foreign exchange rates arc determined between the pengo and most currencies. The rate with Germany, however, is fixed at 1 ·6 pengos 1 mark. Recently there has been a strong desire by Jews to export capital, and the "black market" rate has been below 60 pengos to the £. But exchange control is very strict and fairly effective.

3. FOREIGN LOANS AND INVESTMENTS

Hungarian municipalities, banks, and other firms borrowed considerable sums, on short or long term, in the years before 1931. The debt negotiations between the Government and foreign creditors have covered these debts as well as the debt of the Central Government. The total of all these foreign debts in 1938 (including untransfcrred accumulated interest to the value of about £15 million sterling) amounted to 1,838 million gold pengos, or *£110* million. The main classes were:

(a) the pre-War *Caisse Comsure* debt of **540** million gold **pengor** (£32 million), held **almost entirely in France;**

(b) the 1934 League of Nations Reconstruction Loan of 177·5 million gold pengos, of which 150 (£9 million) is held in free-exchange countries, about half in England;
(c) long-term private debt of about 500 million gold pengos (£29 million), held mainly in the United States and England;
(d) State short-term debt of about 390 million gold pengos (£13 million), held mainly in France and Switzerland;
(e) private short-term debt under the "standstill" agreement of about 250 million gold pengut (£15 million).

Under recent agreements, the service on the League Loan has been reduced from 7 ½ to 4½ per cent, and amortization is to begin again in 1940 at the rate of 1 per cent per annum, and the service on the *Caisse Commune* debts has been reduced to just under a third of the sum normally due.

The total service transferable on all the foreign debt is now in the neighbourhood of 45 million gold pengos. As mentioned previously, some £2·5 million were transferred in 1937 under the "additional exports" scheme.

There arc a few foreign enterprises in Hungary and some shares in Hungarian banks and industrial firms are held abroad, but no estimates of the value of this foreign capital are available and the total is probably small relatively to the debts discussed above.

4. RELATIONS WITH GERMANY

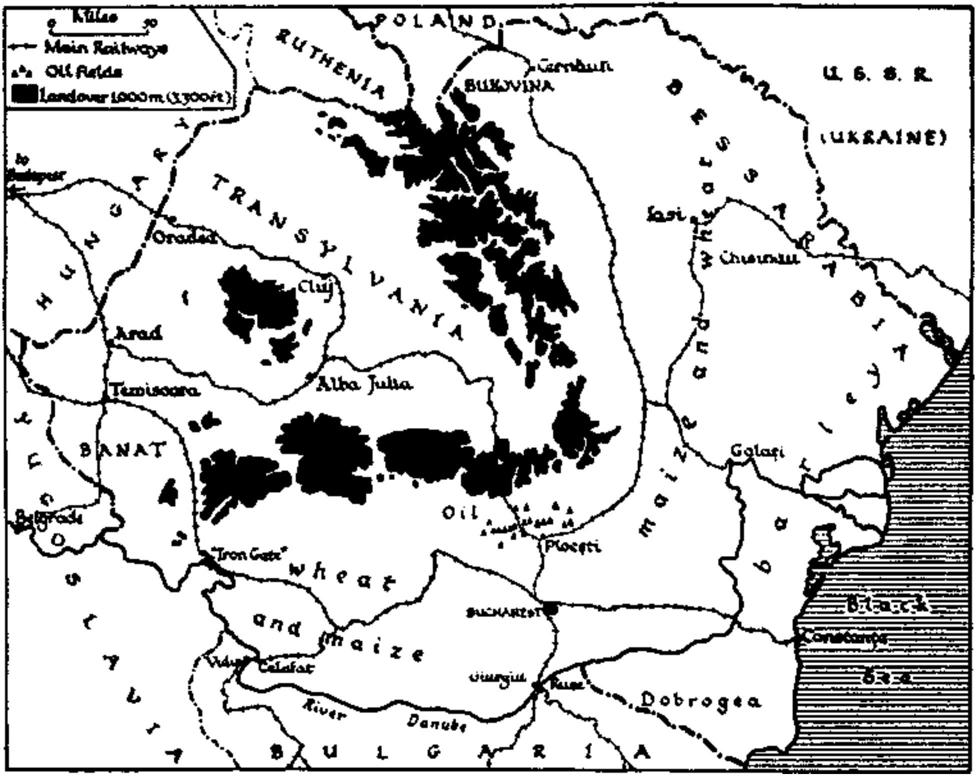
The foreign trade of Hungary with Germany increased from 20 per cent of imports and 12 per cent of exports in 1929 to 26 and 24 per cent respectively in 1937. The increase of trade with Germany was mainly at the expense of Czccho-Slovakia and (for exports from Hungary) of Austria. In most South-Eastern European countries the progress of Germany has been largely at the expense of Italy. This has not been so in the case of Hungary: the trade of Italy with Hungary has increased. In 1938 Greater Germany had over 40 per cent of the foreign trade of Hungary, but in 1929 Germany and Austria together had nearly the same proportion.

The rate of exchange with the mark is fixed in the trade agreement at 1 -6 pengo. The "official" rate would be 1 -36 pengo. It is said that Hungary asked, without success, for a rate of 1 • 36 pengo. Germany supplies Hungary with certain quantities of some raw materials (mainly cotton) and "colonial products" (mainly coffee).

Much Hungarian industry is competitive with German industry both in the Hungarian home market and in export markets (for example, agricultural machinery to South-Eastern Europe). It is said that Germany protested, without success, against the recent erection of plants for smelting bauxite in Hungary.

The Jewish Bill, mentioned earlier, is thought by some to be due partly to German pressure. It is possible that some Germans may fill commercial and technical positions, formerly occupied by Jews, for which qualified Magyars are not available, or, alternatively, that Hungarian industry will become less important.

RUMANIA


Miles
0
50
Main Railways
Oil Fields
Land over 1,000 m (3,300 ft)
POLAND
RUTHENIA
BUKOVINA
Cernăuţi
U. S. S. R.
(UKRAINE)
BESSARABIA
HUNGARY
TRANSYLVANIA
Oradea
Cluj
Arad
Alba Julia
Timişoara
BANAT
Iaşi
Chişinău
Galaţi
Oil
Ploeşti
wheat and maize
"Iron Gate"
Bucharest
Giurgiu
Ruse
Vidin
Calafat
River Danube
Dobrogea
Constanţa
Black Sea
BULGARIA
YUGOSLAVIA
to Budapest
Belgrade

II. RUMANIA

POPULATION .. 19,646,000 {1937: December estimate)
1930 census •• 10,053,000 *of which*
10.543,000 are actively occupied,
78 0% in agriculture and forestry, and
8·9% in mining, industry, and transport.

AREA	114.000 sq. miles		(1936)
Arable	53,850	„	47 3%
Pasture	14,900	„	13· 1%
Forest	24,900	„	21·8%
Tree and bush crops	2,200	„	1·9%
Uncultivated	18,150	„	15·9%
	114,000	sq. miles	100·0%

Cereals	44,800	sq. miles	39' *4% of total* area
of which Wheat	30%		11·6% „ „
Oats	*7%,*		2 ·7% „ „ „
Rye	4%		1·4% „ „ „
Barley	14%		5·5% „ „ „
Maize	45%		„
	100%		
Fodder	3,050	sq. miles	2·7% ., „
Vegetables etc.	2,030	„	1·8% ., „ „
Industrial crops	1,900	„	1·7% „ „ „

LIVESTOCK

	1935		
Horses	2,167,000	Sheep	11 838,000
Cattle	4,327,000	Pigs	2 970,000

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wheat	2,715	3,558	3,682	1,512	3,241	2,084	2,625	3,503	3,810	4,922
Oats	1,359	1,157	870	643	808	563	594	647	516	640
Rye	337	465	353	267	446	211	323	453	453	500
Barley	2,730	2,371	1,414	1,467	1,784	871	924	1,812	946	1,280
Maize	8,386	4,520	6,290	5,003	4,554	4,846	5,379	5,612	4,656	4,800

Mineral (thousands of metric tons)

Petroleum	4,637	5,792	6,756	7,348	7,377	8,456	8,376	8,700	7,230	6,810*
Coal	371	289	287	188	195	228	278	293	303	294*
Lignite	2,075	2,071	1,632	1,484	1,314	1,624	1,887	1,871	1,881	2,040*
Iron ore	90	93	62	6	14	84	94	108	120	
Gold†	2,213	2,672	2,741	3,191	4,435	3,468	4,071	4,977	5,465	5,470*

Industrial

Index of production‡ ..	100	96·9	102·1	88·5	102·6	123·9	122·1	130·0	131·7	127·4

Yearly production of building timber and fire wood: 1929 700 million cubic feet
1933 585 „ „

Beginning 1937 the evaluation of the harvest is made according to the Central Institute of Statistics; before that year according to the data of the Ministry of Agriculture. Data for 1938 are estimates.

*estimate
†in kilograms
‡including manufactures, crude oil, and coal production

MONEY AND PRICES

(in milliards of lei)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Notes in circulation at the end of the year..	21·1	19·8	23·8	21·6	21·2	22·3	23·1	25·7	29·4	34·9
Deposits						12·1	13·8	15·2	16·3	
Wholesale price index	100	76·4	60·2	54·0	52·3	52·4	60·0	68·5	72·2	72·3
Cost of living ..	100	89·8	73·9	61·8	56·7	55·4	55·6	57·9	66·1	74·6

Par rate of exchange (1928) 813·3 = £1
present rate of exchange 1,000 = £1 (payments agreement rate with Great Britain)

FOREIGN TRADE

(a) Total value of imports and exports in milliards of lei

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	29·6	23·0	15·6	12·0	11·7	13·2	16·8	12·6	20·3	17·0
Exports	29 0	25·5	22·2	16·7	14·2	13·7	15·8	21·7	31·6	21·6

(b) Percentage share of more important countries in imports and exports respectively

Germany ..	Imp.	24·1	25·1	29·1	23·6	18·8	15·5	23·8	36·1	28·9	40·0†
	Exp.	27·6	18·5	11·4	12·5	10·6	16·6	16·7	17·3	22·3	26·5†
Austria ..	Imp.	12·5	11·6	8·9	4·8	9·2	9·9	10·6	13·4	8·5	
	Exp.	9·4	9·1	10·7	6·4	6·8	9·1	12·6	8·6	6·5	
Utd Kingdom	Imp.	7·3	8·1	6·3	10·8	14·8	16·3	9·6	7·4	9·4	7·8
	Exp.	6·5	11·3	10·1	14·0	15·4	10·0	9·8	14·4	8·6	11·2
France ..	Imp	5·5	7·4	7·9	13·6	10·5	11·1	7·2	5·9	6·1	7·4
	Exp.	4·5	6·8	10·9	12·9	12·4	9·6	4·1	9·1	5·7	4·8
Italy ..	Imp.	6·9	7·9	9·8	11·3	10·5	7·3	7·7	1·5	4·3	5·3
	Exp.	7·7	12·9	9·3	10·7	9·2	7·6	15·6	6·1	6·6	6·3
Czecho Slovakia	Imp.	19·3	14·6	12·2	12·2	9·8	9·9	13·0	11·5	10·1	8·5
	Exp.	8·2	7·0	7·0	7·0	4·9	5·4	5·9	7·0	8·2	9·6
S.E. Europe ..	Imp.	20·5	19·8	17·8	16·2	14·6	16·2	22·3	9·9	6·6	6·4
	Exp.	24·8	20·0	22·1	19·2	13·1	16·4	19·6	10·0	13·0	14·2

*(c) Percentage share of more important commodities in total value of imports**

Wool	7·0	5·9	5·4	5·9	5·6	5·5	6·1	5·9	6·1	4·5
Vegetables & textiles	25·8	29·0	29·6	32·9	33·3	28·1	25·0	24·7	22·6	16·0
Iron & iron manufactures	15·7	16·1	14·7	10·6	10·6	13·0	17·3	19·6	17·5	21·9
Machinery ..	13·5	12·4	10·5	8·7	9·3	11·7	13·4	13·8	13·9	16·8
Vehicles	3·1	3·8	3·7	1·9	2·0	2·3	2·4	3·2	4·4	9·1
Chemicals & dyes ..	3·8	4·2	5·7	6·7	7·3	7·7	6·8	7·0	5·6	5·0

*(d) Percentage share of more important commodities in total value of exports**

Cattle	6·9	5·6	7·0	3·5	2·9	4·6	5·7	5·0	4·2	5·2
Timber ..	10·2	10·9	10·7	7·4	7·2	10·8	5·7	7·8	9·0	11·7
Petroleum products ..	33·2	36·6	30·6	43·1	53·3	52·6	51·7	41·3	40·5	40·6
Wheat	0·2	5·1	13·1	2·0	0·2	—	4·3	12·1	16·6	15·7
Barley	19·7	12·6	11·7	7·6	6·6	5·6	2·4	6·6	4·9	3·6
Maize	6·5	13·6	16·1	20·7	13·2	8·2	9·1	9·4	5·5	2·9

*The 1938 figures are estimated on the basis of 9 months only
†Including Austria

1. GENERAL SURVEY

THE redistribution of territory after the War more than doubled the area of Rumania. It was not easy to make the enlarged country into an economic unity. The trade and railway connections of the annexed territories were with their pre-War political units (Transylvania and the Bukovina with Hungary and Austria, Bessarabia with Russia), and not with the old Rumania. After the War, their former markets were walled round with tariffs; the Russian frontier was closed until 1936. Hence the new Rumania suffered from dislocation of markets and poor internal railway connections. She did little to improve the transport situation by building new railways and roads centring on Bucharest (she was one of the few countries which borrowed very little abroad in the post-War decade). There is still no bridge across the Danube to connect her with Bulgaria.[1] Owing partly to these difficulties of orientation, the general standard of living in the country is rather lower than before the War.[2] Nevertheless some progress has been made: for example, a direct line has been built from the Bukovina to Transylvania, a line from the old Kingdom to Transylvania will be completed in 1939, and trade with Russia has recommenced.

Agriculture

Like the countries already discussed, Rumania is predominantly agricultural and is overpopulated and poor. Seventy-five per cent of her agricultural holdings are below 5 hectares, many of them consisting of several scattered strips; a considerable number of very small farms are without draught animals; and the general level of agricultural technique is low. Yields have only recently recovered to their pre-War levels under the big estates. Her national income, as calculated by H. Silbcr, fell from 314 milliard lei in 1929 to a low point of 178 milliard Ici in 1932, subsequently rising to 242 milliard Ici (below £15 per head) in 1936.

Rumania's two main crops are wheat and maize. During recent years she has produced on the average about twice as much maize as wheat, but 1938 yielded (as elsewhere) a quite exceptional wheat harvest: 4-9 million tons, as against the rather low maize harvest of 4 • 8 million tons.

Some diversion of agricultural effort into more labour-intensive channels would seem desirable. Hitherto it has been checked by

(1) The construction of a train ferry between Giurffiu and Ruse has been dUcuiuied recently. It would be an advantage to both countries if Rumania handed back her two "Bulgarian" counties (part of the Dobrudja) in return for a Customs union with Bulgaria, to whom she could sell manufactured and other products.

(a) The Trade Cycle Institute of Bucharest calculates that between 1911-15 and 1931-7 the consumption per head per year of cotton fell from 3·1 to 2 1 kilograms and of tobacco from 0*950 to 0*595 kilograms.

lack of knowledge and by the subsidies or protection given to other products. Of these, wheat is the most important. Its export has been subsidized since 1931 and the area sown to wheat has increased from 3-0 million hectares in 1930 to 3 • 6 million in 1937. Tobacco is another important example. Rumania is not very suitable for this crop and the cost of production is relatively high, yet the State monopoly pays a sufficient price to call forth a supply about equal to national consumption. It should perhaps be added that sugar-beet, although protected, is produced relatively cheaply (about 9 Ici per kilogram). At present, the Ministry of Agriculture is making some efforts to encourage industrial plants (such as sunflower, hemp, and flax), poultry and eggs, fruit, and cattle; and exports of these products (except cattle) to free-exchange countries are now promoted by permitting exporters to sell freely about 80 per cent of their free exchange.

Timber is another important export—9 per cent of total exports in 1937—which may fall off in the future. The forests have been exploited recklessly, young trees as well as old being cut. The Government now, on grounds of "national defence," forbids cutting in over 60 per cent of the forest areas. Nevertheless some timber exports arc subsidized.

Oil Production

Oil occupies an important place in the Rumanian economy. It is true that it directly employs less than 25,000 workers (including 7,000 in the refineries) and that the total value of all petroleum products forms less than 4 per cent of the national income (9-8 milliard Ici in 1937). But in 1937 petroleum products accounted for 40 per cent of her exports and supplied 22 per cent of her total railway receipts and 15 per cent of her total budget receipts. Hence it is disturbing to find that all the oil worth extracting will probably have been extracted in a very few years.[1] In 1935 Professor Macovci, director of the State Institute of Geology, estimated that there were 14 9 thousand hectares certainly containing petrol, of which 6*8 thousand had been worked out, leaving only 8-1 thousand; that a

(t) In this connection the following extract from Lord Cadman's speech on world oil supplies at the Third World Power Conference at Washington on September 7, 1936, is of interest: "... Various estimates have been issued from time to time of the relation existing between world reserves and world consumption, and it is disquieting to note that the general average of recent estimates would appear to indicate the existence of something less than twenty years' consumption . . . Current estimates of reserves may be falsified by the discovery of new pools, though it is pertinent to remark that each new discovery renders further discoveries more remote, that in recent years discoveries have not kept pace with consumption, and that few pools are of such a magnitude as to represent the world's consumption for a single year. There have been only two or three major discoveries in the United States within the last five yean..."

farther 9-5 thousand hectares quite possibly contained oil; and that there might be oil in a further 20 thousand hectares in Moldavia but of so low a yield that it might not be worth working. The total output worth exploiting was estimated at 105 to 110 million tons. That was four years ago. Subsequent tests suggest that this estimate was rather too optimistic. Output in the last few years has averaged about 8 million tons a year, but in 1938 it was only 6 • 5 million tons. In another six or seven years the big foreign companies may go, leaving the poorer deposits, not worth their while to work, to be exploited by Rumanian firms.

At present about 90 per cent of the oil is extracted by foreign companies.[1] The Rumanian Government would like local companies to have a bigger share, and the foreign companies complain of unfair treatment. In particular, they complain that they arc not given promising land to explore for oil and that if they do find new deposits the Government wants to give most of the exploitation to local concerns. Hence the foreign companies have been deterred from much exploration, which of course is costly. In fact, the local companies have not the capital or technicians or control of foreign markets which would enable them to embark on large-scale production. The Government seems now to realize this and to be about to offer better terms to the foreign companies.

Other Mineral Resources

The Institute of Geology has estimated the reserves of various minerals as follows: black coal, 32 • 5 million tons; lignite etc., 3,040 million tons; iron ore, 13-8 million tons; manganese ore, 7*8 million tons; bauxite, 26-0 million tons, and possibly much more not definitely known at present. Chrome ore (38 to 52 per cent chrome) is unimportant. There are no complete estimates for copper, lead, silver, and zinc, but, as far as is known at present the only mineral available in really significant quantities is bauxite. Hunker oil provides about half the fuel for Rumanian industry and natural gas (found in Transylvania) part of the rest. Rumania also produces gold, and her output has risen from about 3,000 kilogrammes in 1932 to about 6,000 in 1938.

Industrialization

It may be estimated that "industry*' in the widest sense now employs 800,000, of whom 350,000 are in factories. After the banking collapse of 1931, home investment went largely into building, especially in Bucharest. In 1934 a tax of about 12 per cent was placed on new buildings in order to divert investment towards industry. By the decree of 1936 the Cabinet can give a monopoly for two years (and this can be prolonged) to an industry considered

(1) For details, *see* below, p.135.

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important which did not previously exist in Rumania. Under this stimulus, works for oil-drilling equipment, radio valves (Philips), and other products have been set up* But the big encouragement to industrial expansion has come, since 1935, from the rearmament programme. If the Government wishes private enterprise to set up a new factory to produce, for example, guns or shells, it will advance a considerable proportion of the capital cost and will agree to buy at prices sufficiently high to amortize the whole factory within a year, or at most two years. At present, much industry is working largely for armaments.

State Finance

Taxation has been considerably increased: the following figures have been calculated by the Trade Cycle Institute at Bucharest:—

Calendar year	*Direct taxes*	*Indirect taxes*	*Total* ***Budget*** *receipts*
	(*Milliard lei*)		
1929	8*4	10·8	23·9
1935	42	8·8	23·7
1936	4·4	14·2	283
1937	4·8	17·1	32·1[1]
1938 (prov.)	72	176	367

The profits (4 milliards) on writing up the gold stock of the National Bank by 38 per cent in 1936 were used for rearmament. In the summer of 1938 the State raised a loan of 1550 million lei from the banks in the form of 4½ per cent Treasury bonds, discountable at the National Bank. A capital levy is possible.

Attention may be drawn to the increase in the note issue from about 28 milliard lei in 1934 to nearly 38 milliard at the close of 1938. New notes are paid for Rumanian-produced gold. The cost of living has risen from 55 per cent of the 1929 level in 1935 to 75 per cent at the close of 1938. It is possible, owing to the rearmament programme, that prices will continue to rise (further cash being provided, for example, through a new revaluation of the gold stock or through the discounting of Exchequer bonds).

Anti-Semitic Measures

Early in 1939 the black market rate for pounds sterling had risen to 2000. This was partly due to a flight of Jewish capital. The Jews number about 800,000 according to the Census of 1930 (although anti-Semites claim that they number 2^ million). They are mostly in the North. Most individual firms in retail trade are Jewish and there arc a number of Jewish entrepreneurs in the textile, metallurgical, and wood industries. The importance of Jews in commerce is indicated by the 50 per cent fall in the value of wholesale transactions in January 1938, under the Goga regime. Towards the close of 1938 anti-Semitic measures were recommenced. The Government took licences to sell tobacco and alcohol away from Jews and announced that it wished 150,000 Jews to emigrate during

the next three years. Recent reports, however, indicate some relaxation of this policy.

2. CONTROL OF EXCHAxNGES AND FOREIGN TRADE

The leu was legally stabilized in February 1929, with the help of an international loan of $ 100 millions, at a gold parity equivalent to nearly 814 lei to the £. After the failure of the Gredit-Anstalt some important Rumanian banks suspended payment. The budgets had large deficits. The result was a flight of capital abroad, and in May 1932 Rumania imposed exchange control in order to safeguard what remained of her gold and foreign exchange reserve.

The regulations governing international trade and payments have been changed many times. The details given below refer to the close of 1938.

Most of the trade is governed by clearing agreements. In transactions in free exchange, a depreciation of 38 per cent in the leu from its legal parity is officially recognized: exporters must surrender their free exchange to the National Bank at this rate. The Government takes most of this to meet its obligations to free-exchange countries and to pay for armaments or public works materials which it purchases from them. Importers who arc fortunate can obtain free exchange from the National Bank at this rate; precedence is given to imports of raw materials and machinery.

Exports are encouraged to flow towards free-exchange countries, rather than weak-currency countries, in three ways:

(1) Exporters of cereals and seeds can retain 30 per cent of their free exchange (surrendering only 70 per cent at the official rate) and can sell it, through an authorized bank, for whatever it will fetch.[1] This free exchange can be used for many purposes, including the payment of financial debts and the purchase of imports over and above the quantities permitted by the various import quotas. Exporters of timber to countries (e.g. South Africa) neither in Europe nor on the Mediterranean can similarly retain 20 per cent of their free exchange. The oil companies can also retain 20 per cent to be used for their own needs (e.g. payment of dividends or royalties on patents).

(1) Under the Payments Agreement with Great Britain, exporters retain 60 per cent, 40 per cent to be used for imports from Great Britain and 20 per cent for payment of financial debts etc. The remaining 40 per cent goes to pay Government debt held in Great Britain, to pay for Government purchases from Great Britain, and to pay off outstanding trade debts. But most of the trade between the two countries now takes place under "compensation*' arrangements.

(2) A direct subsidy is paid on wheat exported to free-exchange countries. This subsidy was raised in 1938 from 10,000 to 13,000 lei per ten-ton wagon: equivalent to over 50 per cent ad valorem. There are similar subsidies on the export of cattle (equivalent to 33 to 40 percent) and timber (5 to 25 per cent, varying with countries) to European countries. The object of these subsidies is to promote sales, in various free-exchange countries, which would not be possible without them. It is interesting to note that maize gets no subsidy: maize, it is said, "sells itself."

(3) Any goods included in List A (see the Anglo-Rumanian Payments Agreement) can be exported to free-exchange countries through private compensation. List A was considerably extended in 1938: it now includes most export commodities other than cereals, oil, timber, and cattle. The exporter must surrender 10 to 25 per cent (varying with the commodity) at the official rate to the National Bank; he can sell the rest, through an authorized bank, for what it will fetch. This free exchange can be used by the buyer to import (outside the import quotas) any goods on List B. List B also was considerably extended in 1938. In the first eleven months of 1938, out of a total export of about 19*70 milliard lei, roughly 1*85 milliard went to free-exchange countries through private compensation.

The advantage given to an exporter by permitting him to sell part of his free exchange for what it will fetch is considerable. Towards the close of 1938 the price paid by the National Bank for sterling (including the 38 per cent premium) was around 700 lei per £; the price obtained in the free market was 1200 to 1700 Ici per £. Control over the black market docs not seem very strict, and this is possibly because the National Bank considers that the best way to deal with the problem is to permit some free exchange to be sold at rates which approach those of the black market, thus tending to make the latter unnecessary.

In 1935 a general tax of 12 per cent (apart from the existing import duties) was imposed on all imports, and a tax of 12 per cent was imposed on exports of oil. These taxes were designed mainly for revenue—the budgets showed heavy deficits. They remain in force. Import quotas were imposed in 1933 in order to restrict imports and to provide an export surplus out of which Rumania could meet part of her public and private indebtedness. These import quotas have served, also, to promote industrialization. An interesting feature is that an importer must pay a fee per kilogram —fixed by the Minister of National Economy and different for

each commodity—in return for permission to import. (This fee must be paid for "ex-quota" imports also.) Hence the Rumanian Government gets part of the "extra" difference, due to restriction of imports, by which the Rumanian selling-price exceeds the price paid (plus duties) by the Rumanian importers.

The trade between Rumania and nearly all weak-currency countries takes place at the rates of exchange stated in the various agreements. A limited amount of private compensation is allowed: in the first eleven months of 1938 exports valued at about 500 million lei went to weak-currency countries through private compensation, the Rumanian exporter getting 10 to 20 per cent over the official rate.

When exchange control was imposed in 1932, many Rumanian importers still owed money to foreign creditors: hence about 8 milliard lei became "blocked". By the close of 1937 very few blocked lei remained: some had been transferred abroad, at a considerable loss, via the black market, and most of the rest had been invested in Rumanian industry.

Further evidence of the depreciation of the leu is given by the fact that the National Bank pays a premium on home-produced gold. In November 1936, the premium paid, above the official rate, was fixed at 38 per cent and the premium on free exchange was fixed at the same level. The price paid for gold has recently been raised, and is now 30 per cent above the price paid at the close of 1936.[1] Hence it has been surmised that the premium on free exchange, which is still 38 per cent, may also be raised. But this is officially denied, and indeed does not seem necessary, for -as has been noted—there are other ways of stimulating exports to free-exchange countries.

2. FOREIGN LOANS AND INVESTMENTS

(i) PUBLIC DEBT

The public debt of Rumania outstanding on April 1, 1937, was composed as follows:—

External consolidated debt:		
Pounds	**36·3 million**	**36·3 million**
Gold francs	**332·7 „**	**22·0 „**
Gold Ici	**207·3 „**	
Dollars	**88·8**	**15·3 ::**
Gold florins	**100·7 „**	13·9
Gold kronen	**178·2 „**	12·3 „

(1) A minor point is that small producers get an additional subsidy of 20,000 Ici **per kilogram.**

SWISS francs	40-9	2·0	million
French francs	3,036-0	19·2	
Lire	1160	1·2	,,
	,,	140·3	,,
War debts:			
Pounds	184	18·4	
Gold francs		34·8	
lire	157·9	1·6	,,
Dollars	44 6		
	,,	63·9	,,
Total external consolidated debt		**204·2**	"
Interna) consolidated debt (1 April, 1938):		53	
Total funded public debt		**257·2**	million

The Rumanian Government first defaulted on the service of the external debt at the end of 1932. At present amortization payments arc suspended on foreign loans, with the exception of the 1922 4 per cent loan (on which £19,455 amortization was paid in 1938) which enjoys priority over all other loans both as regards interest and sinking-fund payments. The agreements of 1933, 1934, and 1937 with the foreign creditors reduced the interest service on the external debt, and at present 63 per cent of the total interest due is transferred on the 1922 4 per cent loan in complete discharge of all (interest) obligations, and 47 per cent on all other external loans.

The total interest service on the funded public debt represented 3,931 million Ici in 1938-9, or 13-7 per cent of ordinary budgetary expenditure (as against 6,863 million Ici, 24 • 3 per cent in 1932) and of this 55 per cent was the service on the external debt.

(ii) PRIVATE INVESTMENTS

It is possible that the foreign capital in the oil industry—about 10 milliard lei—forms at least half the total foreign capital in Rumania. In 1931 it was owned as follows:

	Million lei	*Per cent*
Rumanian	3.488	26·35
Anglo-Dutch	4,772	36·05
French		**16·30**
American		**10·49**
Belgian		6·47
Italian		**2·92**
Dutch		**0·51**
German		**0·25**
Others	***87***	**0·66**
	13,236	**100·00**

***Finances et** Industrie,* **a** Rumanian journal which published **a** series of articles (in French) in November and December 1938 on **foreign** investments in Rumania, says that the situation has not changed much since 1931. It is believed, however that Royal Dutch-Shell has just bought out most of the Rumanian capital, so that 85 per cent of the capital in the oil industry is now foreign.

ReSjifa, the large iron and steel and armaments works, with a capital of a milliard lei, has particularly close relations with Czech capital, and the same applies to the Cops.a Mica and Gugir Metallurgical works, with 860 million lei capital. This "Czech" capital, of course, is now under German control. English capital is important in the Titan Nadrag Calan metallurgical works (nominal capital 500 million lei) and the Malaxa locomotive factory (nominal capital 400 million lei).

Belgian capital predominates in the distribution of electricity and electric trams. The Italian group *Foresta Romana* is important in the timber industry. Great Britain is more important than any other foreign country in Rumanian banking but the total capital of the banks in which her capital participates (including the Banque Anglo-Romana, the Banque Chrissoveloni, and the Bank of Rumania) is only about 500 million lei.

Foreign capital in other branches (French in textiles, glass, and goldmining; Hungarian, German, and Swiss in the chemical industry; Belgian in coalmining) is relatively small.

4. RELATIONS WITH GERMANY

The percentage of imports coming from Germany rose from 23 -6 per cent in 1932 to 28 9 per cent in 1937 and the percentage of exports going to Germany rose from 12-5 per cent in 1932 to 192 per cent in 1937. In 1938 Greater Germany took 26 3 per cent of her exports and supplied 38 • 2 per cent of her imports.

Rumania had a big clearing balance to her credit at the Rcichs-**bank** a year or two ago, but by the close of 1938 this had become quite small. The reduction was due partly to the purchase of armaments from Germany by the Rumanian Government, and pardy to the construction of a steelworks—R.I.M.M.A. *(Hunedoara)*—in mid-Transylvania for the Rumanian Government by *Gutehoffnungshutte* at **a** cost of 800 million lei (spread over several years). The contract was signed at the close of 1936; the works will **begin** to produce in 1939.

The "official" parity between the mark and the **leu would** be **55**

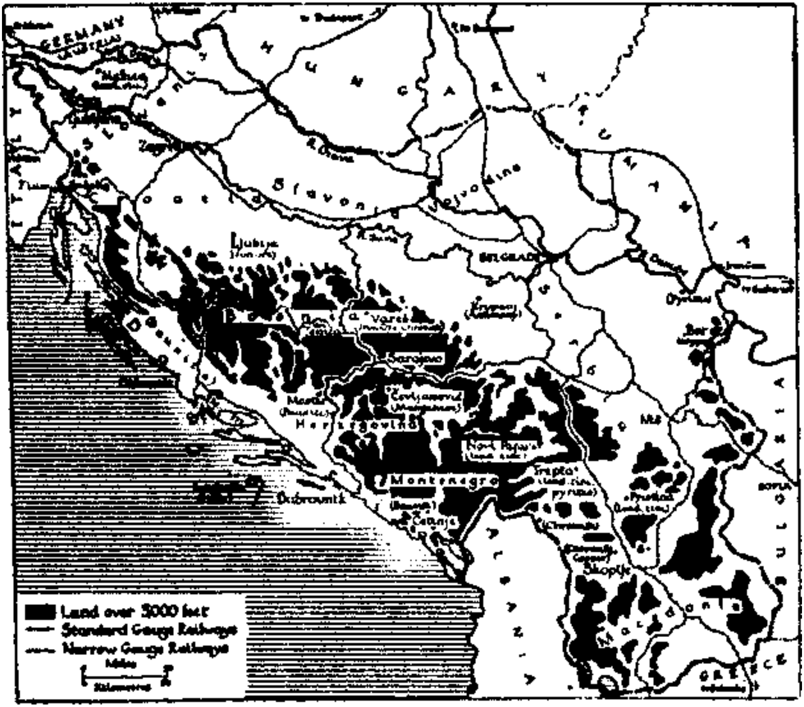
Ici to the mark. The actual rate *fixed,* however, was only 38; **it was raised** towards **the** close of 1938 to 40 • 5 (buying) and 4 1 5 (selling). Nevertheless Germany pays high prices for Rumanian products. Thus in 1938 she paid double the world price for Rumanian wheat, and it Is reported that during the recent negotiations for a new trade agreement the Germans urged that the price suggested by the Rumanians for their cattle exports (to be fixed in advance for a certain quantity) was not sufficiently remunerative to their producers, and accordingly fixed a price appreciably higher. Germany does not give Rumania any free exchange but does supply her with certain quantities of "colonial products." Rumania limits the quantity of oil sold to Germany to 25 per cent of her total exports of oil and, until the record harvest of 1938, restricted hrr exports of wheat to Germany. The prices of German goods arc competitive and the only complaint is that, as far as possible, Germany avoids selling machinery for which she holds the patents: she makes no secret of her dislike of Rumanian industrialization.

/. *G. Farben* introduced the cultivation of soya beans into Rumania in 1935-6, providing seeds and instructing peasants. In 1937 140,000 tons of soya beans were produced and exported to Germany at a fixed price, agreed on beforehand, of 5,000 lei per ton. /. *G. Farben* imported chemicals and dyestuffs into Rumania in exchange. The capital of the company (i.e. of the Rumanian subsidiary of I. *G. Farben)* has recently been increased from 15 to 50 million Ici, but the output of soya beans in 1938—the third year of production—showed a considerable fall. It would seem that the peasants find it less profitable than they had expected.

The sums paid, in one way or another, by Rumania to divert exports towards free-exchange countries are sufficient evidence **that** she does not wish to become completely tied commercially to Germany. Nevertheless, shortly after reports had been received in London of an "economic ultimatum" from Germany demanding a German monopoly of Rumanian foreign trade and a suppression of Rumanian industries, a comprehensive new German-Rumanian trade agreement was signed in Bucharest on March 23, 1939. The Agreement, which was to run for at least five years, provides for a plan to take account, on **the one hand,** of **Germany's** need for **imports** and, on **the other,** of **the possibilities of** increasing Rumania's **production, of Rumania's internal** necessities, **and** of Rumania's **need for trade with other countries. Production of fodder, oleaginous, and textile plants in particular, is to be intensified, and the cultivation of new crops is to be introduced. Timber production is**

to be developed and measures taken for the scientific exploitation of Rumanian forests. Machinery and plant are to be provided for Rumanian mines. Mixed Rumanian-German companies are to be established for the exploitation of calceo-pyrites in the Dobrudja, chrome ore in the Banat, manganese ore in the Vatra Dornci and Bresteni regions, and also of bauxite and petroleum. A free zone is to be created in Braila containing industrial and commercial establishments; armaments and equipment are to be delivered for the Rumanian armed forces and armaments industry; communications and public utilities are to be developed. Finally, provision is made for collaboration in the industrial and financial spheres.

As Mr Chamberlain stated in Parliament on March 27 the precise effects of the new Agreement must depend on the manner in which its provisions arc carried out. But the fact that a new Franco-Rumanian Trade Agreement was signed on March 31 and that an Anglo-Rumanian Protocol was signed on May 11, providing for a British credit of £5,000,000 and the British purchase of 200,000 tons of wheat from the next Rumanian harvest (if available at world prices), made it clear that Germany had not as yet acquired an exclusive position.


GERMANY
Zagreb
Slavonia
Vojvodina
BELGRADE
Mostar
Sarajevo
Hertzegovina
Montenegro
Novi Pazar
Dubrovnik
Cetinje
Skoplje
Macedonia
GREECE
SOFIA
Land over 5000 feet
Standard Gauge Railways
Narrow Gauge Railways
Miles
Kilometres

III. YUGOSLAVIA

POPULATION .. **15,400,000 (1937: December estimite)**
1931 census .. **13,934,000** o/o>foVA
6,683,000 are actively occupied,
71·2% in **agriculture and forestry, and**
12·3% in mining, industry, **and transport.**

AREA	95,600	sq. **miles**	
Arable	28,800	,, „	**30·1%**
Pasture	**24,100**	„ „	**25·2%**
Tree and bush crops	2,450	„ „	2·5%
Forest	29,800	„ „	31·2%
Marsh (productive)	450	,, „	0·5%
Uncultivated	**10,000**	„ „	**10·5%**
	95,600	sq. miles	**100·0%**

Cereals	**23,900**	**sq.** miles	**25·0%**	of total **area**
of which Wheat	36%		**9·1%**	
Oats	6%		1·5%	>» »> »»
Rye	4%		**1·1%**	„ „ „
Barley	7%		**1·8%**	...
Maize	44%		**11·1%**	" " "
	97%			
Fodder	**1,290**	**sq.** miles	**1·4%**	
Vegetables etc.	**1,640**	„ „	1·7%	„ „ „
Industrial crops (mainly hemp, sugar beet, and tobacco)	**640**	„ „	0·7%	..

LIVESTOCK

	1936		
Horses	**1,216,000**	Sheep . .	**9,568,000**
Cattle	**4,073,000**	Pigs	**3,126,000**

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wheat	2,565	2,186	2,880	1,455	2,629	1,860	1,990	2,924	2,347	3,030
Oats	351	288	288	209	371	333	278	333	298	328
Rye	110	109	193	212	245	195	198	205	209	227
Barley	412	404	392	381	463	410	376	423	385	421
Maize	4,148	3,455	5,203	4,793	5,578	5,154	3,026	5,181	5,336	4,407*
Tobacco	13	16	14	17	7	6	11	19	‡	‡
Hemp	26	33	22	21	28	35	37	52	50	‡

Mineral (thousands of metric tons)

Bauxite	103	95	65	67	81	85	218	279	311	361†
Coal	409	386	406	368	379	387	400	441	428	4635†
Lignite	5,248	4,906	5,480	4,107	3,777	3,928	4,026	4,034	4,575	
Iron ore	428	431	133	27	52	180	235	451	618	507†
Lead (content) ..	12	21	40	48	59	64	64	68	71	68*†
Spelter	0·2	5	19	37	44	48	47	41	39	
Copper	21	28	24	30	40	44	39	39	40	30†

*estimate †10 months only ‡not available

MONEY AND PRICES

(in milliards of dinars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Notes in circulation at the end of the year ..	5·8	5·4	5·2	4·8	4·3	4·4	4·9	5·4	5·8	6·9
Deposits	7·4	7·9	7·0	5·9	5·5	5·1	4·7	4·6	4·8	4·7
Wholesale price index	100	86·1	72·5	64·8	64·0	62·8	65·5	68·0	74·3	77·6
Cost of living ..	100	90·8	83·7	75·5	65·4	60·7	60·8	61·1	65·4	

Par rate of exchange 1929: 276·3 = £1
present (*de facto*) rate of exchange: 280-270 = £1

FOREIGN TRADE

(a) *Total value of imports and exports in milliards of dinars*

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	7·6	7·0	4·6	2·8	2·8	3·5	3·6	4·0	5·1	5·0
Exports	7·9	6·8	4·8	3·1	3·4	3·8	4·0	4·4	6·3	5·0

(b) *Percentage share of more important countries in imports and exports respectively*

		1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany ..	Imp.	15·9	17·6	19·3	17·7	13·2	13·9	16·2	26·7	32·4	
	Exp.	8·5	11·7	11·3	11·3	13·9	15·4	16·6	23·7	21·7	39·4
Austria ..	Imp.	17·4	16·8	15·2	13·4	16·1	12·4	11·9	10·3	10·3	42·0
	Exp.	15·6	17·7	15·2	22·1	21·7	16·4	14·3	14·6	13·5	
U.S.A. ..	Imp.	4·7	4·1	4·2	4·4	5·1	6·4	9·2	6·4	6·0	6·0
	Exp.	1·6	0·9	1·0	0·9	1·9	4·1	5·6	4·9	4·6	5·1
Utd Kingdom ..	Imp.	5·8	5·9	6·6	7·4	9·7	9·3	10·1	8·5	7·8	8·7
	Exp.	1·3	1·5	2·0	2·1	2·7	4·7	5·3	6·9	7·4	9·6
France ..	Imp.	4·0	3·9	4·4	4·5	4·2	5·0	4·3	2·5	1·7	2·9
	Exp.	4·0	4·2	4·0	2·7	2·2	1·3	1·6	2·0	5·4	1·5
Italy ..	Imp.	10·8	11·2	10·3	12·7	15·8	15·3	10·0	2·5	3·2	8·9
	Exp.	24·9	26·3	25·0	23·1	21·5	20·6	16·7	3·1	9·4	6·4
Czecho-Slovakia	Imp.	17·5	17·6	16·2	15·6	13·1	11·7	14·0	15·4	11·1	10·6
	Exp.	5·4	8·2	15·8	13·2	10·8	11·3	13·4	12·3	7·9	7·9
S.E. Europe ..	Imp.	9·9	10·0	7·8	9·1	7·9	6·4	6·9	7·7	6·3	7·3
	Exp.	28·3	16·6	14·0	11·7	10·7	9·2	9·1	11·9	7·5	7·9

(c) *Percentage share of more important commodities in total value of imports**

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Cotton textiles ..	16·3	17·0	15·6	14·5	16·5	16·9	14·8	13·1	14·4	10·5
Woollen goods ..	6·6	6·8	6·6	6·5	7·6	7·2	7·4	7·4	7·1	5·8
Iron & steel manufacture	11·6	11·2	11·1	10·5	9·6	9·0	9·5	10·9	11·3	11·7
Electrical & other machinery ..	7·6	9·6	10·1	8·6	6·6	7·3	7·9	9·5	11·2	14·3
Chemicals & dyes ..	4·6	4·9	5·0	5·6	7·2	6·5	6·6	6·6	6·2	†

(d) *Percentage share of more important commodities in total value of exports**

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wood for building ..	†	17·1	13·9	13·7	16·6	17·3	17·4	10·6	12·6	13·8
Live animals ..	†	11·6	13·1	12·7	11·4	9·3	10·9	14·3	11·3	10·3
Animal products, poultry & eggs	†	12·3	13·0	14·0	12·4	9·0	12·6	12·6	9·3	9·4
Maize	†	8·1	4·3	4·5	12·8	14·3	7·8	2·1	11·1	10·3
Other cereals ..	†	7·1	10·0	5·4	0·8	4·6	1·4	10·0	9·9	4·4
Copper & copper manufactures	†	7·4	6·1	8·1	8·7	9·0	8·4	8·4	7·8	7·3
Bauxite	—	—	—	—	—	—	0·8	0·8	1·0	†
Medical & industrial plants	3·0	1·3	2·1	3·6	7·6	3·0	10·1	9·7	†	†

*1938 figures are estimated on the basis of 10 months only
†not available

1. GENERAL SURVEY

Agricultural Output

THREE-QUARTERS of the population of Yugoslavia arc directly dependent on agriculture and forestry. Her two main crops arc maize and wheat. In 1938 her maize crop was somewhat less than 4 J million tons and her wheat crop was 3 million tons, exceptionally high. The peasants eat mainly maize because it is cheaper than wheat, but even so the maize export is usually greater in value than the wheat export.

Wheat and maize exports (like exports of cattle, pigs, meat, fruit, and eggs) have found their main markets during recent years in Southern Central Europe—Germany, Austria, and Czecho-slovakia. This is largely due to the freight situation. Broadly speaking, it is too expensive to send these products by rail across the mountains to the Adriatic coast. If they arc exported to more distant countries, they tend to go down the Danube and through the Bosphorus. It is cheaper, however, to send grain up the Danube, and its price to the Yugoslav exporter tends to be above world parity when the export surplus can all be absorbed by the neighbouring areas of Central Europe, to which Danube freight rates from Yugoslavia are lower than railway rates from Hamburg or Trieste.[1] During the last two or three years Germany has been paying generous prices (but not in free exchange) for Yugoslav wheat; in the last quarter of 1938 she paid 200 dinars a quintal—nearly double the Liverpool price.

Other crops include sugar-beet (about enough for Yugoslavia's own consumption of sugar), tobacco (of which a little is exported, mainly to Czecho-Slovakia,) hemp and flax (partly exported to Central Europe), oil-seed plants, and a small but increasing amount of cotton (although raw cotton, cotton yarn, and cotton goods together are still Yugoslavia's chief import).

Yugoslavia is an important producer and exporter of pigs and also of cattle. About a quarter of her total exports consists of live and slaughtered pigs and cattle. These go mainly to Central Europe; exports to Italy and Greece were of some importance, but have fallen off.

Fresh fruit and plums (from which *slivovitz*—a plum brandy, the national drink—is made) and poultry and eggs are also products and exports of some importance.

Nearly a third of Yugoslavia is covered with forests, mainly owned by the State, and she is an important producer of timber and

(1) Sec the very **interesting** analysis by **Dr** Vladimir Pertot: *Problem produnavske spenice* **in the *Ekonomist* (Zagreb) January and March 1938.**

wood-pulp. Timber, mostly for building, is one of her chief exports, upwards of half a million tons a year going to Italy, England, Germany, and other countries.

Minerals

Yugoslavia is commonly thought to be rich in minerals. It is true that deposits of many minerals, including copper, lead, zinc, bauxite, iron, chrome, antimony, gold, and silver, are being worked. A larger proportion of the ores is now being smelted and refined, as well as concentrated, within the country: the Bor mines, the Trepca mines, and others have installed new equipment for that purpose. Moreover, further deposits will probably be discovered: a number of mining options have been bought recently. Finally, Yugoslavia is much more important as a producer of minerals than any other country in South-Eastern Europe. Nevertheless the total value of her output is only about l milliard dinars—say £4. million—a year and mining employed only 27,000 persons in 1931. Her coal output of nearly five million tons a year is mainly brown coal: she imports black coal and coke. In the past most of her iron ore output—nearly half a million tons a year—has been exported to Hungary: in future she will use most of it in the Zenica Steelworks. Her most valuable mineral is copper, of which she produces about 40,000 tons a year. The known deposits of copper ore (6 to 7 per cent copper content) are mostly in the concession of the French Mines de Bor. Most of it is exported, in one form or another, to the United States, Belgium, and elsewhere, yielding about £1 • 5 million a year. These deposits also yield fifty to eighty grammes of gold and 140 to 150 grammes of silver per ton of raw copper. The other leading mineral deposits are those of lead and zinc owned by the British Trepfca Mines. The Trcpca deposits are estimated at 39 million tons of ore with an average lead content of 94 per cent and zinc content of 6*4 per cent. In 1937 Yugoslavia produced 71,000 tons of lead—over 4 per cent of total world output—and 39,000 tons of spelter. But the value of her exports of lead and zinc, in one form or another, is only about 100 million dinars—approximately £400,000—a year. She also produced 358,000 tons of bauxite, nearly 10 per cent of world output, worth about £200,000. Her gold output (mainly extracted from the Bor copper ore) has been increasing and is now 2,500 kilogrammes a year. Other minerals are of relatively minor importance. The output of mineral oil reached a peak of 629 tons in 1933, but is now quite small.

Some 700,000 persons are now employed in manufacturing industries. The most important group, as in all Balkan countries, consists of the agricultural industries—milling, sugar, alcohol, jam,

chocolate, vegetable-oil refining. The textile industry is probably second. This has developed greatly during recent years. The number of factories increased from thirty in 1929 to 363 in 1936, and to-day almost all the textiles required for home consumption are produced at home; only finer goods are still imported. The development was, however, mainly concentrated on the weaving industry (both cotton and wool), spinning mills needing more capital, and the import of yarns increased together with the imports of raw cotton and raw wool. Home-grown wool is not fine enough for industrial use and the growing of cotton, though encouraged and highly subsidized, is as yet insignificant. The timber and wood-working industry is next in importance and consists mainly of saw mills. The production of wood-pulp and tannin, however, is of growing importance.

Other important industries are the metallurgical industry, which has just recently been expanded considerably by the erection of a State steelworks at Zenica in Bosnia; the chemical industry, producing superphosphates and other fertilizers, soap, candles, and simple drugs; and the cement industry.

Hydro-Electricity

It is possible that at some future time the resources of water-power may be exploited more fully to provide electricity and to foster decentralized industry. At present less than 200,000 h.p. from waterfalls is utilized out of well over three million, mainly in the Danube basin, which could be utilized. But hydro-electric installations are costly, and there is no likelihood of development in this direction in the near future.

Checks to Investment

Industrial development is encouraged by a substantial tariff on imports, which was increased by the depreciation of the dinar, as duties are partly specific and fixed in gold. Moreover, in practice railway and industrial equipment can usually be imported free of duty. Nevertheless, despite the increase in textile factories, the amount of investment in industry has been comparatively small during recent years.

(i) *Banking Difficulties*

This is partly a result of the banking crisis which followed the failure of the Credit Anstait, which had important interests in Yugoslav banks. Total deposits, which arc mainly savings deposits, fell from 14 milliard dinars in June 1931 to some 10 millions at the end of 1932. In 1933 a moratorium was declared. Commercial banks could withhold payment, provided that they placed themselves more closely under State control. The moratorium has been prolonged from time to time and is still in force, although a number of banks have become sufficiently liquid to free themselves from

State control by resuming payment. About the middle of 1937 deposits began to increase, reaching 11 -8 milliards by September 1938. But most of this increase has gone to the two privileged State banks: the Post Office Savings Bank and the State Mortgage Bank. The commercial banks lend in effect on long-term to industry, on the German model, but the Mortgage Bank lends mainly on houses and the Post Office Savings Bank lends to the State for public works expenditure. As a result there has been a considerable amount of building, especially around Belgrade, and some development of roads and railways, but not much investment in industry.

(ii) Political Disharmony

Another important deterrent to investment, both by nationals and foreigners, is the political instability of the country. The Opposition is stronger than the votes recorded for it indicate, for the system of open ballot makes it easy to exercise official pressure. There is no love lost between Serbs and Croats. The Serbs, who were on the victorious side in the war, fear that the Croats want separation. The Croats declare that they want only equal treatment, but they arc very bitter about their political and economic grievances. They allege that Croatia is heavily taxed and that much of the money is spent in Serbia, especially in Belgrade; that expenditure on public works is several times greater in Serbia than in Croatia, although populations are about equal; and that the Government discriminates in various ways against Croats and against Croatia. No great increase in home, and still less in foreign, investment is likely until Yugoslavia possesses more political unity.

National Incoms

The national income of Yugoslavia for 1937 is estimated at 44*2 milliard dinars (£186 million) (agriculture 24-6 per cent, stock-breeding 183 per cent, forestry 54 per cent, mining 2 • 5 per cent, industry 13·6 per cent, domestic industries 6·9 per cent, handicrafts 8·2 per cent, commerce, transport, building, etc. 20· 5 per cent). This is less than £12 per head. The minimum wage fixed for unskilled workers is only 2 dinars or 2d. per hour, but this is somewhat below the actual wages paid.

Yugoslavia, like the other countries of South-Eastcrn Europe, is relatively overpopulatcd. Only a third of her total area is cultivated. 17 per cent of all agricultural holdings are less than one hectare (about 2 2½ acres) in size, another 17 per cent are between one and two hectares, 34 per cent between two and five hectares, 20 per cent between five and ten hectares, and 9 per cent between ten and twenty hectares. Only 56,000 holdings, some 3 per cent of the total number, are above twenty hectares each, covering between them less than a tenth of the total area.

After the fall in agricultural prices after 1929, **the Government embarked upon** a policy of encouraging stockbreeding, the rotation of crops, **the growing** of fodder and a transition from pasture to stable-feeding, and the growing of more labour-intensive crops. In consequence the area sown with fodder increased from 870 square miles in 1927 to 1,360 square miles in 1937, and that with industrial crops from 475 square miles in 1927 to 640 square miles in 1937. But this movement has been checked by the high prices which Germany pays for wheat.

2. CONTROL OF EXCHANGES AND FOREIGN TRADE

Yugoslavia returned to the gold standard in June 1931, at a gold parity equivalent to 275 dinars to the "gold" £. She re-introduced exchange control in October 1931 but retained this official gold parity. The dinar was depreciating from the beginning of 1932 onwards, but this depreciation was not officially recognized until January 1937, although it was recognized in fact by the granting of corresponding premia, and the charging of corresponding taxes, on transactions with free-exchange countries. In January 1937, the depreciation of the dinar by 28£ per cent was officially recognized. This corresponds to 216 dinars to the £: it is still the "official*" exchange-rate and is the basis of the cxchangc-ratc in all the clearing agreements between Yugoslavia and other countries, except Germany and Turkey.

In fact, however, Yugoslavia joined the sterling bloc in January [1]937- Until December 1938, the National Bank kept the dinar pegged to sterling at 238 dinars to the £, which was the market rate at that time. This was the rate paid, in general, by Yugoslav importer* who had obtained permission to import speciiied goods from free-exchange countries. Since December 1938 this rate has been 268.

Exporters to free-exchange countries must surrender a proportion (now 25 per cent) of their free exchange to the National **Bank at the official rate** of 216 dinars **to** the £. The Government takes much of this to pay for its imports of armaments and public works materials **from** free-exchange countries. By re-selling the rest to **importers at** a **higher** price the National **Bank** obtains a fund which **it can use for intervening on the exchange market to keep the dinar pegged to sterling and for** assisting certain **exports** by giving **favourable rates of exchange. Exporters can sell the remaining**

75 per cent to an authorized bank, which re-sells to importers.

The rate of exchange between Yugoslavia and clearing countries is fixed, except for Turkey and Germany, at the official rate between the two currencies: in other words, the dinar is taken as *a* 16 to the £, the other currency is taken at its legal or officially recognized parity, and the exchange-rate between the two is then calculated. With Turkey, the rate may be changed, if necessary, from day to day, by mutual agreement. With Germany, the rate is now fixed by a German-Yugoslav commission which meets at intervals. This commission fixed the rate in October 1938, within the limits of 14*30 and 14-70 dinars to the mark and the National Bank pledged itself to buy marks up to a certain maximum, if necessary, in order to prevent the "clearing" marks from falling below 14 30. Early in 1939 this maximum had been reached; the mark had fallen to 13*80; the Yugoslav balance at the Rcichsbank had risen; and it was reported that Yugoslavia proposed to restrict her exports to Germany.

In general, exports to free-exchange countries are not controlled as to quantities or prices. A few commodities, notably copper, must be paid for entirely in free exchange, even by "clearing" countries: these commodities can be exported freely. Most other exports are controlled through two institutions: Prizad, which controls mainly wheat and plums, and the Institute for Promoting Foreign Trade, which controls other agricultural products. The main end achieved by this control is the securing of the most favourable prices possible by exploiting fully the concessions—import quotas, quotas at reduced tariffs, and so forth—granted to Yugoslavia by importing countries, notably Germany and, formerly, Austria and Czechoslovakia. Timber is chiefly exported by Sipad. As this is one of the biggest timber and pulp firms in Europe, it can itself take full advantage of concessions, and hence the export of timber (in all its forms) is not controlled.

Prizad is a limited company, with its shares owned by the State. It was formed in 1930, when world wheat prices were falling, in order to check the fall in the home market. In fact, it can do little to raise internal prices, for it has no substantial funds with which to subsidize its purchases. It buys and sells on its own account, and on balance it has made considerable profits. It has a legal monopoly of the export of wheat to fill quotas granted by importing countries, so that it is in practice the sole exporter to "clearing" countries. During recent years, the great bulk of the wheat export has gone to Germany. Prizad fixes, from time to time, the price at which it will

buy wheat, and in practice this price is governed by what Germany pays. Thus towards the close of 1938 Prizad was paying 160 dinars a quintal and Germany was paying around 200.

The Institute for Promoting Foreign Trade is a department of the Ministry of Commerce and Industry. It performs two main functions: it controls the quality of certain agricultural exports which the Government wishes to promote and it distributes import quotas granted by other countries to registered exporters. Unlike Prizad, it does not buy and sell on its own account. Nevertheless it exerts a considerable influence over the nature and direction of exports, and thereby over internal prices. The main export commodities coming under its control are live and slaughtered cattle and pigs, eggs, lard, poultry, wood, industrial and medicinal plants, and fruit other than plums (which come under Prizad). It decides from time to time on an export price-level which it thinks appropriate for each commodity. If the prices obtained exceed this level, the Institute keeps the difference as a fund from which it subsidizes exports fetching prices below this level. In this way, fluctuations in the prices received by exporters are smoothed out, and to some extent certain exports, for example eggs and poultry to England, are assisted. The Institute, moreover, has achieved the main object with which it was founded (or, strictly speaking, extended), namely, to prevent Yugoslav exporters, by competing with one another to fill import quotas, from selling at prices well below the prices ruling in the importing country.

A number of commodities—fifty-six in December 1938—cannot be imported without special permission of a Committee of the National Bank. These commodities are imported mainly from free-exchange countries: between them, they cover the bulk of Yugoslavia's imports from such countries. This control was instituted in April 1936, in order to reduce the clearing balances held by Yugoslavia in certain countries, notably Germany, and to diminish her passive balances of trade with free-exchange countries. Hence it has the effect of encouraging imports from Germany and other clearing countries relatively to imports from free-exchange countries. Certain exports to these latter countries arc sometimes encouraged by giving exporters a favourable rate of exchange; thus exporters of turkeys to England in November 1938 received 268 dinars for £1. In general, exporters of goods meeting with a ready sale, such as copper, receive a low rate for their devisen, and exporters of goods more difficult to sell on the world market receive a high rate.

It was reported in January 1939 that Italy is making efforts to revive her trade with Yugoslavia and has offered to grant a long-term credit.

3. FOREIGN LOANS AND INVESTMENTS

(i) PUBLIC DEBT

The public debt of Yugoslavia, outstanding on January 1, 1936, was composed as follow:

External consolidated debt	**dinars-21,379 million**	**£ 8 5 4 million (72%)**
Internal consolidated debt	**„ 5,401 „**	**21*0 „**
Floating debt (approximate) . .	**„ 2,900 „**	**11 -6 „**
	dinars 29,680 million	**£ 1 1 8 6 million**

Gold francs	**862,853,000**	**5 6 8 %**
French francs ..	**2,053,780,000**	**>9'7%**
Dollars	**71,004,000**	**11 ·0%**
Pounds	**203,600**	**0 1 7 %**

(To the loans listed in *The Balkan States*[1] the funding of unremitted interest in 1933 and '935 (French francs 324 million and dollars 52 million) must be added.)

A moratorium on the service of the external debt was asked for by the Government in April 1933. At present all amortization payments are suspended, full payments of interest are made on the two funding loans, while 45 per cent of interest due on all other loans is transferred in full satisfaction of interest obligations.

(ii) PRIVATE INVESTMENTS

The nominal value of the foreign capital invested (in the form of shares or long-term credits, for the most part) in Yugoslav banks and industrial and other enterprises was estimated to be about 6 milliard dinars some £24 million—towards the close of 1938.[2] The main countries concerned owned the following amounts:

United Kingdom	**1,190**	**million**	**dinars**
France	**1,150**	**„**	**„**
Germany . .	**820**	**„**	**„**
Switzerland . .	**750**	**„**	**„**
U.S.A.	**.500**		
Czccho-Slovakia	**450**	**„**	**„**
Italy.	**.450**	**„**	

Among the fairly large undertakings with wholly or mainly foreign capital, La Dalmaticnne and the Mines de Bor (copper),

(1) Royal Institute of International Affairs: *The Balkan States I. Economic*^ 1936.

(a) This estimate is not published. Details for 1936 are given by V. Rozenberg in *Inostrani Kapital u Jugoslovenskoj privedi* (Belgrade) and quoted by Dr Mirko Lamer in his interesting article: "Die Wandlungen der auslandischen Kapitallagen auf dem Balkan" in the *Weltuirtschaftiches Archiv* for November 1938. Some of the foreign capital is invested in banks (e.g. the Banque Franco-Serbc) which lend for long periods, in effect, to industry etc.

which are French, and the Trcpca Mines (lead and silver), which are British, are probably the most important. La Dalmaticnne is a hydro-electric works owning a number of factories in Southern Dalmatia, which the French purchased some time ago from an Italian concern. Others which may be mentioned are the Trboylje Coal Mines (French), refineries etc. belonging to Standard Oil and Shell, electricity generating plants (Swedish and American), the Yugo Ceska textile works and the Bata shoes and tyres works (both Czech), the Mautner textile works (German), the Nasicka saw-mills, etc. (Hungarian and Swiss), the Ruse nitrogen works (Dutch), S.K.F. (Swedish), the Schicht-Lcver soap etc. works (German and British), the wagon works at Brod, owned by Vickers, the Yascnitza Wagon Works (French), and the Smith-Meunier works (French) which makes cigarette papers and pulp.

The increase of German-owned capital since 1936 is discussed later. Great Britain has also increased her investments. Thus in 1937 the Beslina Gold Mines (£200,000) and the Drina Mining Corporation (£50,000) were established, and English companies bought about fifteen mining fields. In the same year a subsidiary (£50,000) of the Allied Banking Corporation, and "Radio a.d.," a subsidiary of the Marconi Wireless Telegraph Co., were established in Belgrade. Other countries have invested little or nothing.

4. RELATIONS WITH GERMANY

The share of Germany in Yugoslavia's foreign trade has been increasing considerably during the last three years. Greater Germany now takes over 40 per cent of her exports and supplies over 40 per cent of her imports. Trade with Italy, on the other hand, was falling off considerably even before the "sanctions" of 1935-6 and is now only 7 or 8 per cent of the total, as against over 15 per cent for imports and over 20 per cent for exports in 1934. The share of the free-exchange countries remains fairly steady.

Germany began purchasing heavily in 1936, and in March 1937 the clearing balance to the credit of Yugoslavia reached a peak of 415 million dinars. The Yugoslav Government has from time to time taken armaments and public works materials from Germany (but always at competitive prices), and Germany supplied the equipment for the State steelworks at Zenica. The first clearing agreements with Germany were at the official parity of over 17 dinars to a mark, but this was soon reduced, and early in 1939 the "clearing mark" sold for 13-80 dinars. Hence the credit balance

with Germany for the first half of 1938 was below Rm. 20 million, although subsequently it rose somewhat. Germany pays high prices for Yugoslav wheat and other products and cultivates the Yugoslav market by selling at relatively low prices, providing credit, and "following up" sales (of motorcars, Diesel engines, and so on) to sec that customers are satisfied.

German capital in Yugoslavia, which two or three years ago was negligible, is now over eight hundred million dinars—over 10 per cent of the total private foreign investment. This is mainly due to the absorption of Austria and the Sudetenland. Austrian capital (366 million dinars) was practically all in the form of shares (and long-term credits) in Yugoslav banks, for the Credit Anstalt retained some of its holdings in the banks after it failed. A part of the Czech capital invested in textile and other industries belonged to Sudeten firms: for example, the Yugoslavisches Schicht Soap factory. Moreover, German firms have been actively seeking investments in Yugoslavia, especially in mining properties. During 1937 and 1938 ten new Yugoslav companies were formed with German capital, representing about 100 million dinars.[1]

There are approximately half a million Germans in Yugoslavia, nearly all of whom arc Yugoslav citizens, located in the Vojvodina, Croatia (Slavonia), and Slovenia, next door to Germany.[2] German "cultural" propaganda has been, and is, very active among them all. German peasants from the Vojvodina have been buying land along the banks of the Drave and Save (the two rivers which form "bridges" between Slovenia and the Vojvodina), but the total amount bought has been quite small.

(1) Although the sums involved are relatively small, a few details may be of interest. In 1937 a company was formed in Berlin (under the aegis of the *Deutsch* Wirt' schaftstag)* with a capital of 500,000 Rm. to explore and buy mining properties, especially in Yugoslavia. In 1037 an antimony mine (Lisanjski Rudniki: nominal capital 15 million dinars) was nought from the French. Mining options were bought in Bosnia around Srebrebica (silver) and Olovo (lead). There are believed to be copper deposits in Dalmatia as rich as those exploited by the Mines de Bor, and the Germans tried to get options on the territory. It is reported that they obtained only a minority and that most went to Italy. In the field of industry, /. *G. Forbtn* bought in 1937 two important firms (*Jugsolavenski Strum Zavod d.d.* and *Patria d.d.)* producing pharmaceutical goods, and in 1938 asked (unsuccessfully, owing to protests from the local textile industry) for licences for the production of artificial silk and artificial wool. Germany has bought out some American capital: in particular, the Standard Electric Company (which was French-American) is now controlled from Berlin.

(a) For detailed figures, see Table on p. 8.

IV. ALBANIA

POPULATION		1,003,000 (1930 census)	
AREA		10,630 sq. miles	
	Arabic	1,200 „ „	11·2%
	Pasture	3,270 „ „	30·7%
	Forest	3,820 „ „	36·0%
	Marsh	530 „ „	5·0%
	Uncultivated	1,810 „ „	17·1%
		10,630 sq miles	100·0%

	Cereals	600 sq miles	5·7% of tola
	of which Wheat	26%	1·5% „ •
	Maize	60%	3·4% „ .
	Rye	2%	0·1% „ ,
	Barley	4%	o·2% .. ,
	Oats	7%	0·4% .. ,
		99%	

LIVESTOCK

	1936		
Horses	67,000	Asses and mules	78,000
Cattle	407,000	Goats	975,000
Sheep	1,675,000	Pigs ..	24,000

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Wheat	*	*	*	42	65	43	43	90	40
Maize	*	*	*	83	112	142	115	125	138

Mineral (thousands of metric tons)

Petroleum	—	—	—	—	1·5	1·4	5·6	37·2	84·5

*not available

MONEY AND PRICES

(in millions of francs)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Cash (bank-notes and coin) ..	12	13	12	13	12	11	12	11	11
Wholesale price index ..	100	88·0	90·3	75·6	57·2	51·1	56·2	62·8	64·0

Par rate of exchange (1929) 25·22=£1

FOREIGN TRADE

(a) *Total value of imports and exports in millions of francs*

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Imports	38·6	33·3	29·5	22·8	15·9	12·3	13·7	16·3	18·9
Exports	14·7	12·4	7·5	4·5	5·7	4·3	5·9	7·2	10·2

(b) *Percentage share of more important countries in imports and exports respectively*

		1929	1930	1931	1932	1933	1934	1935	1936	1937
Italy	Imp.	46·2	50·2	48·9	39·1	41·9	34·1	28·5	24·9	24·0
	Exp.	60·4	59·7	66·2	62·7	79·6	63·5	61·0	66·6	78·8
Germany	Imp.	4·9	5·4	4·5	4·9	6·1	5·2	5·1	6·1	4·7
	Exp.	—	—	—	—	—	—	—	—	0·1
U.S.A.	Imp.	10·1	7·2	9·5	9·7	8·4	5·7	4·0	4·8	4·8
	Exp.	15·4	17·1	10·3	22·1	8·8	9·7	14·2	14·8	8·5
United Kingdom	Imp.	7·0	7·4	6·0	6·8	9·0	9·2	9·8	8·4	4·9
	Exp.	0·4	0·4	0·8	0·2	0·4	0·8	0·4	0·8	0·7
France	Imp.	2·0	2·9	2·3	1·9	3·2	2·9	2·8	3·2	2·1
	Exp.	..	0·1	1·6	0·1	1·1	0·1	1·3	0·4	0·2
Czecho-Slovakia	Imp.	6·3	7·3	6·7	7·8	6·8	5·5	6·9	6·8	6·7
	Exp.	..	..	..	0·1	0·1	0·3	0·9	1·4	0·9
S.E. Europe*	Imp.	12·0	10·3	12·9	11·9	11·3	11·8	8·7	11·8	14·4
	Exp.	22·6	22·4	20·6	14·3	9·0	25·4	21·8	12·7	9·8

(c) *Percentage share of more important commodities in total value of imports*

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Cereals and rice	10·8	5·2	17·5	22·1	3·2	3·1	3·2	16·8	13·8
Cotton goods	17·8	20·9	16·3	13·8	24·5	27·3	27·6	21·3	21·3
Woollen goods	4·2	4·8	3·7	3·9	4·9	5·3	6·3	4·5	5·5
Iron & iron manufactures	7·5	7·4	5·7	4·2	6·0	5·8	6·5	5·7	6·5
Motor spirit	5·0	4·1	3·0	3·5	6·1	5·1	4·7	5·3	5·1

(d) *Percentage share of more important commodities in total value of exports*

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Cheese	15·8	19·1	15·8	28·7	12·0	10·8	15·6	15·5	9·4
Eggs	10·1	14·2	20·8	19·8	4·7	11·6	11·1	10·9	7·0
Raw hides	14·3	13·5	9·7	8·5	11·9	14·4	12·8	13·8	14·6
Raw wool	9·2	7·3	8·7	6·7	5·0	7·3	7·5	12·2	18·1
Bitumen					8·8	8·7	5·3	5·1	5·0
Crude petroleum	..	..	–	.	..	—	?	12·8	11·7

*Greece and Yugoslavia only.

ALBANIA is a small and thinly populated country which acquired freedom from Ottoman rule in 1913, but only started an independent existence in 1921. Following the Italian occupation in April 1939 its present status is that it is united with Italy under the sovereignty of King Victor Emmanuel III.

Agrarian Reform

Arable land, a very small proportion of the total area (11·2 per cent), is mainly in the hands of the State, the Church, and a few families. A law introducing agrarian reform was passed in 1930 and an Agrarian Bank founded for carrying it out. One-third of all State-owned land was to be parcelled out, plus one-third of that part of any private (or Church) holding which was above 100 acres. The remaining two-thirds was to be cultivated according to Government plan, failing which it could also be divided up. This reform, however, was only carried out to a very limited extent, partly because of the important exemptions (vine, olive, and fruit plantations and model farms were exempted from expropriation), and partly because of the lack of an agricultural register and the lack of capital.

Natural Resources

Agricultural production is very small; maize and wheat arc the most important crops, but even of these large quantities must be imported in bad years. Tobacco is also grown, but it is of low quality and cannot be exported. Olives and citrus fruits are exported to Italy; the former arc cultivated by primitive methods and are exported in raw form. Rice, though it has been found to grow well in Albania, is imported in considerable quantities.

The greater part of the population lives in the hills and is occupied in pastoral farming. Livestock products also account for the greatest part of exports.

Thirty-six per cent of the total area of the country is forest land, but, because of the lack of transport facilities, building timber must be imported, and the only forest products of importance arc charcoal and firewood. The important water-power of the country is as yet almost entirely undeveloped, and of the mineral resources only asphalt and petroleum are exploited by Italian companies.[1] The *Azienda I tali ana de Pelroli Albania* built an oil-pipe to Valona in 1936 and the Italian Government granted a loan of 70 million lire for the erection of a petroleum refinery. Output in 1938 amounted to about 100,000 metric tons and in the first two months of 1939 to 25,000 tons, compared with total Italian oil imports in 1938 of 2,642,000 metric tons, excluding oil imported on Government account for the use of the armed forces. Italian companies also hold monopolies for

(i) There are also important copper, chrome, iron-pyrites, and *gypsum* deposit*.

the exploitation of copper, for electric supply, for petrol, and hold agricultural and forest concessions.

The industry of the country is as yet practically non-existent, though there are some cigarette, soap, alcohol, and brick factories, and handicrafts are of some importance.

Fomgn Track

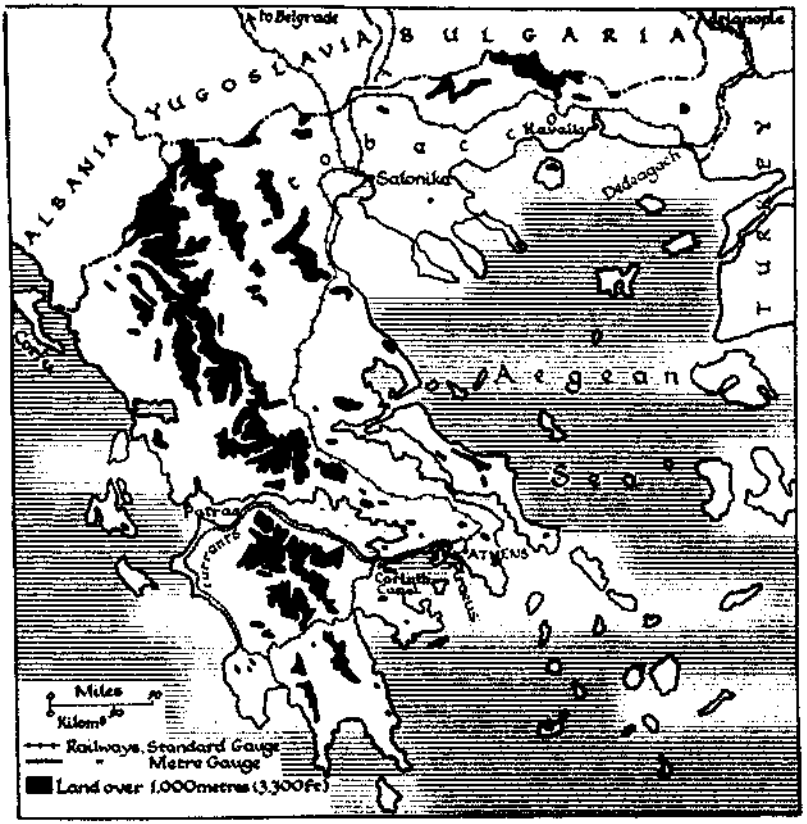
The imports of Albania range from manufactures of all kinds to fuel and even cereals. The importance of petrol in imports is explained by the almost complete lack of a railway system: motor-lorries are the main form of transport. More than half of the country's foreign trade is with Italy, though some goat-cheese is exported to the U.S.A. (for consumption by Albanian and Italian emigrants), and charcoal and livestock to Greece.

Economic Development

The Government's economic policy was mainly directed towards increasing and improving the quality of agricultural production and developing the transport system. Co-operative credit societies were founded, an attempt was made to improve the seeds of the main cereals, pure breeding-stock was imported (cattle from Switzerland and horses from Hungary), and technical schools were set up. Communications are scarce and bad. There arc a very few narrow-gauge railway lines, but because of the mountainous nature of the country the building of motor-roads is more economical than the building of a railway system, and a large proportion of the Italian loans were spent on road-building and the construction of bridges. (Also air-transport is of some importance.) The recent enlargement of the port of Durazzo was also made out of foreign capital and far exceeds the needs of the country.

Italian Control

In addition to the concessions and monopolies held by Italian companies, the Albanian public debt is also almost entirely owed to Italy. Italian loans to the Albanian Government were mainly granted through the National Bank of Albania (founded in 1925), more than three-fourths of the share capital of which is in the hands of the Italian State. Its head offices are in Rome. Italian loans granted to the Albanian Government since 1925 amount approximately to 130 million gold francs. For the management of the service on these loans there were some 250 Italian experts in the Albanian civil service; the National Bank also had an important influence over the economic life of the country through the S.V.E.A., a company which was formed for the economic development of Albania and which directed public works and controlled all State enterprises.


to Belgrade
BULGARIA
Adrianople
YUGOSLAVIA
ALBANIA
Kavalla
Salonika
Dedeagach
TURKEY
Aegean
Sea
Patras
Currants
ATHENS
Corinth Canal
Miles
Kilom.
Railways, Standard Gauge
Metre Gauge
Land over 1,000 metres (3,300 ft.)

V. GREECE

POPULATION .. **6,933,000 (1936: December estimate)**
1938 census .. **6,205,000** *of which*
61 «o% arc employed* in agriculture, and
22 • 5% in mining, industry, and transport.
*** Including dependents.**

AREA	**50,200 sq. miles**		
Arable	**7.900** „ „	**15·7%**	
Tree and bush crops	**1,000** „ „	**2·0%**	
Total area considered	**8,900 sq. miles**	**17·7%**	
Cereals	**6,000 sq. miles**	**12·0% of total area**	
of which **Wheat**	**54%**	**6·4%** „ „ ..	
Oats	**9%**	**1·0%** „ „ „	
Rye	**4%**	**0·5%** „ .. „	
Barley	**13%**	**1·6%** „ „ „	
Maize	**«7%**	**2·0%** „	
	97%		
Fodder	**440 sq. miles**	**0·9%** „ „ „	
Vegetables etc.	**615** „ „	**1·2%** „ „ „	
Industrial crops (mainly tobacco)	**835** „ „	**1·7%** „ „ „	

LIVESTOCK

	1936		
Morses	**359,000**	**Sheep** ..	**8,440,000**
Asses and mules	**589,000**	**Goats** . . .	**5,514,000**
Cattle	**986,000**		

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wheat	311	284	308	465	773	699	740	532	881	†
Must	255	221	195	382	387	358	495	192	324	†
Raisins & currants ..	139	171	101	159	107	207	213	177	197	†
Olive oil	109	116	104	134	104	123	88	73	179	†
Table olives ..	35	29	32	36	35	38	33	13	39	†
Tobacco	89	86	43	29	55	42	48	81	64	†
Cotton (ft seed) ..	11	12	10	16	23	28	35	42	57	†
Mineral (thousands of metric tons)										
Bauxite	0·3	2·3	1·2	0·6	—	—	9·5	129·9	122·3	†
Iron ore	253	256	2.36	46	85	147	204	280	†	†
Industrial										
Index of production ..	100	103·4	107·0	100·9	109·8	125·2	140·7	139·2	151·2	163·3*

*9 months only †Not available

MONEY AND PRICES

(in milliards of drachmae)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Notes in circulation at the end of the year ..	5·2	4·8	4·0	4·2	5·4	5·7	6·0	6·2	6·6	7·2
Deposits	13·1	14·5	12·7	11·4	12·8	14·3	14·4	15·2	16·7	
Wholesale price index	100	90·9	81·2	97·5	110·3	108·7	110·6	112·5	126·0	129·0
Cost of living ..	100	87·5	86·9	82·2	99·0	100·7	101·7	103·4	113·6	113·1

Par rate of exchange (1929) 374·9 = £1
present rate of exchange 548 = £1

FOREIGN TRADE

(a) *Total value of imports and exports in milliards of drachmae*

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	13·3	10·5	8·8	7·9	8·4	8·8	10·7	11·8	15·2	14·8
Exports .. —	7·0	6·0	4·2	4·8	5·1	5·5	7·1	7·4	8·6	10·1

(b) *Percentage share of more important countries in imports and exports respectively*

		1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany ..	Imp.	9·4	10·4	12·2	9·6	10·1	14·7	18·7	22·4	27·2	29·0†
	Exp.	23·2	23·3	14·0	14·5	17·1	22·5	29·7	36·4	31·0	38·6†
U.S.A. ..	Imp.	15·7	15·7	9·6	13·8	5·7	6·3	6·2	7·1	4·9	7·2
	Exp.	16·1	14·6	17·2	10·2	11·9	14·7	16·9	14·3	16·5	17·1
Utd Kingdom ..	Imp.	12·5	12·7	13·2	13·7	14·1	16·7	15·5	16·1	11·0	13·0
	Exp.	11·8	12·5	15·0	23·4	20·4	17·4	12·6	12·2	9·6	8·3
France ..	Imp.	6·8	7·2	6·5	5·0	4·3	6·7	1·7	1·9	1·7	1·8
	Exp.	6·1	6·8	6·2	5·0	8·0	2·7	2·7	3·3	2·5	2·9
Italy ..	Imp.	5·6	6·1	6·1	5·7	5·6	4·9	3·7	0·5	2·9	3·4
	Exp.	18·3	14·1	16·5	16·5	15·5	9·8	5·9	1·8	8·2	5·2
Czecho-Slovakia	Imp.	3·5	3·7	3·3	3·4	4·1	4·7	3·9	1·9	3·8	1·8
	Exp.	1·1	4·4	1·0	1·8	1·7	1·9	2·6	2·1	4·0	2·8
S.E. Europe ..	Imp.	16·8	13·7	11·6	14·8	10·2	10·8	12·5	13·1	19·8	14·4
	Exp.	2·8	2·9	3·6	2·8	4·3	6·2	6·7	8·0	6·7	6·2

(c) *Percentage share of more important commodities in total value of imports**

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Cereals	21·9	20·0	18·7	21·5	18·7	8·8	14·8	17·8	19·5	18·7
Cattle & foodstuffs ..	16·8	15·1	15·9	15·7	14·5	16·2	14·3	13·7	11·1	12·2
Textiles	14·8	16·4	14·9	13·7	16·1	16·5	16·4	16·3	13·8	12·5
Metals & metal manufactures	6·9	7·9	7·9	7·5	10·0	10·2	9·8	9·7	11·2	10·8
Machinery ..	4·3	4·1	4·5	4·2	3·3	4·7	5·1	4·6	4·7	6·5
Coal, oil, and other minerals	9·5	8·1	8·6	10·5	10·7	10·8	9·6	9·3	10·0	10·6

(d) *Percentage share of more important commodities in total value of exports**

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Tobacco	56·5	56·5	53·5	38·3	32·1	37·0	30·3	48·1	45·9	45·5
Currants & raisins ..	15·1	16·3	22·2	27·3	25·9	26·0	17·3	17·7	14·9	12·4
Wine	8·1	4·1	4·0	3·4	8·0	2·8	2·1	2·5	2·3	2·9
Olive oil	3·6	1·5	2·2	10·0	8·5	3·2	4·3	3·7	2·5	8·5
Olives	2·3	2·1	2·9	2·9	2·4	4·0	4·1	3·9	2·8	3·3

*1938 figures are estimated on the basis of 9 months only.
†Excluding Austria: imports (0·5%), exports (1·7%).

1. GENERAL SURVEY

GREECE is very mountainous. Only 15 per cent of her total area consists of arable land, compared with from 30 to 60 per cent in the case of the other Balkan countries.

PERCENTAGE OF TOTAL AREA

Country	Arable land	Gardens, Vines, etc.	Pasture	Forest	Unproductive
Greece (igao)	15½	3	8½	18	55
Yugoslavia (1930)	29	2	24	31	14
Bulgaria (1927)		1	9	27	25
Rumania (1931) ..	60	3	13	24	146
Hungary (1931) ..		3	19	12	

Source: League of Nations Financial Committee Report, June 1933.

The number of inhabitants per square kilometre of cultivated land in 1931 was 336 as compared with 181 in Yugoslavia (1930), 147 in Hungary (1931), 140 in Bulgaria (1927) and 128 in Rumania (1931). These figures help to explain why Greece imports substantial amounts of cereals and cattle, whereas the other four countries export these products, and why a third of her population is urban, living in towns of over 5,000 inhabitants.

Over half her land is sterile and only 18 per cent is under cultivation. Her output of minerals is of quite minor importance. She produces no coal or oil and has to import them for her industry.

Greece's population was increased in 1922 by the influx of over a million refugees from Asia Minor. It has grown from six million in 1925 to seven million in 1937 and it is increasing by over 80,000 a year. During the period 1907 to 1921 net emigration, mainly to the United States, was on the average about 15,000 a year: this outlet is now almost closed. It might well be thought that Greece is by far the most ovcrpopulatcd country in Europe. Yet this is not so, and though she would probably be better off with fewer people, her general standard of living is considerably higher than that of her neighbours. Nearly all her peasants eat wheat bread, and over two million of her people enjoy a standard of urban comfort not far below that of Western Europe.[1] Why is this?

The main reason is that parts of her territory enjoy a climate and soil suitable for the production of valuable crops, notably tobacco and currants. Thus in 1936 tobacco worth about 3*5 milliard drachmae was produced from 110,000 hectares, and currants worth about 1 milliard drachmae from 65,000 hectares. The 835,000 hectares under wheat, on the other hand, produced a value of only

(i) In 1935 an unskilled adult male worker in Athens earned around 60 to 80 drachmae a day. See Ministry of Labour: *Enquite sur Us salaires dans I'industries hellenique* (1935). He now earns about 20 per cent more, or about three shillings, for an eight-hour day, and the cost of living is appreciably lower than in England.

3 **milliard drachmae. Another** reason is **that her workers are relatively efficient. Greeks** are renowned for their commercial ability, and the standard of Greek technicians is comparatively **high. Lastly,** she has **the** advantage of a long coast line, giving most of **her** exports ready access to cheap sea transport.

Greece resembles Britain in that her prosperity depends largely on international trade. Her mercantile marine is one of the largest in the world. In 1937 there were 680 ships, mainly tramps, Hying the Greek flag, representing a tonnage of over 2,106,000. Most of her tobacco and currants are exported; these crops are chiefly valuable because of the foreign demand for them. She relies on imports for part of her food and raw materials and for her fuel. Yet the most striking feature of her economic life during the last few years is the extent to which she has been constrained to become more self-sufficient.

Industrialization

A few figures will illustrate the change. In 1928 58 per cent of the industrial products which she consumed were produced at home and 42 per cent were imported. In 1937 over 74 per cent were produced at home and less than 36 per cent were imported. Corresponding figures for the raw materials used in her industry are: 57 per cent home-produced and 43 per cent imported in 1928, 71 per cent home-produced and 29 per cent imported in 1937. Over the same period she has increased her area of cultivated land from 1•6 to 2•4 million hectares.

According to the Census of 1928 some 430,000 persons 178 per cent of the working population - were engaged in "industry." Many of these were builders, carpenters, masons, shoemakers, and the like, but there were about 100,000 in textile factories, 45,000 engaged in metallurgy, and 48,000 in preparing tobacco and making cigarettes. The Supreme Economic Council estimates that since 1928 the volume of industrial output has increased by over 50 **per** cent. Most of this increase took place after 1933 and was especially marked in the textile and chemical industries.[1] **It** was not **subsidized in** any way **by the State** but was due simply to the restriction of imports by Customs duties and quotas. The personnel increased by less than 20 per cent owing to the greater use of machinery.

Agriculture

The most important increase in the home production of raw **materials** has been **in** cotton. The output of cotton (and seed) rose

(1) From 1931 to 1937 the value of textile output increased from 1,643 to 3,967 million drachmae, and that of chemical products from 679 to 2,832 million drachmae. The total value of industrial output rose from 6,062 to 13,772 million drachmae. See Supplement to *Monthly Bulletin of the Bank of Grace,* April 1938, p, 22.

from 10,000 tons in 1931 to 57,000 tons in 1937. The cotton is only medium in quality, so that some Egyptian and other cotton is imported (4,000 tons in 1937). Moreover, some cotton tissues arc imported (in 1937 to the value of about 600 million drachmae). Nevertheless the substantial Greek cotton industry uses mainly home-grown cotton and even exports some cotton yarn (worth over 100 million drachmae in 1937) to Yugoslavia, Rumania, and Turkey.

The area under cultivation has expanded under the stimulus of increasing population and high prices. Some marsh land has been drained and some land has been protected against floods at the cost of the Government. Moreover the Ministry of Agriculture has done much to maintain or increase yields by giving instruction, providing selected seeds, and encouraging the use of agricultural machinery through agricultural co-operative societies. The most striking feature has been the increased home output of wheat, from about 300 to 350 thousand tons in the years 1928 to 1931 to more than double that amount from 1933 onwards. There is a Wheat Office which buys most of the home-produced wheat from the farmers, re-sells it to the millers, and decrees what proportion of home wheat they must use for their flour. Imports are subject to permit. In 1937 the inland price was double the world price. The milling industry has expanded and hardly any flour is now imported. Nevertheless it should be added that, owing to increased consumption in Greece, imports of wheat and flour amounted to 472,000 tons in 193(3 and 507,000 tons in 1937—as against an average of 612,000 for 1928-32.

This trend towards self-sufficiency was to a great extent inevitable. Greece exports mainly tobacco, currants, raisins, wine, olives, and figs—all articles of a luxury nature. With the depression, the demand for them fell heavily. Over half the value of her exports consisted of tobacco. The average price per kilogram of her tobacco fell from 5-38 gold francs in 1929 and 4-60 in 1930 to 1 -97 in 1932, and 1 -43 in 1933, rising slightly to 1-551111934. Emigrants' remittances, which covered much of her adverse balance of trade, fell from 210 million gold francs in 1930 to 72 million in 1932 and 46 million in 1934. Clearly a drastic reduction of her imports, in one way or another, was inevitable.

The reduction has taken place mainly through the mechanism of exchange control and import quotas. Greece must pay mainly in free exchange for her imports of wheat and oil and raw materials. Hence all available free exchange is reserved mainly for these

"essential imports," and importers are permitted to buy other imports, for the most part, only from "clearing" countries.

Important of Tobacco*

It may be wondered why Greece does not try to get more freedom from the meshes of the "clearing" net by promoting her exports to free-exchange countries. The main reason is that she is a "monopolist," in the technical economic sense, of her main exports. In other words, any considerable increase in their volume—the demand for them remaining the same—would reduce their price substantially: perhaps so much that her total receipts would be actually reduced. Hence she must wait for the foreign demand for them to increase, instead of taking the initiative by offering large quantities.

This applies essentially to her main export, tobacco. Greece, Bulgaria, and Turkey produce somewhat similar tobacco, and from time to time conferences are held between the three countries to try to agree upon the amounts each should produce, but these conferences have not succeeded. Greece restricted her acreage considerably in 1938. She is concentrating on the best qualities, many of which neither Turkey nor Bulgaria can produce. Hence she compels farmers owning land which produces relatively inferior tobacco to grow other crops instead. From the standpoint of the individual farmer, this means producing a less valuable crop, but it is in the best interests of the nation as a whole.

The dependence of the Greek economy on tobacco explains the economic hold which Germany has over Greece. For Germany buys a large proportion of her tobacco -over half, in value, in 1936 and 43 per cent in 1937—and if she stopped buying it would be a catastrophe for Greece. It explains also why Greece would be delighted if-—owing, say, to a change in the tastes of smokers—other countries, and especially Great Britain, were to buy more of her tobacco. Any such "rise in the demand curve" for her monopoly product would both increase her income and reduce her economic dependence on Germany.

2. CONTROL OF EXCHANGES AND FOREIGN TRADE

All dealings in foreign exchange have been concentrated at the Bank of Greece since the autumn of 1931. There is still a considerable amount, probably over a milliard, of blocked drachmae arising from the compulsory conversion in June 1932 of bank deposits and other debts owed, in Greece, in terms of foreign currency m

into debts in terms of drachmae. The drachma has been pegged to sterling at 540-550 to the £ since September 1936 and is now worth about 40 per cent of its former gold parity.

Exchange control is enforced more strictly and effectively than in any other Balkan country. Before any one in Greece can export or import, the prices of the goods must be approved, in order to prevent him from exporting capital or from assisting people in other countries (especially Germany) to export theirs, and approval is not infrequently withheld. Severe penalties have killed the black market. Exporters must surrender the whole of their free exchange to the Bank of Greece, and all get paid the same rate for it: there is no discrimination in favour of certain exporters, or certain goods, or exports to certain countries, through differential rates for free exchange. The free exchange made available for imports is allotted to different goods according to published rules, which give the first claim to certain imports considered as essential. Its distribution among individual importers is decided, if necessary, by the Chambers of Commerce. These bodies also distribute import quotas, usually on the basis of what each firm imported during 1930 to 1932. New firms of importers cannot be set up.

Imports are divided into nine categories. These are stated, and the various goods in each category are named, in Appendix VI to the D.O.T. Report on Greece for 1938. Some goods, such as coal and fertilizers, can be imported from anywhere without restriction, and other goods, notably machinery, timber, and wheat, need only a permit, "which is freely granted unless imports would lead to the creation of unnecessary stocks." Free exchange must be paid for most of these goods. Other goods—for example, iron and steel—must be imported, as a rule, only from "clearing" countries. Many goods, again, are limited per six-monthly period as to quantity (e.g. textiles) or value (e.g. motor-cars). Such goods can be imported from anywhere, but in fact they must come mainly from clearing countries, owing to the shortage of free exchange. The whole system is given some elasticity by a special committee with power to grant import permits, within limits, in excess of quotas and to distribute a little foreign exchange for the import from free-exchange countries of goods which are listed as importable only from clearing countries. Greece has clearing agreements with twenty-one countries and "private compensation" agreements with twelve others. Moreover, imports of certain goods arc permitted in exchange for Greek produce even from countries, such as Brazil and Great Britain, with which she has no agreement. In October

1938 imports worth 116 and exports worth 25 million drachmae took place through private compensation.

Greece must pay for certain products, including wheat, wholly or mainly in free exchange, even if they come from clearing countries. Moreover she must pay for her imports from Rumania and Yugoslavia 35 per cent in free exchange. On the other hand, her international shipping services are paid for largely in free exchange.

The rates of exchange in her clearing agreements are fixed, except that the rate with Turkey can be changed by mutual agreement at short notice, and that the number of drachmae to be paid to Italian exporters to Greece depends on the exchange-rate of the lire on the day when the drachmae are transferred. The rates are not necessarily equal to the official parity rate between the two currencies and some have been altered when a new agreement was made: for example, the rate with Rumania was altered in 1937. There are no "clearing bills" in terms of a foreign currency; the Greek Government undertakes the risk of paying the Greek importer as soon as e.g. his German creditor has paid in marks to the Rcichsbank.

There are practically no subsidies on exports, but recently a few minor exports have been restricted in an endeavour to direct them more towards free-exchange countries.

3. FOREIGN LOANS AND INVESTMENTS

(i) PUBLIC DEBT

The public debt of Greece outstanding on February 28, 1938, was composed as follows:

		£
External consolidated debt	drachmae 6190B million	113 million
Internal consolidated debt	„ 12,173	„ 22 „
External floating debe	„ 782	„ 14 „
Interna! floating debt	„ 1,318	„ 2'4 „
Unremitted interest on external debt	9,2	„
		£148 million

of which 83 5 per cent is external (but about one-third of the external debt is held in *Greece).*

The External consolidated debt is made up of:

Gold francs	9095 million	530%
French francs . .	139 „	0·8%
Pounds	26-6 „	23·7%
Dalian	658 „	11·7%
Leva	1,012·2 „	2·3%
Swiss francs	115·6 „	6·7%
Reichmarks	16·8 „	1·1%

The Government first defaulted on the service of this debt on April 15, 1932. No final settlement has yet been reached, but at present amortization payments are suspended and 40 per cent of the total interest due is transferred, the rest being reborrowed by the Government by depositing non-intcrcst-bcaring treasury bills with the International Finance Commission.

The actual interest service transferred, on loans controlled by the International Finance Commission (£80 million out of the total of £113 million), was in 1936 £910,000. Of this 43 • 5 per cent was paid in London, 3-2 per cent in Paris, 152 per cent in New York, and 38* 1 percent in Athens.

(ii) PRIVATE INVESTMENTS

The total value of private foreign investments in Greece is about £20 million and of this about two-thirds is British. The two biggest British investments arc the Societe' Generate Hellcnique (controlled by the Whitehall Securities Group), which is the holding company operating the Athens-Piraeus Electricity Co. and the Electric Transport Co., with a total British capital of about £4*5 million, and loans to the Greek Mortgage Bank of £5 million. The Piracus-Athens-Peloponnesus Railway owes about £750,000 on pre-War loans raised in London. The Lake Copais Land Reclamation Scheme is operated by a British company. Although the share capital is mainly held in Greece (and has paid no dividends for years) the company owes nearly £600,000 on loans raised in England. Other British interests include the Ionian Bank, the Anglo-Greek Magnesitc Co. (mining), and some property owned by insurance companies, the Eastern Telegraph Co., Shell, and similar concerns.

France comes second, with interests in the Bank of Athens, the port works in Thrace, the port of Piraeus, the Athens Gas Co., and the Laurium Mines. Belgian interests operate the electric light and trams of Salonika. An American company provides Athens with its water supply, but the capital of this company—a 9,576,000 dollars 8 per cent loan of 1925 (now reduced to 4 per cent)—is included in the public debt.

4. RELATIONS WITH GERMANY

Germany has no "minority" of Germans setded in Greece; there **are** relatively few German technicians in Greece; and, apart from **the** Athens Telephones, owned by Siemens, there is practically

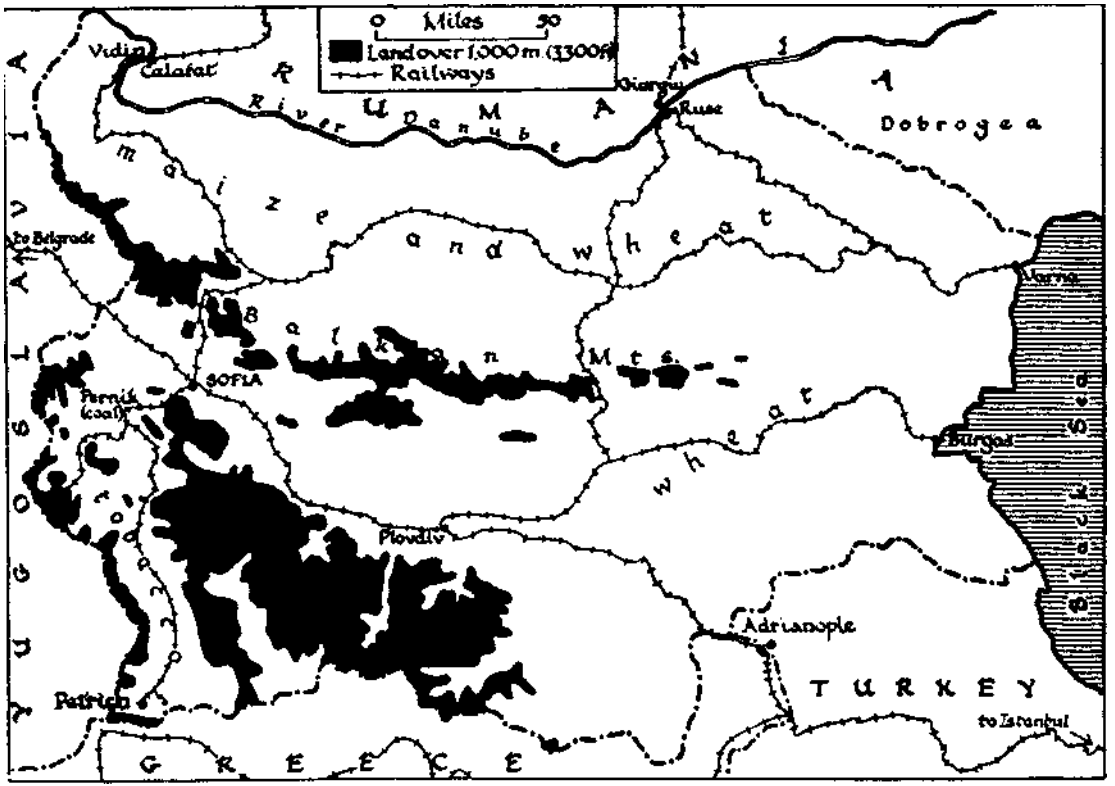
no German capital in Greece. The official Greek view appears to be **that** Greece does not want more foreign companies, or even long-term credits, as the concessions granted in the past have proved too expensive. Hence Germany has not been encouraged to lend.

Nevertheless trade between the two countries has increased greatly since about 1933. The proportion of Greek exports taken by Germany rose from below a fifth (1929 to 1933) to about a third, and the percentage of Greek imports coming from Germany rose still more strikingly from about 10 (1929 to 1933) to 22 in 1936 and 23 in 1937. This trend continued during 1938.

The initiative was taken by Germany, who considerably increased her purchases of Greek products, and especially of tobacco. At that time, she apparently did not mind how high a price she paid and nobody disputes that she paid appreciably more quality for quality—than the United States, although the latter bought more of the finest varieties. Payment was made through the clearing, and the balance in marks to the credit of Greece became very substantial: at the end of 1934 it was 10-6 million, of 1935 [21] *9 million, and of 1936, 18-7 million. For a time it was well above 30 millions.

Naturally purchases were diverted towards Germany. The prices charged for some German goods seem to have been above world prices—some machinery, in particular, was sometimes 25 per cent or more above the prices asked by other countries. Moreover, the delivery of certain goods—mainly those required for Germany's rearmament programme (e.g. aluminium)—was much delayed. The Government of Greece from time to time reduced the balance by purchasing railway and public works material and, above all, armaments for its rearmament programme.[1] Recently, both the prices paid and the prices charged by Germany have been much more competitive than in the past.

(1) It is alleged that some were said to the Government of Spain at a profit.


0 Miles 50
Land over 1,000 m (3300ft)
Railways
Vidin
Calafat
River Danube
ROUMANIA
Giurgu
Ruse
Dobrogea
maize and wheat
to Belgrade
Balkan Mts.
SOFIA
Pernik (coal)
wheat
Burgas
Black Sea
Ploudiv
Rhodope
Adrianople
TURKEY
to Istanbul
Petrich
GREECE

VI. BULGARIA

POPULATION ..	6,319,000 (1937: December climate)	
1934 censui ..	6,078,000 *of which*	
	3,080,000 arc actively occupied,.	
	80-o% in agriculture and forestry, and	
	10· 1 % in mining, industry, and transport	
AREA	39,800 sq. miles	
Arable	13.900 „ „	35.0%
Pasture	1,050 „ „	26%
Tree and bush crops	550 „ „	1·4%
Forest (approx.)	12,150 „ „	30·5%
Uncultivated (appr.)	12·150 „ „	30·5%
	39,800 sq. miles	100-0%
Cereals	9,700 sq. miles	24 4% of total area
of which Wheat	48%	11-6% „ „ „
Oats	5%	1·2% „ „ „
Rye	8%	1·9% „ „ „
Barley	9%	2·0% „ „ „
Maize	27%	6·5%
	97°/	
Fodder	830 sq. miles	2 1 % „ „ „
Vegetables etc.	590 „ „	1·5% „ „ „
Industrial crops	1,060 „ „	2 7 % „ „ „

LIVESTOCK (1926 census)

Horses	482,000	Buffaloes	448,000
Asses and mules	212,ocx)	Sheep .. .	8,740,000
Cattle	1,817,000	Pigs .	1,002,000

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Wheat	903	1,560	1,737	1,310	1,510	1,078	1,304	1,643	1,787	2,150
Oats	157	111	103	101	130	75	93	136	147	89
Rye	188	321	271	229	246	164	197	208	239	188
Barley	204	433	343	296	352	187	282	322	330	354
Maize	940	775	680	887	951	790	1,009	872	659	518
Sugar-beet	263	402	200	187	298	19	154	80	181	141
Tobacco	33	27	32	17	25	21	28	42	35	17
Grapes	296	284	370	307	431	454	550	299	456	
Sunflower-seed ..	—	—	—	—	—	—	119	102	163	130

Mineral (thousands of metric tons)

Lignite	1,579	1,522	1,437	1,663	1,493	1,588	1,366	1,670	1,655	1,645
Coal	79	71	80	96	80	79	93	102	111	*

Industrial

Index of production ..						100		† 148·5	142·7	155·4

*10 months only.
†Last six months only.

MONEY AND PRICES

(in milliards of lires)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Notes in circulation at the end of the year ..	3·6	3·3	2·9	2·6	3·0	2·4	2·8	2·6	2·6	2·8
Deposits			4·8	3·9	3·3	3·2	3·4	3·4	3·3	
Wholesale price index	100	81·2	66·8	56·3	52·4	53·4	54·4	55·4	62·0	65·4
Cost of living ..	100	91·5	79·9	73·4	68·2	63·7	59·5	56·7	55·1	60·4

Par rate of exchange (1929) 573·7 = £1
present (*de facto*) rate of exchange 370–400 = £1

FOREIGN TRADE

(a) *Total value of imports and exports in milliards of lires*

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	8·3	4·8	4·7	3·5	2·2	2·2	3·0	3·2	4·9	4·9
Exports	6·4	5·2	5·8	3·4	2·8	2·5	3·3	3·9	5·0	5·6

(b) *Percentage share of more important countries in imports and exports respectively*

Germany ..	Imp.	22·2	23·2	23·3	25·9	38·2	40·2	53·5	61·0	54·8	52·0†
	Exp.	29·9	26·2	29·5	26·0	36·0	42·8	38·0	47·6	43·1	39·0†
Austria ..	Imp.	7·6	6·8	7·2	6·0	6·2	4·8	6·4	5·7	3·4	
	Exp.	12·8	7·7	18·8	15·0	9·7	5·3	4·8	3·0	4·0	
Utd Kingdom	Imp.	8·9	8·2	13·2	10·3	8·9	6·4	4·7	4·8	4·7	7·1
	Exp.	1·6	2·1	1·0	2·5	1·6	2·1	4·4	11·6	13·8	4·8
France ..	Imp.	8·2	9·3	7·0	6·5	4·4	3·8	1·4	1·2	3·3	3·7
	Exp.	5·1	5·2	3·9	2·7	3·3	2·1	1·8	2·0	1·6	1·5
Italy ..	Imp.	10·7	13·6	13·7	15·6	12·7	7·8	3·1	0·6	5·0	7·5
	Exp.	10·5	8·3	5·8	12·5	9·1	9·2	8·7	3·6	4·2	7·6
Poland ..	Imp.	0·8	1·1	3·1	3·0	1·1	2·1	1·2	2·9	4·4	5·8
	Exp.	8·5	10·2	8·3	5·2	1·7	1·6	2·1	3·7	4·7	5·7
Czecho-Slovakia	Imp.	9·0	9·4	9·3	8·4	4·8	3·6	9·7	7·7	5·0	5·9
	Exp.	4·8	8·4	4·6	3·1	3·5	3·6	6·9	3·3	5·6	4·6
S.E. Europe ..	Imp.	14·4	12·3	8·2	6·0	7·1	6·6	5·7	5·4	5·1	7·3
	Exp.	11·0	9·1	5·0	2·1	2·0	2·0	4·4	2·6	2·3	2·2

(c) *Percentage share of more important commodities in total value of imports*

Textile goods ..	30·9	27·7	3·6	37·4	32·0	33·7	23·4	24·8	20·0	19·6
Metals & metal products	15·4	18·9	19·5	15·6	17·2	17·3	19·8	20·7	22·2	23·2
Machinery & Armaments	14·3	14·2	14·3	12·3	15·6	10·8	19·3	19·5	26·0	22·4
Rollingstock, motor-cars & ships ..	2·6	3·8	2·3	1·0	1·4	1·3	7·3	7·9	8·0	4·6
Chemicals, dyes, and tannates	4·4	5·6	6·9	8·5	9·5	9·2	7·8	7·4	6·5	7·0

(d) *Percentage share of more important commodities in total value of exports**

Tobacco, sugar, and colonial produce ..	48·6	43·4	44·1	32·8	42·3	40·4	43·1	32·6	35·0	41·0
Livestock and animal products	16·7	19·3	18·9	24·0	21·2	22·2	21·4	21·7	19·5	18·5
Cereals & derivatives	11·3	17·1	23·3	27·9	16·8	12·8	4·6	17·3	20·5	10·9
Fruit & vegetables ..	4·6	5·0	5·3	7·3	8·8	13·0	21·0	15·5	7·0	18·2
Skins & leather goods	5·9	4·8	2·6	2·6	4·6	5·6	3·6	4·3	5·6	5·3

*1938 figures are estimated on the basis of 11 months only.
†including Austria

1. GENERAL SURVEY

BULGARIA has a population of nearly 6½ million, of whom 80 per cent live on and by the land, industry employing less (han 100,000. Her mineral resources arc of little importance, consisting mainly of lignite and coal sufficient for her own consumption. But she has a wide range, for a small country, of climates and soils, and her output includes cereals, tobacco, grapes, cotton, oil-seeds, and rose-oil.

The national income fell from over 56 milliard leva in 1928 and 1929 to 34½ milliard, its lowest level, in 1934.[1] The following figures relate to 1935, later estimates not being available. There is no doubt that it is now substantially higher than in 1935, but its composition has not changed greatly.

In 1935 the total national income was 36-6 milliard leva, of which over a third was received in kind (mainly by peasants consuming their own produce). Its composition may be summarized as follows:

	Milliard leva
Rural economy	19·6
Handicrafts	2·8
Industry, building, and mining	2·3
Communications and transport	1·0
Trade	2·5
Banking and insurance	1·3
liberal professions	0·3
Real estate	2·2
Salaries	4·2
Public Undertakings	0·4.
	36·6

It will be noted that handicrafts, of which the most important are tailoring, shoemaking, carpentering, coopering, and building, produced a greater value than industry. In 1936 135,000 persons were engaged in handicrafts. Nevertheless income per head of rural population was only 4,072 leva as against 12,781 for the urban population. In 1938 a tobacco packer received 74 leva (about three shillings), a spinner 50 leva, and a builder's labourer 40 leva, for an eight-hour day.

Agricultural Changes

The problem of over-population is as pressing in Bulgaria as in neighbouring countries. Owing mainly to the mountains, only 40 per cent of her total area is used for agriculture, and this proportion cannot be appreciably increased. The average size of holding has

(1) See Dr Tchakaloff's interesting and scholarly study in *Publications of the Statistic*! Institute for Economic Research,* State University of Sofia, 1937, No. 2.

fallen from about 6 hectares in 1926 (when her population was below 5| million) to about 5,[1] and there are over 200,000 agricultural workers employed by others. This partly explains the change towards more "intensive" crops which has taken place since the War and is still going on. Before the War, the percentage sown with cereals was 76, with fodder crops 17, and with intensive crops 7. During recent years the percentage sown with cereals has been about 70 and with intensive crops about 12.* The change in the composition of Bulgaria's exports is striking. Cereals, which before the War formed 66 per cent of the total, now form less than 20 per cent, tobacco has risen from 1 per cent to 30 or 40 per cent, and fruit and vegetables from 2 per cent to about 1 o per cent, while eggs now form about 1 o per cent of total exports.

The area sown with industrial plants has increased from 161,000 hectares in 1929-30 to 350,000 hectares (about 8 per cent of the total) in 1937-8. The main increases arc as follows:

	Area sown (thousand hectares)	
	1939-30	1937-8
Tobacco	32	
Sunflower		
Colza ..	9	25
Soya		12
Cotton	5	58
Hemp	4	9
Flax		4

The cotton is of poor quality and raw cotton, as well as cotton goods, is imported.

Industry

Bulgarian industry produces mainly consumers' goods such as cotton and woollen cloth, leather shoes and rubber goloshes, cigarettes, beer, and soap. Sunflower-seed oil is refined locally. There are over 1,200 establishments, mostly small, and the prices of manufactured goods are relatively high. Some imported materials arc sold more cheaply to the factories than to the peasants (for their handicrafts). On the whole, profits have been good during recent years, and some expansion has taken place, financed mainly out of profits. There were some 7,000 registered unemployed in 1938.

Sta Control*

State control of economic life is fairly extensive. In the first place, all imports and exports are controlled. Some exports are at times prohibited: thus in 1938, when a fodder shortage was feared, it was forbidden to export hay, barley, oats, and other food for animals. In the second place, about three-quarters of all bank deposits are

(1) At the Census of December 1934, a fifth of the total area of agricultural holding* consisted of holdings of less than 3 hectares and nearly half of holdings of less than 5 hectares. Only 16 per cent consisted of holdings of more than 15 hectares.

(a) See Milloff: *Die Soziatokonomische Struktur der Bulgarischen Londwirtschaft,* p. 107.

held by State banks, mainly the Agricultural Bank and the National Bank, which has about eighty branches. The Agricultural Bank alone holds some 8 milliards of the total 14 milliards: its holdings include the deposits of the savings banks. It lends mainly to agricultural co-operatives and to the State.[1] In the third place, agricultural prices are maintained, if thought necessary. The Cereals Board was set up in 1933 to buy wheat and rye. It pays much more than the world price for wheat—in 1938, 3-4 leva per kilogram plus premia for good quality—and at present holds a substantial stock which could be exported only at a loss. It is doubtful whether the peasants, many of whom arc on balance *buyers* of wheat or bread, gain by its activities. The Agricultural Bank is prepared to buy various commodities, such as tobacco and cocoons, at a given price. It now holds about two years stocks of attar of roses, which is bought to give some relief to growers (although rose-growing is being discouraged because the export market is now so poor). Finally, the Minister of Industry, in order to prevent over-production, can declare an industry "saturated" and forbid new entrants. About a tenth of all industry is now "saturated": a few years ago the proportion was a fifth.

2. CONTROL OF EXCHANGES AND FOREIGN TRADE

Bulgaria has had exchange control since 1923. The parity of the lev was fixed in December 1928 at 92 leva 1 gramme gold, and this is still nominally maintained. But in the free gold market within Bulgaria (gold can be imported but not exported) the lev is at a discount of 30 percent. Moreover, during 1937 and 1938 importers paid a premium of nearly 35 per cent for free exchange bought through private compensation, and exporters received this premium on some 70 per cent of their free exchange. Hence it can be claimed that the lev is *de facto* devalued.

The State monopolizes the export of wheat, selling it as a rule only against free exchange. The same applies to rye, but practically none is exported. Other goods are exported by private firms, but nothing can be exported without a licence from the Export Institute, which regulates the flow of certain products to certain markets (e.g. grapes to London) in the interests of producers. In practice, however, there is little restriction on exports. Exporters re-

(1) It has displaced the private moneylender. In 1924 peasants paid 200 million leva interest to moneylenders and 340 million to the Agricultural Bank; in 1935 the corresponding figures were 10 and 400.

ceiving free exchange must surrender a proportion of it, at parity, to the National Bank. This proportion varies between commodities. It is highest on walnut timber (60 per cent) and colza and oats (40 per cent); for a number of commodities (including fruit and vegetables, essence of roses and cocoons) it is nil; for most important export commodities it is 20 per cent (e.g. skins, cattle, and pigs) or 30 per cent (e.g. tobacco, eggs, maize). Exporters can sell the rest of their free exchange in the private compensation market. The premium obtained varied considerably from time to time; hence the National Bank, in order to smooth out such short-term fluctuations, began in June 1936 to practise open-market operations in the private-compensation market, and kept the premium between 32 and 35 per cent. In December 1938 the premium was in fact (but unofficially and illegally) not far from 50 per cent. The total amount of trade conducted through private compensation is about a third of the whole.

Apart from the different percentages of free exchange to be surrendered for different commodities, there are no export subsidies. Exporters of eggs, however, have an unofficial organization which taxes the receipts from eggs exported to Germany (about 70 per cent of total egg exports) in order to subsidize their export to Switzerland and other countries.

Imports, even of raw materials, are subject to heavy duties in order to provide revenue, and all imports are subject to quota. Import licences are distributed by the National Bank. In principle, each firm can import 50 per cent of the amount it imported in 1930-32 and can import it from any country, except that regular quotas are not given for a number of luxury articles and that the 50 per cent may be exceeded, if necessary, for essential goods such as raw materials, petrol, and salt. In practice (since a number of firms importing in 193032 arc not now in existence, and since the 50 per cent is not rigid) home industry can be protected to whatever extent is desired. Moreover, as the permission of the National Bank must be obtained to import from any particular country, imports arc in practice encouraged from countries with which Bulgaria is likely to have a credit balance (over the next few months) and discouraged from countries with which she is in the opposite position.

3. FOREIGN LOANS AND INVESTMENTS

(i) PUBLIC DEBT

The public debt of Bulgaria outstanding on December 31, 1937, was composed as follows:

Consolidated external debt:

Pre-Wax	Gold francs	385,500,000	22,500,000	**6·97%**
	French francs	70,800,000	500,000	
Indemnity to Entente subjects	French francs	46,700,000	300,000	1·0%
7% Refugee loan, 1926	Dollars	3,900,000	800,000	2·4%
	Pounds	2,100,000	2,100,000	6·6%
7% Stabilization loan, 1928	Dollars	12,850,000	2,600,000	8·0%
	Pounds	1,800,000	1,800,000	5·5%
	French francs	128,500,000	1,700,000	5"*%
Total consolidated external debt			£32,300,000	100· 0%

Unconsolidated external debt:

	French francs	3,100,000	50,000
	Dollars	2,300,000	500,000
Total external debt ..			£, 32,850,000
	62% of total public debt		

Internal debt:

Consolidated	..	leva 2,701,600,000	6,450,000
Floating	..	leva 5,744,900,000	13,700,000
Total internal debt	. .	leva 8,446,500,000	£20,150,000
Total public debt		..	£53.000,000

The first moratorium occurred in 1932. Since then amortization payments have been suspended. In 1937 and 1938 the Bulgarian Government offered to transfer 32 per cent of the total interest due in complete discharge of its (interest) obligations. For the years 1939 and 1940 the Bulgarian Government made an offer to pay 36 per cent in the first half of 1939 and 40 per cent after that of the total interest due on coupons in their full satisfaction. The Council of Foreign Bondholders recommended the offer for acceptance.

(ii) PRIVATE INVESTMENTS

In 1936 paid-up foreign capital in Bulgarian companies amounted to 2,179 million leva (about £12 million) which was 42·6 per cent of the total paid up capital of companies. It was distributed as follows:

	Total	*Foregn*
Banks ,.	878	27!
Industry	3,250	1,582
Commerce	851	278
Transport	27	15
Insurance		**33**
	5,116	2,179

Under "industry" **the** chief branches were:

	Total	*Foreign*
Cement	**764**	**450**
Textiles	**. 6 6 6**	**203**
Electricity	**333**	**247**
Sugar refineries	**..** **374**	**357**

Under "commerce," the main item was petrol distribution: here 204 million of the 207 million capital was foreign. The foreign capital was distributed by countries as follows:

FOREIGN INVESTMENTS IN BULGARIA[1]

	Million leva	*Per ant*
Belgium	**602**	**27 5**
Switzerland	**508**	**23 3**
France	**248**	**11·4**
United States . .	**237**	**10·9**
Italy	**215**	**9 · 9**
Czechoslovakia	**119**	**5 · 5**
Germany	**112**	**5 · 2**
Austria	**60**	**2 · 7**
United Kingdom	**30**	**1 · 4**
Hungary		
Holland		

Since then the main changes have been that the Austrian and Czech capital is now controlled by Germany and that the Bulgarian co-operative societies arc buying out the sugar factories.

The leading concerns with wholly or largely foreign capital are:

CREDIT INSTITUTES		*Capital Million leva*	*Nationality of the capital*
Franco-Bulgarian Bank	**Sofia**	**51**	**French and Belgian**
Credit Bank	**Sofia**	**50**	**German**
Italian and Bulgarian Commerical Bank	**Sofia**	**40**	**Italian**
MINES			
Plakalnitza, Ltd.	**Paris Br. Sofia**	**7**	**French**
Pirine, Ltd	**Sofia**	**30**	**SWIM**
CEMENT AND LIME			
Cranitoide, Ltd	**Sofia**	**600**	**Swiss**
METALLURGY			
First Bulgarian Company for making wagons	**Sofia**	**20**	**German**
Korakwag .. Varna		**20**	**German**
GLASS			
First Bulgarian Glass Factory ..	**Sofia**	**4**	**Belgian**
TEXTILE INDUSTRIES			
Gloria, Ltd.	**Sofia**	**16**	**Italian**
Bulgaria Cotton Spinning Mill ..	**Sofia**	**50**	**Italian**
Simonet, Ltd.	**Sofia**	**2**	**French**
PRODUCTION or ENERGY			
Ste d'electricite de Sofia et de Bulgarie	**Sofia**	**245**	**Belgian**
PAVER MILLS			
Maritia, Ltd.	**Sofia**	**40**	**Swiss and German**

(1) From an article (in Bulgarian) by M. Haralamber in *Publications of the Statistical Institute for Economic Research*, State University of Sofia, 1937, No. 1.

4. RELATIONS WITH GERMANY

Before 1933 about a quarter of Bulgaria's foreign trade was with Germany. This proportion rose to half in 1935 and has since been near or above that level. Germany is the main purchaser of Bulgarian tobacco.

The rate of exchange with Germany, as with Italy and most weak-currency countries, is fixed in the clearing agreements at the official level. About a tenth of Bulgaria's trade with Germany is "private compensation," but the National Bank intervenes (in the interests of exporters of e.g. pigs) to prevent the discount on the mark from exceeding two or three per cent. The credit balance with Germany was fairly large at the close of 1938, but as a rule it has been only a few million marks during the last year or two, and it is expected to diminish in 1939, owing partly to the payments due by the Bulgarian Government over the next few years for armaments bought on long-term credit from Germany. It should be added that tenders were invited for armaments and the German prices were the lowest. In general, German imports are as cheap as those of other countries.

Germany is prepared, broadly speaking, to buy as much as Bulgaria wants to sell, even in excess of her import quotas from Bulgaria, at the price fixed for the time being by the relevant *Uberwachungsstelle.* Germany agrees to supply Bulgaria with certain quantities of raw materials, mainly cotton, and "colonial products," mainly coffee. Bulgaria has insisted as a rule on receiving free exchange for her wheat, and hence has sold none to Germany, but in 1938 she sold a little wheat to Germany and also to Italy.

/. G. *Farben* introduced the cultivation of soya beans, providing seeds, machines, and instruction, in 1934. The area sown and production of soya beans were:

	Area sown (hectares)	*Production (quintals)*
1934-5	15.574	172,423
1935-6	5,046	48,813
1936-7	12,129	114,070
1937-8	12,,299	60,906

The average price paid was 3-18 leva per kilogram in 1936 and 3-73 leva in 1937, but it is said that the 1938 price was lower and that, for one reason or another, the peasants were not pleased with the results, so that the area sown may diminish.

Apparently Germany offered, through Dr Funk, to take all Bulgaria's products at prices fixed in advance (over a period of years, perhaps as many as twelve) and to supply all her import requirements. But this offer seems not to have been seriously discussed.

TURKEY


200 Miles
Mountains have been omitted
GEORGIA
Samsun
Karabuk
Izmit
Ankara
Keskin
Kayseri
Sivas
Erzurum
Kars
Morgul
Kuvarshan
Keban
Ergani
Malatya
Guleman
Diyarbekir
Mardine
Nisibin
IRAQ
IRAN
Aleppo
SYRIA
Konya
Eregli
Bulgar Dag
Anamur
Nazilli
Balya
Ereğli
Gemlik
cotton
iron and steel
▲ Mineral deposits in active exploitation.
△ Mineral deposits being developed under the Five-year plan 1933-1938.
Factories erected under the Five year plan.
Chrome ore areas.
Coalfield.

VII. TURKEY

POPULATION

1935 census	16,158,000	*of which*	
	7,921,000	are actively occupied,	
	81·9%	in agriculture and forestry, and	
	9·8%	in mining, industry, and transport.	

AREA . . . . . 294,000 sq. miles

Arabic	29,900	„ „	10·2%
Tree and bush crops	4,830	„ „	1·6%
Forest	34,100	„ „	11·6%
Total area considered	68,830	sq. miles	23·4%

Cereals	26,170	sq. miles	8·9% of total area
of which Wheat	5*%		4·6% „
Oats	4%		0·3% „
Rye	6%		0·5% „
Barley	28%		2·4% „
Maize	6%		0·5% „
	96%		
Vegetables etc. ..	1,880	sq. miles	0·6% „ „ „
Industrial crops ..	1,850	„ „	0·6% „ „ „
of which Cotton ..	53%		0·3% „ „ „
Tobacco ..	34%		0·1% „ „ „
Poppy ..	8%		— „ „ „

LIVESTOCK (1936)

Horses	673,000	Buffaloes ..	609,000
Asses and mules ..	1,206,000	Sheep ..	14,801,000
Cattle	6,095,000	Goats ..	11,288,000
Camels	105,000		

PRODUCTION

Agricultural (thousands of metric tons)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Wheat	2,719	2,423	2,856	1,936	2,671	2,714	2,521	3,853	3,819
Oats	148	145	118	128	207	159	232	215	241
Rye	329	310	399	214	264	244	216	449	478
Barley	1,678	1,521	1,858	1,168	1,672	1,724	1,372	2,164	2,285
Sugar-beet	30	91	247	150	360	403	384	420	*
Olives	*	*	195	183	135	274	142	134	*
Grapes	*	*	491	841	1,008	882	1,137	942	*
Hazel-nuts	6	48	23	42	48	34	56	73	*
Raw cotton	73	53	66	20	65	106	52	63	80
Tobacco	43	37	47	51	18	40	36	56	74

Mineral (thousands of metric tons)

Coal	1,421	1,595	1,574	1,593	1,850	2,288	2,340	2,289	2,507
Lignite	12	9	8	14	30	53	73	98	116
Chrome	18	30	55	—	75	120	150	164	183

*not available

MONEY AND PRICES

(in millions of £T)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
Notes in circulation at the end of the year	*	*	*	149	417	158	163	181	169
Deposits	*	*	*	*	238	332	372	452	*
Wholesale price index	100	86·1	72·5	64·6	64·0	67·8	65·5	66·0	74·5
Cost of living	100	92·1	87·1	84·9	75·8	74·7	69·3	69·5	70·6

Par rate of exchange (1929) 10·3 = £1
present rate of exchange 3·75 = £1
*not available

FOREIGN TRADE

(a) Total value of imports and exports in millions of £T

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Imports	256	148	127	96	75	87	89	92	114	150
Exports	188	151	127	101	96	92	96	128	136	165

(b) Percentage share of more important countries in imports and exports respectively

		1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Germany	Imp.	13·9	18·6	21·3	23·3	25·5	33·8	40·0	45·1	42·1	47·0*
	Exp.	13·3	13·1	10·7	13·5	18·9	37·4	40·9	51·0	36·5	42·7*
U.S.A.	Imp.	6·7	4·1	3·2	2·7	3·1	4·4	7·0	9·7	15·1	10·5
	Exp.	9·9	11·9	10·0	11·9	10·5	10·2	10·1	11·4	13·9	12·3
United Kingdom	Imp.	12·2	11·2	11·4	12·3	13·5	9·9	9·6	8·9	9·2	11·2
	Exp.	9·8	8·9	8·6	9·9	8·9	5·8	5·4	5·4	7·1	3·4
France	Imp.	10·4	10·5	10·1	6·4	6·6	7·4	4·7	2·5	1·1	1·3
	Exp.	12·8	12·2	9·5	7·7	6·4	3·0	3·2	3·3	3·8	3·3
Italy	Imp.	12·5	13·8	14·8	12·9	11·4	8·5	8·4	2·2	5·3	4·7
	Exp.	21·8	21·1	24·2	16·2	13·5	11·2	9·9	3·7	5·3	10·0
U.S.S.R.	Imp.	8·4	7·2	6·7	6·9	5·2	4·5	4·9	5·4	6·2	3·9
	Exp.	3·5	5·1	3·7	5·3	4·6	3·9	4·3	3·4	4·7	3·5
Czecho-Slovakia	Imp.	6·0	5·8	4·7	4·3	4·6	5·4	4·3	3·9	2·6	1·6
	Exp.	2·4	0·7	2·4	1·3	3·8	0·8	3·2	3·4	4·4	3·4
S.E. Europe	Imp.	5·4	3·6	2·5	2·5	3·1	4·0	4·1	3·6	3·2	3·2
	Exp.	3·9	3·9	3·6	3·7	5·3	4·8	3·3	2·8	2·8	5·4

(c) Percentage share of more important commodities in total value of imports

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Cotton manufacture	†	19·3	22·5	19·5	21·2	16·7	16·2	14·6	14·4	11·5
Iron & steel	†	13·6	12·8	12·2	12·1	14·6	18·8	15·5	16·0	19·0
Machinery	†	7·8	8·6	9·5	8·0	14·9	10·5	13·2	13·2	18·4
Vehicles	†	2·1	2·3	3·3	3·0	5·2	5·7	5·0	3·6	5·9
Chemicals & dyes	†	3·8	4·3	6·2	6·8	5·8	6·5	6·5	6·2	5·8

(d) Percentage share of more important commodities in total value of exports

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Tobacco	†	28·4	22·6	26·6	21·9	12·5	19·5	20·6	21·2	27·1
Raw cotton	†	11·0	5·6	5·3	1·6	5·7	7·1	5·1	4·0	7·1
Raw wool	†	3·0	2·7	2·9	4·3	3·6	4·3	11·2	6·6	4·9
Live animals	†	5·0	5·3	6·3	5·3	6·3	4·7	2·9	2·2	2·0
Eggs	†	5·5	9·1	7·9	5·0	2·9	1·4	1·4	0·5	†
Grains	†	6·6	8·5	10·4	7·2	7·9	11·0	8·7	4·3	†
Hazel-nuts	†	6·6	7·3	6·9	5·2	7·5	10·6	11·5	7·5	†
Wheat	†	0·4	6·2	1·5	1·1	4·5	2·9	1·6	5·7	12·2
Other cereals & flour	†	5·4	6·1	7·4	4·9	6·0	4·7	3·5	6·9	
Chrome ore	†	—	—	—	—	3·1	3·0	2·8	3·8	3·7

*Excluding Austria: imports (0·9%), exports (1·2%).
†Not available.

THE modern Republic of Turkey, unlike the pre-War Ottoman Empire, is a compact block of country peopled almost entirely by Turks. In 1923, after the War of Independence, nearly one and a half million Greeks were compulsorily sent back to Greece in exchange for a comparatively small inflow of Turks, and AtatUrk set himself the task of making his country stronger, more modern, and more independent. Large sums have been spent, and arc still being spent, on defence. Economic considerations arc often subordinated to military needs. For example, many factories are located away from their raw materials, but where they are relatively safe from attack by sea or air.

It was a dominant notion that Turkey must not be in the dependent position of a virtual "colony" of the Western Powers. Foreign concessions—notably in the railways and public utilities—were mostly bought out and new ones were not granted; Turkey did not seek or accept, until recently, foreign loans; the State embarked on an active policy of industrialization, of extending transport facilities and, especially just recently, of developing her mineral resources.

Nevertheless she is still predominantly an agricultural country. 80 per cent of her workers are engaged in agriculture and forestry, although they produce only a third of the national income (432 million Turkish pounds out of a total of 1,330 million in 1935-6). The 1935 census showed that only three towns had more than 100,000 inhabitants—Istanbul with 741,000, Izmir with 171,000, and Ankara with 123,00a—and that only four (Adana, Bursa, Konya, and Gaziantep) had between 50,000 and 100,000, out of a population of over sixteen million.

Turkey's exports arc varied but mainly agricultural. Like Greece and Bulgaria her chief export is tobacco of the "Turkish" type. In 1937 the total value of her exports was 138 million Turkish pounds, or about £22 million sterling, the main items being tobacco (43·9), hazel-nuts (10·0), wheat (7·9), wool (6·2), raisins (5·9), mohair (5·7), cotton (5·5), barley (5·1), chrome (4·0), figs (3 • 2), hides and skins (3 • o), and animals (3·0).

No Over-population

Turkey differs markedly from all the other countries discussed in this memorandum in that she is relatively underpopulated rather than overpopulated. Her total area, 294 thousand square miles, is appreciably larger than Greater Germany and about as big as Rumania, Yugoslavia, Bulgaria, and Hungary put together. Asiatic Turkey has a population of less than fifty to the square mile. Many of the factories and mines have difficulty in obtaining fufficient labour. Some of the higher technical positions are filled

by foreign specialists, but unskilled as well as skilled workers are scarce, for the peasants are reluctant to leave their villages. Wages for unskilled labour arc usually two or three shillings a day.

Agriculturs Land, therefore, is not scarce as it is in South-Eastern Europe. It is true that the low rainfall and poor soils of the western plateau restrict production mainly to sheep and goats—that is, to meat, milk, fats, wool, and mohair—and that the difficulties of access to the Eastern plateau, nearly all the valleys and plains being blocked by snow for several months in winter, are serious (although the opening of the Sivas-Erzurum railway in October 1939 will make a considerable difference), so that most of the crops come from the coastal plains and Thrace. But the area under cultivation has been doubled in the last ten years and could be increased considerably with the aid of capital for agricultural machinery, means of transport, etc. The difficulty is that capital is very scarce. Although the legal maximum rate of interest was reduced about a year ago from 12 to 8$ per cent, it is not easy to borrow at 8£ per cent and the rate of profit averages nearer 20 per cent.

The progress made in agriculture during recent years is indicated by the increase in the area cultivated: from 15,500 square miles (5'3 Per cent of the total area) in 1927 to 29,900 (10*2 per cent of the total area) in 1936. The area under cereals rose from 13,900 to 26,170 square miles and the area under tobacco and other industrial plants from 990 to 1,850 square miles. "Industrial plants" include cotton and sugar beet. The area sown to cotton increased from 360 square miles in 1927 to 980 in 1937. The quality of the cotton has been improved by the distribution of selected seeds, and the "Cleveland" type has been gaining ground relatively to the shorter-staple native type, which nevertheless still forms the bulk of the crop. The Turkish factories work mainly with home-grown cotton, and cotton is a leading export. The production of sugar rose from 5,000 tons in 1927 to 70,000 in 1937 and to-day very little sugar is imported. The cost of production, however, exceeds 20 piastres per kilogram, whereas sugar could be imported at 8 or 9 piastres per kilogram.

The industrialization of Turkey has been promoted by the State. The establishment of a State-owned sugar industry—four large factories—was begun in 1927. Under the five-year plan of 1934, a number of well-equipped modern factories have been built,[1] most of which are owned by the Sinner bank—a State "bank" created for that purpose. The greater part of the cost has been met, in effect, out

(1) The list is given in Bulletin No, 26 (1938) of the Central Bank of Turkey.

of taxation. The biggest of these factories are the textile "combinats" of Kayseri, Eregli, and Nazilli, the factory for spinning merino wool at Bursa, the linen cloth factory at Malatya, the paper and cardboard factories at Izmir, the cellulose factory at Izmir, and the artificial silk factory at Gemiik. By far the most important new enterprise, however, is the steelworks (complete with blast-furnaces, coke ovens, foundry, and tube works) being constructed by Messrs Brassert (who advanced the cost under a guarantee from the British Export Credit Department) at Karabuk, and now nearing completion. The cost is estimated at 22 million Turkish pounds and the annual output at 180,000 tons—sufficient for the whole internal consumption of the country. In addition to State-owned concerns, there arc many private factories (e.g. cotton factories in Adana, silk mills in Bursa, clothing factories in Istanbul). Probably some half a million persons are engaged in industry. The factories work behind a protection of high tariffs: in 1936-7 Customs receipts, (including consumption taxes on imports) averaged 76-40 per cent of the value of imports.

The latest "plan," announced in June 1938, includes additions to the commercial fleet (orders being placed with British and German shipyards); two new electric power stations; factories (one each) for jute, agricultural machinery, motors, aluminium, cement, and the extraction of benzine from brown coal; the building of an up-to-date port at Ishatal Agzi; and the modernization of the Black Sea harbours of Eregli and Trebizond.

Mineral Resources

The mineral resources of Turkey are significant. They are to be more fully exploited under the recent three-year mining plan. Black coal is produced in the Ercgli-Zonguldak field, which is estimated to contain 1 5 milliard tons. The annual output is somewhat over two million tons; it is expected that this will be doubled, and that more coal will be exported. At present, however, the export of coal (mainly to Italy and Greece) is subsidized: the inland price is fairly high. The deposits of iron ore recently discovered at Divriki arc estimated at 15 million tons at least. The ore contains 65 per cent iron. It will be exploited and will feed the blast-furnaces of Karabuk. Three copper mines—Ergasi, Kuvarshanc, and Mogul—are being equipped and worked. It was hoped that they would produce 20,000 tons of copper a year, but this was based on an estimate of copper reserves which proved too optimistic: actual output is not likely to exceed a third of that amount. The lead mines of Bulgardag and Keban (which yield some silver and gold also) arc included in the plan.

Other deposits of coal, copper, **spelter, lead, and other minerals arc known to exist: some are being worked and others may be worked later.**[1] **At** present, however, Turkey is important to **the** world mainly as a producer of chrome.[1]117 deposits are known, of which twenty-four are being worked (one of the most important, near Fcthiye, by a French company). During recent years she has produced nearly a quarter of world output, the other big producing countries being Rhodesia and South Africa. In 1937 she produced 193,000 tons of ore and exported (drawing on stocks) 198,000 tons worth 4 million Turkish pounds. During the first seven months of i938shcexportcd 124,000 tons.

The depression considerably reduced the prices of most Turkish exports. Turkey restricted imports and imposed severe exchange control. The nominal gold value of the Turkish pound has been maintained (at about 10·30 to the "gold" pound sterling) largely because it has been feared that a devaluation would lead to loss of confidence by bank depositors and others. This happened in 1929, when the exchange-value of the Turkish pound fell appreciably. There is no official premium on free exchange.

foreign Debt

The Turkish share of the external debt of the Ottoman Empire was converted in 1933 into 7 J per cent bonds to a nominal value of 894 million French francs. Turkey first defaulted on this debt in June 1930, paying only a third of the interest due. Since then, the devaluation of the franc and some scaling down have reduced the interest due from 15 to 2 -6 million Turkish pounds per year. The agreement of July 1938 makes this sum payable in Turkish pounds. The transfer is effected by a subsidiary, formed for that purpose, of the Banque Ottomanc, which buys Turkish merchandise (mainly ores) to sell abroad. The most important of the remaining external-interest payments are 1·**0** million Turkish pounds a year on the Swedish Match Loan (10 million dollars; 1930) and 830,000 Turkish pounds a year on the Izmir-Aidin Railway (bought out by Turkey). Since the War the only sums borrowed by Turkey from abroad have been the Krcugcr loan, just mentioned, 10 million dollars from Russia for textile machinery in 1934-5, the British credit of £16 million *(£6* million for armaments) in June 1938, and the German credit of Rm. 150 million in October 1938. These recent credits will be spent partly on the new plans mentioned previously, and partly on railway rolling-stock and other equip-

(1) Sec the Ottoman Bank Circular for March 1938 for details of copper, lead and sine.

(2) See the Ottoman Bank Circular for January 1938 for details of chrome.

ment. Repayment of the British credit is to be assisted by the sale of Turkish commodities abroad by Anglo-Turkish Commodities Ltd.

Clearing Agreemets

The first clearing agreement between Turkey and the United Kingdom was signed in 1935. Turkey tended, until recently, to buy more from the United Kingdom than she sold to her, and some of the recent British exports have been under the credits scheme, or under private compensation, and outside the clearing. Hence towards the close of 1938 arrears came to some £1-7 million and there was over two years' delay in paying British firms. Turkey now imposes quotas on British goods, at the request of Great Britain, and discourages private compensation with Great Britain by demanding that 30 per cent of the sterling should be at the free disposal of the Turkish Central Bank and another 1 o per cent paid into the clearing fund. Even so, the prospects of a speedy reduction of the arrears are not bright.

The share of Turkish exports going to Germany rose from 19 per cent in 1933 to 51 per cent in 1936, Germany paying high prices for Turkish tobacco, cotton, nuts, and other produce. The sums owed by Germany to Turkey in 1936 rose to a peak (1936-7) of some 40 million Turkish pounds — more than the German clearing debt to the whole of South-Eastern Europe. Turkey restricted the quantities of various goods which she exported to Germany, and in a year or two the whole of this balance was wiped out. Turkey was annoyed -rightly or wrongly—because Germany resold some of her goods for free exchange: the latest agreement forbids this practice. There are a number of German experts employed in Turkey—as technicians in factories, advisers to the Government, professors in the University of Istanbul and the Agricultural College of Ankara, and so forth. Some are Nazi and some refugee. But Turkey desires above all to maintain her independence, and in this connection it is significant that a low tender from Krupps for the Dardanelles fortifications was refused, the contract going to a British firm.

VIII. SUMMARY AND CONCLUSIONS

1. OVER-POPULATION IN SOUTH-EASTERN EUROPE

Ana and Population

THE areas and populations, at the end of 1937, of the countries with which this survey is primarily concerned were as follows:

Country	*Area* (square miles)	*Population* (million*)
Hungary ..	35·700	9·0
Yugoslavia	95,600	15·4
Rumania	114,000	19·6
Bulgaria ..	39,800	6·3
Greece ..	50,200	7·0
Total	335.300	573

Following the dismemberment of Czccho-Slovakia, Hungary's area has expanded to 44,500 square miles and her population to 10 • 6 millions. Turkey, with an area of 294,000 square miles, has a population of nearly 17 millions. The total area of the six countries is, therefore, nearly 640,000 square miles, more than ten times the area of England and Wales, and their total population about 75 millions.[1]

Backward' Nature of Region

The five countries named in the table which, for purposes of convenience, will be referred to as South-Eastern Europe, have a number of characteristics in common. They are all predominantly agricultural. They arc all short of capital; their rates of interest are high. Owing partly to lack of capital, partly to lack of knowledge (many of the peasants cannot read or write) and partly to the small size of the average holding (which not infrequently consists of several scattered strips), agricultural methods are somewhat primitive and yields are generally low per hectare and very low per person. Many farms, in contrast to those of Western Europe, are far from a railway, and roads arc poor.

OVER.

The fundamental economic problem of all these five countries is over-population. The average size of holding is about 12 acres; many arc smaller. Before the War, there was an outlet in emigration to the United States and elsewhere; now this outlet is practically closed. The combined population of these countries has risen from about 46 millions in 1920 to some 58 millions to-day, and continues to increase. Something might be done, at a cost, to bring more of their land under cultivation—for example, by irrigation;

(1) The area of Albania b 10,629 sq. miles and the population just over 1,000,000.

but the main solutions, or at least palliatives, appear to be industrialization and more intensive farming.

Possible Solutions:

All these countries have promoted industrialization, but it may be doubted whether this is really a sound remedy. Except in Hungary, the cost of producing manufactures is high (owing to lack of skilled labour, or of good local fuel and raw materials, or of a sufficiently large home demand) and industries prosper only behind high protective barriers. The standard of living of the peasants in many districts is lower than before the War: industrialization benefits mainly the towns. In any event, industry employs only a small proportion of the total population.

(1) Industrial-Ration

(ii) Intensive Farming

A more comprehensive solution, adopted to some extent by Bulgaria, would be more intensive farming. This means, broadly speaking, devoting less land to cereals. The "agricultural revolution" of the last two decades has increased the comparative advantages for grain-growing of the vast and sparsely-peopled spaces overseas. The best course for South-Eastern Europe would, therefore, seem to be to switch over to more labour-intensive products—poultry, vegetables and fruit, industrial plants, cattle. This would enable agricultural labour to be more fully utilized at present less than a third of the available labour-hours arc used in the winter months—and would raise the standard of living of the peasants. At present, however, all the countries in question encourage wheat-growing by keeping their internal price of wheat well above the world level.

It is highly significant that both these possible solutions industrialization and more intensive farming are contrary to the wishes of Germany. Germany objects to Hungarian competition in common export markets and fears that the industrial development of all these countries will diminish their purchases of her manufactured goods; moreover, she particularly wants wheat and maize from the arable land of this part of the world.

2. THE RESOURCES OF SOUTH-EASTERN EUROPE

Relations to Germany's

The purpose of this section is to consider how far South-Eastern Europe could supply the needs of Germany. Clearly the answer depends partly on what assumptions arc made. It might be claimed, for example, that new deposits of minerals may be discovered and that the output and export of certain products, such as minerals and grain, could be increased (at least for a time) by diverting labour

and resources from other uses or by providing technical experts and better organization. On the other hand, it might be argued that if Germany were to take all the exports of this area she would have to supply it with some raw materials and "colonial products," which she might want for herself. Again, it is clear that if Germany were at war her "need" for some of the goods exported from this area would greatly increase; and that if she were blockaded she would rely on this area for some goods which she now obtains mainly from overseas.

Some light is thrown on the question by the following table, which compares Germany's imports of the most important raw materials and foodstuffs with the total exports from the various countries considered in this survey. The table covers all the more important commodities which Germany imports, with three exceptions: firstly, sugar and potash, of which Germany herself has a surplus; secondly, coffee, cocoa, rubber, jute, and tin, which no country in South-Eastern Europe can supply; and, thirdly, skins and leather, for which comparable statistics are difficult to obtain.

Resources of Austria and Slevakia

The table on page 187 refers only to the single year 1937, but this was fairly typical except that German imports of cereals were about twice as large as usual.

The incorporation of Austria and Czccho-Slovakia in the Reich added nearly 50 per cent to the area and over twenty millions to the population of Germany. It gave her the gold reserve of the National Bank of Austria, amounting to 420 million schillings or 200 million marks—nearly three times the published reserve of the Reichsbank; it gave her assets in the form of plant and equipment (including the armaments of Austria, most of which were sold abroad), and it removed some competition from Austrian industries in common export markets. Against this must be set the service on the external debt of Austria. (Over half is owed to Great Britain and on this Germany has agreed to pay over £*1* million a year in sterling)

In terms of products, the main contribution of Austria is timber—she could supply about half Germany's previous import requirements. The total Austrian output of iron ore in 1937 (1 -8 million tons) was only a fraction of German imports (20 million tons) although it is estimated that this output can be doubled. On the other hand, Austria is the largest producer in the world of magnesite (the use of which is increasingly important in aircraft construction) and can more than cover Germany's imports. As against these ad-

The *figure** in bracket* relate to 1936. • 1935. ‡ 1934. Net exports (+) or imports (—) (in thousand metric tons)

	Germany Production	Germany	Austria	Czecho-Slovakia	Hungary	Yugo-slavia	Albania	Rumania	Bulgaria	Greece	Turkey
Wheat	4,487	+ 1,219	—222	+ 220	+ 358	+ 318	+ 0.4	+ 1,000	+ 183	—508	+ 108
Rye	6,917	—181	207	— 50	+ 110	+ 9	—	+ 280	+ 6	—	(+ 5)
Barley	3,638	242	— 40	+ 15	+ 17	+ 22	—	+ 317	+ 23	—7	+ 113
Oats	5,919	61	+ 34	+ 37	+ 3	+ 9	—	+ 18	+ 3	—5	—
Maize	721	2,150	—342	—70	+ 190	+ 725	—15	+ 525	+ 99	—49	(—9)
Cattle	(a)	+ 202	+ 1	—	+ 104	+ 71	+ 7	+ 43	+ 18	—55	(+ 61)
Beef	1,037	+ 45	+ 1	—	—	+ 1	—	+ 1	+ 2	—	—
Pigs	(b)	—457	459	—239	+ 165	+ 302	—	+ 241	+ 29	—2	—
Pork	2,342	—32	+ 2	—	+ 3	+ 7	—	+ 1	—	—	—
Ham, bacon, etc	?	+ 10	—	+ 2	+ 1	+ 22	—	—	—	—	—
Eggs	(398)	+ 90	5	+ 7	+ 11	+ 12	+ 1	+ 10	+ 18	—1	(+ 6)
Milk	25,400	+ 20	+ 13	—	—	+ 1	—	—	—	—2	—
Butter	518	87	+ 3	—	+ 6	—	—	—	—	—	—
Cheese	368	32	+ 4	—	+ 0.5	+ 2	+ 1	—	+ 1	—	—
Tobacco	31	97	+ 8	+ 8	+ 6	+ 4	—	—	+ 22	+ 42	+ 40
Cotton	—	+ 245	39	+ 105	+ 24	+ 21	—	+ 17	+ 10	+ 3	+ 11
Wool	7	+ 103	+ 9	+ 15	—	+ 0.6	+ 1	+ 1	+ 2	+ 2	(+ 16)
Flax	28	+ 13	+ 1	+ 17	+ 5	+ 17	—	—	—	—	+ 1
Hemp	30	48	7	+ 4	+ 2	—	—	+ 2	—	+ 2	—
Timber (round)*	?	+ 1,495	+ 314	+ 717	+ 9	+ 50	?	+ 35	?	+ 29†	?
Timber (sawn)*	?	+ 1,060	+ 599	+ 214	+ 288	+ 819	?	+ 473	—	+ 142†	?
Pulp-wood	(1,100)	(+ 2,811)	(+ 194)	+ 395)	(+ 189)	?	?	?	?	?	?
Iron ore	7,701	+ 20,285	+ 370	+ 1,297	+ 410	+ 492	—	+ 64	+ 15	+ 333	—
Pig iron and ferro alloys	15,705	+ 506	+ 30	+ 263	+ 83	+ 44	—	+ 104	—	+ 12	+ 15
Copper ore and concentrates	1,283	+ 543	—	—	—	—	—	—	—	—	—
Copper, etc.	(c)	+ 166	+ 13	+ 31	+ 11	+ 35	—	+ 5	+ 1	+ 3	+ 2
Lead ore and concentrates	(d)	+ 125	+ 7	—	—	+ 96	—	—	+ 0.5	—	—
Pig lead, bars, sheets, etc.	(e)	+ 69	+ 4	+ 14	+ 6	+ 2	—	—	+ 0.5	+ 2	—
Zinc ore and concentrates	(d)	+ 100	+ 5	+ 17	—	+ 64	—	+ 15	—	—	+ 25
Spelter, sheets, wire, alloys, etc.	(f)	+ 69	+ 8	+ 10	+ 6	+ 2	—	+ 6	+ 1	+ 1	+ 1.5
Bauxite	18	+ 1,292	+ 1	+ 0.5	+ 476	+ 382	—	—	—	+ 120	—
Chrome ore and concentrates	—	+ 120	—	+ 11	—	+ 24	—	—	—	+ 55	+ 195
Magnesite, etc.	21	+ 99	+ 170	+ 45	+ 15	+ 13	—	—	—	+ 113	—
Graphite	23	+ 5	+ 13	—	+ 1	—	—	+ 1	—	—	—
Antimony, etc.	—	+ 4	—	+ 1	—	+ 0.5	—	—	—	—	+ 1
Pyrites	440	+ 1,403	+ 77	+ 182	+ 38)	+ 123	—	+ 19	—	+ 191	—
Coal and coke	606,853	+ 39,813	+ 3,328	+ 3,543	+ 922	+ 921	—	+ 75	—	+ 954	+ 250
Crude petroleum and refinery products	1,850	+ 3,300	+ 340	+ 455	+ 270	+ 131	+ 90	+ 5,577	+ 65	+ 329	+ 122

Sources: International Institute of Agriculture: *International Year Book of Agricultural Statistics*, and *International Year Book of Forestry Statistics*; and Imperial Institute: *The Mineral Industry of the British Empire and Foreign Countries, Statistical Summary*.

(a) There are about 28,500,000 cattle in Germany.
(b) There are about 25,900,000 pigs in Germany.
(c) Smelter output: 225 thousand metric tons.
(d) The output of lead-zinc ores was 2,220 thousand metric tons.
(e) Smelter output: 100 thousand metric tons.
(f) Smelter output: 160 thousand metric tons.

vantages Austria was a liability as regards foodstuffs, her sales of dairy produce being more than offset by her purchases of cereals and meat.

Czecho-Slovakia in her turn provided Germany with valuable reserves of gold and foreign exchange. The National Bank's reserves amounted to 3,414 million Czech crowns—over £25,000,000. On the other hand, a substantial proportion of the total was held abroad. In particular, only £3,250,000 of the British Government credit of £10,000,000 had actually been withdrawn from the Bank of England, and steps were immediately taken by the British Government to prevent withdrawals of the remainder. The amount of gold and foreign exchange actually found by the Germans in the Czccho-Slovak National Bank was estimated at Rm. 200 millions. In addition to this the German authorities secured control of the foreign exchange reserves of the private banks and individuals. But here again a large part of the total was held abroad and was provisionally blocked by the British, American, and other authorities pending a settlement of debt and other questions.

Apart from gold and foreign exchange, Czccho-Slovakia's main assets consisted of her heavy industrial equipment and her timber resources. Under the Munich Agreement Germany had acquired part of Czechoslovakia's timber and practically all her lignite (of which Germany already haul an export surplus herself, although the Czech lignite was of superior quality). On the other hand, she acquired a considerable part of Czccho-Slovakia's depressed industries—particularly textiles, glass, and c.hinawarc-and an area seriously dependent upon outside supplies of foodstuffs. It was not until March 1939 that Germany acquired control of the heavy industries whose importance is indicated by the fact that Czechoslovakia's output of steel was greater than that of Italy, while her armaments industry—in particular, the Skoda works, the Czechoslovak Arms Company at Brno and the Vitkovice Steelworks—challenged comparison with those of Germany and Great Britain. An important point to remember is that other Eastern European countries, such as Poland, Rumania, and Yugoslavia were partly dependent upon Czecho-Slovakia for their arms supplies. Great Britain was interested in the Vitkovice Steelworks both financially and as a source of supply for armour-plate.

Czecho-Slovakia possessed in addition reserves of coal, iron ore, lead, manganese, magnesite, and other minerals. But except in the case of coal and magnesite these were insufficient even for her own needs. Moreover half of her coal had been lost to Poland in October.

At least a third of her iron ore had to be imported (chiefly from Sweden), together with virtually all her cotton, wool, and oil. So far as industrial raw materials were concerned, therefore, Czecho-slovakia increased rather than relieved Germany's dependence upon imported supplies. On the other hand, Germany acquired considerable stocks of industrial raw materials and eliminated competition from a serious rival in South-Eastcrn European and other export markets.

Czecho-Slovakia was approximately self-sufficient in food-stuffs, with a large surplus of beet-sugar and recently also a small surplus of wheat, barley, and oats. On the other hand, she was not an exporter of dairy products, while she was seriously deficient in pigs and vegetable oils—a particularly significant gap in view of Germany's own striking deficiency in fats.

Resources of South-Eastern Europe

(1) ***Foodstuffs***

The table also gives some indication of the extent to which South-Eastern Europe could supply Germany with foodstuffs and raw materials. It could probably supply all the cereals she needed: the average cereal export of this area exceeds Germany's average import of cereals. (In fact, however, in 1937 Germany bought only 16 per cent of her wheat, 26 per cent of her rye, 38 per cent of her barley, and 12 per cent of her maize imports from South-Eastern Europe: the bulk of her cereal imports come from Argentina, Canada and the U.S.A.). Germany could also obtain, mainly from Hungary and Yugoslavia, a large proportion of her imports of cattle, pigs, and meat. (Austria is a large importer of pigs.) The area could also supply perhaps half her imports of eggs and a considerable part of her imports of fruit. (At present it provides 27 per cent of her fruit, most of the remainder coming from Italy.) But it could supply only a small fraction of her present imports of butter, which now come mainly from Denmark, and of oil seeds, which at present come mainly from overseas, and none of her coffee and cocoa.

(ii) ***Tobacco***

As regards tobacco, in actual quantity the exports of Greece, Bulgaria, and Turkey would be more than sufficient to meet Germany's requirements in "Turkish" though not, of course, in Virginian tobacco.

(iii) Metals

The metal exports of South-Eastcrn Europe arc quite inadequate for Germany's needs. It is true that the bauxite of Hungary, Yugoslavia, and Greece at present covers three-quarters of Germany's imports and that output in those countries could fairly easily be expanded. Similarly, Turkey, Greece, and Yugoslavia could supply all her present imports of chrome. But the present output (let alone export) of copper (Yugoslavia), lead and zinc

(Yugoslavia and Turkey), and nickel (Greece), is quite insufficient for Germany's peace-time requirements; Austria and Greece can provide only a small fraction of Germany's present imports of iron ore; and South-Eastern Europe produces no tin and little manganese.

(iv)Oil

Germany has been getting less than a third of her petroleum im* ports from Rumania, but total exports from Rumania, in recent years, have exceeded total imports into Germany.[1] But it must be remembered that Germany's requirements would expand enormously if she were at war and that known Rumanian reserves will last only a few years at her present rate of output. In this connection it is, perhaps, worth mentioning that oil has recently been discovered in Hungary, though the present output is very small, and there appears to be no prospect at present of the supply exceeding Hungary's domestic demand.

(r) *Other Raw Materials*

The area as a whole could probably be self-sufficing in hides and skins, timber, flax, and hemp. But South-Eastern Europe exports no wool or jute and produces no rubber, and even if cotton could be transported from Turkey the amount would be quite inadequate.

On the basis of the foregoing facts the broad conclusion must be that Dr Funk's claim that South-Eastern Europe and Asia Minor possess almost everything Germany needs is, to put it mildly, somewhat exaggerated.

3. THE FOREIGN TRADE OF SOUTH-EASTERN EUROPE

Exports

The general nature of the trade of South-Eastern Europe is evident from the analysis in the last section. Tobacco—going mainly to Germany and the U.S.A.—is the chief export of Greece, Turkey, and Bulgaria. These three countries between them grow nearly all the "Turkish" tobacco produced in the world, but their attempts to combine in order to regulate their joint output have not succeeded. Greece restricts her output substantially, in order to prevent prices from falling. Oil is the principal export of Rumania* Turkey exports a little cotton, wool, and chrome; Yugoslavia a little copper; Yugoslavia and Rumania some timber. Apart from these commodities (and small quantities of other minerals) most of the exports of these countries consist of cereals (wheat and maize), cattle, pigs, and meat. They export also some poultry, eggs, fruit, oil-seeds, hemp, flax, and other agricultural products.

(1) Transport up the Danube b costly but possible: some already takes place.

Nattere of Imports

Their imports arc mainly industrial products and raw materials, although Greece imports also wheat and cattle. The largest single group is probably cotton goods. But nearly all these countries have considerably expanded their textile industries during recent years, and arc importing a bigger proportion of raw cotton and cotton yarns and a smaller proportion of cotton fabrics. The next largest group is machinery. Their imports of machinery during recent years reflect the progress of their industrialization. Recently, armaments, usually not shown in the import statistics, have been an important item.

South-Eastern Europe at a Market

South-Eastern Europe is not a very important market. The combined imports of Hungary, Yugoslavia, Rumania, Bulgaria, and Greece amounted only to some £130 million in 1929 and about £80 million in 1938. Turkey's imports were about £25 million in 1929 and £20 million in 1937. Czccho-Slovakia's were £121 million and £77 million respectively.

United King' dom Trade with South-Eastern Europe

The trade of the United Kingdom with these countries in 1929 and in 1938 is shown below. It will be noted that the five countries described above as "South-Eastern Europe" took 1½ per cent of British exports in both years, but that in 1938 Great Britain bought 1$ per cent of her imports from them as against | per cent in 1929. She has been increasing her purchases from them. During

FOREIGN TRADE OF THE UNITED KINGDOM

	1929				1938			
	Imports		Exports		Imports		Exports	
	£ million	% of total	£ million	% of total	£ million	% of total	£ million	% of total
Hungary	0·72	0·06	1·06	0·14	2·46	0·27	0·59	0·12
Rumania	2·97	0·27	2·32	0·32	3·83	0·41	1·34	0·28
Yugoslavia	0·62	0·06	1·52	0·21	2·46	0·27	1·24	0·26
Bulgaria	0·11	0·01	0·85	0·12	0·52	0·06	0·32	0·07
Greece	2·74	0·26	4·85	0·66	1·98	0·21	3·75	0·78
Total of above countries	7·16	0·66	10·60	1·45	11·25	1·22	7·24	1·51
Czccho-Slovakia	6·68	0·60	2·10	0·29	6·94	0·75	2·29	0·48
Turkey	2·24	0·20	2·82	0·39	0·97	0·10	2·48	0·52
All other countries	1,094·98	98·54	713·83	97·87	901·28	97·93	458·87	97·49
All countries	1,111·06	100·00	729·35	100·00	920·44	100·00	470·88	100·00

recent years her purchases from all these countries, except Greece, have considerably exceeded her sales to them. It must be remembered, however, that British trade as a whole shows a large excess ofimports.

German bodi with South-Bmkm

The corresponding figures for Germany in 1929 and 1938 are given in the next table. This shows that South-Eastern Europe took over 10 per cent of Germany's exports in 1938 as against 4½ per cent in 1929 and supplied nearly 10 per cent of her imports in 1938, as against less than 4 per cent in 1929.

FOREIGN TRADE OF GERMANY'

	1929				1938			
	IMPORTS		EXPORTS		IMPORTS		EXPORTS	
	Rm. million	% of total	Rm. million	% of total	Rm. million	% of total	Rm. million	% of total
Hungary	89	0·66	147	1·09	110	2·02	110	2·08
Rumania	211	1·57	164	1·22	140	2·57	149	2·84
Yugoslavia	61	0·45	153	1·13	108	1·98	118	2·24
Bulgaria	51	0·37	45	0·34	84	1·54	56	1·13
Greece	104	0·77	77	0·57	94	1·72	111	2·11
Total of above countries	516	3·82	586	4·35	536	9·83	544	10·40
Czecho-Slovakia	480	3·58	658	4·89	130	2·39	136	2·58
Turkey	76	0·57	73	0·54	116	2·13	151	2·87
All other countries	12,375	92·03	12,166	90·22	4,667	85·65	4,426	84·15
All countries	13,447	100·00	13,483	100·00	5,449	100·00	5,257	100·00

ITALIAN *Trade with South-Eastern Europe*

It will be noted that Italian trade with Hungary—partly as a result of the Rome Protocols and partly because the latter did not apply sanctions in 1936—has considerably increased and that her trade with Yugoslavia has greatly diminished. Italy obtained a larger percentage of her imports from South-Eastern Europe in 1938 than in 1929 (7½ per cent as against 5½); the percentage of her exports going to South-Eastern Europe rose from 6 to 7. But total Italian trade has diminished: from 2·9 per cent of total world trade in 1929 to 2 ·5 per cent in 1938. Hence she has become less important in the trade of this area than she was in 1929.

(1) Figures for both 1929 and 1938 refer only to the old Reich.

FOREIGN TRADE OF ITALY

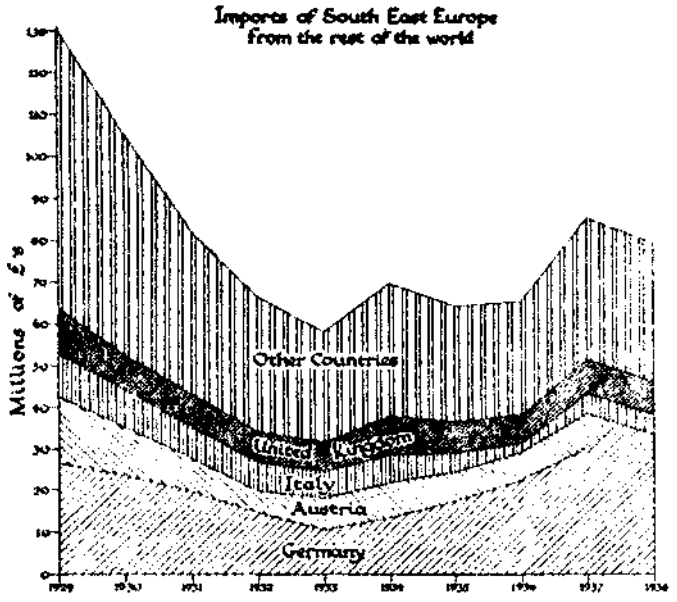
	1929				1938			
	Imports		Exports		Imports		Exports	
	million lire	% of total	million lire	% of total	million lire	% of total	million lire	% of total
Hungary	188	0·88	116	0·78	187	1·67	161	1·55
Rumania	205	0·96	168	1·13	252	2·24	138	1·33
Yugoslavia	638	3·00	267	1·79	150	1·32	219	2·10
Bulgaria	53	0·25	77	0·52	104	0·93	64	0·62
Greece	114	0·52	239	1·61	92	0·82	93	0·90
Albania	34	0·16	53	0·36	60	0·53	63	0·61
Total of above countries	1,232	5·77	920	6·19	845	7·51	738	7·11
Czecho-Slovakia	270	1·27	163	1·10	252	2·24	135	1·30
Turkey	67	0·32	186	1·25	187	1·66	95	0·92
All other countries	19,734	92·64	13,615	91·46	9,840	88·59	9,411	90·67
All countries	21,303	100·00	14,884	100·00	11,124	100·00	10,379	100·00

The geographical position of Hungary, Yugoslavia, and Bulgaria makes it advantageous, other things being equal, both for them and for Southern Central Europe that a considerable amount of their trade should take place with this area. This can be best illustrated by an example. If Vienna gets wheat from Rotterdam she must pay the Rotterdam price plus rail transport from Rotterdam, though the completion of the Rhine-Main-Danube canal may modify this situation. On the other hand, if wheat goes from Budapest up the Danube to Vienna the freight charge is much less and it is also lower than the freight charge from Budapest down the Danube and by sea to Western Europe. Thus both Vienna and Budapest save transport charges by trading with one another. Greece and Rumania, and of course Turkey also, are not in this position as they can take advantage of cheap sea transport.

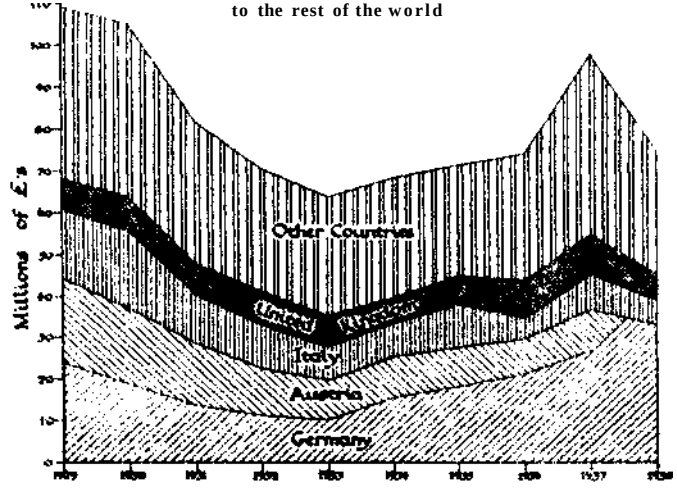
4. THE GERMAN TRADE DRIVE IN SOUTH-EASTERN EUROPE

Direction of Trade of South-Eattern Europe

The proportion of the foreign trade of South-Eastern Europe that is, of Hungary, Yugoslavia, Bulgaria, Rumania, and Greece - with various countries is shown in the following two diagrams. The trade of each country has been converted into sterling at the ruling (not the official) rate for each year. The trade of the five countries *inter se*—less than 10 per cent of their total trade—has been



Exports of South -East Europe
to the rest of the world



eliminated. The 1938 figures are only estimates, as full figures for **the** whole year were available only for two of the five countries.

Rise in German Shars since 1933

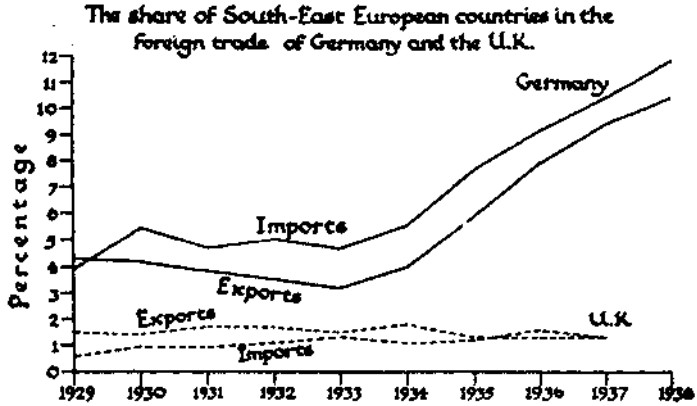
Clearly the share of Germany in both the imports and exports of this area has increased considerably since 1933. The percentage of the imports coming from Germany rose from 19} in 1933 to 35 in 1937; the percentage of the exports going to Germany rose from 16 in 1933 to 27 in 1937. In the increase of Germany's exports to South-Eastern Europe, machinery and armaments have played the most important part; the increase of her imports from South-Eastern Europe has been mainly in foodstuffs and tobacco. In 1938 Greater Germany supplied 42 per cent of the imports of this area and took 45 per cent of its exports. The advance of Germany in the foreign trade of this area was partly at the expense of Italy. In 1929 Italy supplied 8 per cent of its imports and took 16 per cent of its exports; the corresponding percentages for 1938 are 6 per cent and 8J per cent. The greatest decline has been in Italy's trade with Yugoslavia. Her trade with Hungary has been maintained. Italian trade with the other four countries was declining before 1936, the year when sanctions were imposed and they restricted their sales to Italy; the sanctions reduced it still further; and it has not regained the lost ground. The advance of German trade in this area was also partly at the expense of Czecho-Slovakia and Austria. The trade of Great Britain, and of free exchange countries as a group, with South-Eastern Europe was fairly well maintained. The following diagram shows the relative importance of South-Eastern Europe in the foreign trade of Great Britain and of Germany.[1]

Methods of Herman Trading

The methods adopted by Germany to increase her trade with these countries have been subjected to adverse criticisms. She paid high prices for their goods and was prepared to take large quantities of most goods. Her policy was not so much one of "Germany must export or die," but rather one of importing as much as she could obtain. Balances in blocked marks accumulated to the credit of her suppliers; and they had to buy her goods in order to get paid. Germany also followed her usual practice of granting long-term credit for the purchase of German machinery and other durable goods.

A priori, Germany might have used her position as a leading buyer (working under State control, so that all prices paid and charged could be fixed as desired, transactions with each country being regarded in effect as a barter deal) to turn the terms of trade

(1) The apparent "excess of export*" of South-Eastern Europe in its trade with Germany is due largely *to* unrecorded export* of armament* ano service* from CJermany to South-Eastern Europe.



in her favour. She might have paid, say, 5 or 10 per cent above world prices (in the local currencies) and then charged, say, 20 or 30 per cent above world prices for her goods (which the countries in question would have had to take in order to liquidate their clearing balances). She might also have supplied only certain types of goods. The various countries might have been constrained to accept this as a *permanent* arrangement under the threat that Germany would otherwise refuse to buy from them. The situation of, say, Turkey or Greece or Bulgaria if Germany bought no Turkish tobacco would probably be worse than under the arrangement suggested above. For at present Germany buys a large part of their tobacco and, if she ceased to buy, cither its price would fall heavily or sales would be greatly curtailed.

In fact, Germany did not up till March 1939 exploit her position as might have been expected. It is true that she has been reluctant to assist the industrialization of these countries by supplying them with machines which they could not get elsewhere. But this has not been, in fact, of major importance. It is also true that there have occasionally been long delays by Germany in fulfilling orders (e.g. for aluminium or electrical plant), and that the quality of German textiles, machinery, and other goods has fallen off during recent years—a tendency equivalent to a rise in price. But, taking a broad view, Germany has on the whole so far charged competitive prices[1]

(1) For some goods in which Germany hat a monopoly prices are relatively high, hut for others, e.g. Leka cameras, the policy of the German firms has been to charge lower prices to South-Eastern Europe than to Western countries. Far too much has been made of German sales of aspirin, mouth-organs, etc.; these are relatively unimportant

for her goods, quality for quality—in certain cases to an extent suggesting subsidized dumping—and has not much restricted the types of goods which she will sell.

This question of prices is clearly very important. What matters to Yugoslavia, for example, is whether the dinar prices which she gets for her exports to Germany relatively to the dinar prices which Germany charges her for German goods represent better or worse "terms of trade" than she gets by trading with other countries. The question is a controversial one. It has been widely believed that Germany exploits these countries in the ways suggested. But an examination of import and export price indices for four of the countries[1] tends to show that on balance the prices of imports as a whole have risen less than world prices of similar goods. It should, however, be pointed out that such indices cannot make full allowance for the effects of changes in quality or the introduction of new items.

INDICES OF IMPORT AND EXPORT PRICES

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Import prices	100	92	82	69	58	54	54	51	57	
Export prices	100	90	76	64	52	55	00	55	58	—
BULGARIA										
Import prices						100	98	97	"3	114
Export prices	—	—	—	—	—	100	106		132	140
RUMANIA										
Import prices	100	99	91	71	66	08	67	3	93	—
Export prices	100		45	40	37	37	42		72	—
TURKEY										
Import prices		—	—	—	100	96	97	101	—	—
Export prices	—	—	—	—	100	98	103	124	—	—

It will be noted that the import prices show no great rise[8] (whereas the export prices rose considerably) since 1933-4, when the German trade drive began. It might be argued that German goods had

(1) All have been calculated on the method used by the British Board of Trade. Each separate category of imports is valued at the prices ruling for that category in the baae year and then the actual total value of imports for any year is divided by the value of those imports at base year prices. Similar indices for other countries or years are not available.

Sources: Hungary: *QyarUrly Report of Hungarian Institute for Economic Research,* No. 39,

Bulgaria: *BuUtttn Mensuel de Ia Direction Generate de ta Slatistiqut,* November

Rumania: from data in: Georgesco-Roegen *"Un quantum-index pentru cornered exterior al Romama."*

Turkey: unpublished. Calculated from data provided by the (Government) Trade Cycle Service.

(2) Bulgaria and Rumania were increasing the quantity of their money in 1936-8. It will be noted that their export prices rote more than their import prices over this period.

risen in price whilst the imports from other countries had fallen in price—the indices, of course, relate to *total* imports into the countries named. But in fact this was not so. The index of export prices of British manufactures as a whole was rising from 1934 onwards and at the close of 1937 was some 14 per cent above the 1934 level.

Mark Clearing

These price indices do not, of course, tell the whole story. On the one hand, they do not show the beneficial effects to South-Eastern Europe of a greater volume of trade. On the other hand, they do not show the losses suffered by these countries through accumulating clearing balances with Germany. These losses have been borne cither by the exporters (directly, as in Yugoslavia, when they sold their clearing marks at a discount, or indirectly, through having to wait for their money), or by the Government or Central Bank when these advanced the value of exports to local producers. Consequently net export prices were somewhat lower than the indices show.

Nevertheless, the importance of the clearing balances with Germany can be exaggerated. To some extent it is natural for an agricultural country to accumulate a foreign balance when it exports its crops, and to spend the balance over the following months. Moreover, the combined clearing balances of the five countries with Germany have seldom exceeded Rm. 100, or at most Rm. 150 million -that is to say, about 10 per cent of the total value of their exports. Turkey alone had a bigger mark balance at the close of 1936 than the whole of South-Eastern Europe has ever had: she liquidated it all in about a year, by restricting her exports to Germany. On the other hand, the fact that Yugoslavia is now applying similar measures shows that the balances continue to present a real problem.

In the course of liquidating their mark balances all these countries have purchased armaments from Germany. But they wanted to increase their armaments; as a rule they invited tenders and the German tenders were the lowest (although in some cases the armaments were more out-of-date than had been expected). The same applies to the steelworks constructed by German firms in Yugoslavia and Rumania and to contracts secured by Germans for supplying telephones, etc.[1]

It appears, therefore, that, at any rate up till the spring of 1939, the countries of South-Eastern Europe on balance have gained, in a

(1) It it mid that German prices of railway material etc., told to the Turkish Government were sometime* fixed high, and there may be other exception* to the above generalisation. Nevertheteai it it broadly true.

material sense and in the short run, by the increase in German purchases. Germany has helped to raise their export prices and to increase their national incomes, and she has not so far taken advantage of her bargaining position to turn the terms of trade in her favour, so that their "real" incomes have been raised. On the other hand, one of Germany's objects may be to associate the economic systems of these countries so closely with her own as to make it difficult for them to sever their connections in time of war.

5. THE TRADE POLICY OF SOUTH-EASTERN EUROPE

Dangers of Economic Dependence upon Germany

How have these countries responded to the German trade drive? Whilst pleased with their greater prosperity, they fear what might happen if Germany obtained too big a hold on their foreign trade, so that it would be difficult to divert it again towards other countries. They fear, for example, that Germany might then charge high prices for her goods, or in the absence of much competition -might pay only low prices for their exports. They fear, also, that Germany might try to check or reverse their industrialization. For example, she might threaten to stop buying from them as, about three years ago, she temporarily cut her import quota of pigs from Poland by 80 per cent overnight—unless they reduced their tariffs on German manufactures. In view of all these considerations, not to mention political factors, all the States of South-Eastern Europe are endeavouring to maintain their trade with free-exchange countries.

In order to do this, the principal method followed has been, in effect, to raise the exchange-value of sterling and other free currencies—either by paying exporters a premium over the official rate for their free exchange or by permitting a wide range of "private compensation" trade with free-exchange countries, exporters being allowed to sell all or most of their free-exchange to importers for as much as they can get. In addition, some South-Eastern European countries in effect tax exports to Germany (and to other clearing countries paying high prices) in order to subsidize exports to free-exchange countries. Rumania pays subsidies, out of **the** Budget, on exports of wheat, timber, and cattle to free-exchange countries.

Conversely, exports to Germany might be checked if the exchange-value of the mark were kept low. Thus the "official" rate **between** the **mark** and the leu, based on their nominal gold values,

would be 55 lei to the mark. When negotiating her last trade agreement (December 1938) with Rumania, Germany asked for this rate, of 55, but Rumania succeeded in keeping it down to 40 • 5-41·5 (although this is a little higher than the rate of 38 formerly prevailing). Hungary has been less successful. She would prefer the "official" rate of *1* ·36 pengostothemark, but Germany has insisted on 1·60. Yugoslavia has permitted her exporters to sell their "clearing bills'* (their claims to marks) in the market, in order to get cash, and the mark has fallen to a discount.[1] But the actual rate of exchange with the mark is not the most important consideration as Germany can fix her prices as she pleases.

Another method of preventing trade with Germany from becoming too large is to restrict exports to Germany. Turkey did this after 1936, and it is reported that Yugoslavia is doing it at present. Some of these countries can insist that certain exports must be paid for in free exchange—thus Yugoslavia will not sell copper to Germany against marks, and Rumania until the signature of the Trade Agreement on March 23, 1939, would sell only 25 per cent of her total oil exports for German marks.

Germany has sometimes re-sold certain commodities from these countries—for example, maize and tobacco—in order to get free exchange (for example, from the Netherlands or Scandinavia). As she pays high prices, it seems probable that on balance this does not injure these countries. Nevertheless, Turkey, in her recent trade agreement with Germany, has secured an undertaking from Germany not to continue this practice with her figs or other produce.

Germany supplies some of these countries with cotton, coffee, and other products for which they would otherwise have to pay free exchange.

On the whole, therefore, the States of South-Eastern Europe seem up to the present to have made fairly good bargains with Germany and, at the same time, as the diagrams show, to have succeeded in retaining their trade with free-exchange countries. The main drawbacks, apart from political considerations of great importance, are the check to more labour-intensive cultivation (with the minor exception of the soya-bean production promoted by /. *G. Fatten* in Rumania and Bulgaria) and to industrialization (to judge by the terms of the recent German-Rumanian Trade Agreement), and the danger that Germany may exploit her position in the future.

(1) Recently, to 13·80 dinars. Germany wanted it kept at 14·30-14-70.

6. BRITISH COMMERCIAL POLICY IN SOUTH-EASTERN EUROPE

In some lines, British exports have suffered from German competition **in the markets of South-Eastern Europe. Thus British exports of cotton yarn and piece-goods to Rumania have fallen considerably and her exports of coal to Yugoslavia fell from 140,000 tons in 1930 to nil in 1937, whereas German exports rose from 35,000 to 121,000 tons. Nevertheless, on the whole Great Britain has maintained her sales fairly well.**

As British exports to the five countries are only about 1J per cent of total British exports, and as German exports to most other parts of the world have been falling recently, it may be thought advisable not to try to check the German trade drive in this area. If, however, action to promote British trade with South-Eastern Europe is considered desirable, there is no doubt that the countries in question would welcome it, as indeed they would welcome an expansion of their trade with any free-exchange country.

It is generally agreed that the best method, from an economic standpoint, of promoting British trade in this area is not the granting of credits.[1] All these countries want free exchange largely to buy raw materials which Great Britain cannot supply. They want Great Britain to buy more from them. This would give them free exchange and would help to keep up their export prices, for Germany would have to bid against Great Britain.

If more British tobacco firms would consent to blend only a very small proportion of "Turkish" tobacco in their cigarettes (and it is claimed that smokers would not be able to tell the difference) this would be a great benefit to Greece, Turkey, and Bulgaria. It would also help Turkey to repay the trade debts and credits which she owes to Great Britain and would help Greece to pay a bigger proportion of the interest on her sterling loans.

For some products, it would be desirable to have British specialists on the spot to arrange the grading and packing. For example, Bulgarian grapes are of high quality, but they fetch low prices at Covent Garden because they are not graded and wrapped as the market wishes. A trade organization on the spot could also promote sales of British exports.

In conclusion, the British attitude to Anglo-German commercial competition in this and other areas can hardly be better expressed

(1) Except, perham, to develop minees repayment being made in the mineral! subcequently produced.

than in the words of the Secretary of the Department of Overseas Trade. Speaking in the first of two debates which resulted in the passage of a Bill authorizing an expansion of guarantees provided by the British Export Credits Guarantee Department to £75,000,000, Mr Hudson said:

"Finally, we come to the question of Germany . . . Our complaint is that Germany is, by her methods, destroying trade throughout the world. . .

"As regards Central and South-Eastern Europe, I have got out some figures which, I think, will interest the House. As far as we can make out, because it is difficult to get very exact information as to the way in which things arc done in Germany, the basis of their hold is that they pay to producers in Central and South-Eastern Europe much more than the world price. . . At a particular date this year the Germans were paying over £10 a ton for wheat, at a time when Manitoba No. 1 wheat was selling at £7 on the Ixmdon market, that is at the official rate of exchange provided for in the German agreement. We found, also, that she was buying barley at £7 10s. a ton when the London price was £5 6s. She was buying eggs at £7 12s. the metric quintal when the price in London was £5 18s. She has followed the same course in regard to cotton, hides, meat, poultry, oil seeds, and cereals, buying them at prices so high that producers sending to other markets cannot hope to obtain similar prices. In the case of Turkey, for example, to take the case of mohair, owing to ber action imports of mohair to this country which were £190,000 in the first ten months of last year, have decreased to £24,000 in the corresponding period this year because of the increase in price. . .

"The effect of it is that the Rumanian or Bulgarian peasant receives more from his sales to Germany than he would be able to get by sales on the world market. Then take the case of Poland. The Germans have entered into an agreement by which Poland gets a large quantity of machinery, in this case at competitive prices. Germany has contracted to buy over a period of nine years agricultural produce from Poland at well above world prices, and Poland has also obtained her goods on credit and has to pay interest at a very low rate...

"I am trying to explain that by these methods Germany is obtaining a stranglehold on the countries in that part of Europe, an uneconomic stranglehold at the expense of her own people, because it means raising the cost of living to her own people and,

in fact, exporting goods at less than cost price.[1] Hon. Members ask: 'What is the solution here?' Obviously, I do not think any one wishes us to adopt similar methods. We do not want to sec the cost of bread increased here because we buy, in competition with Germany, wheat from Rumania at a price above the world price; but clearly we have to meet this competition in the case of Poland.

"We have made a survey of all possible methods and the only way we see is by organizing our industries in such a way that they will be able to speak as units with their opposite numbers in Germany and say: ' Unless you are prepared to put an end to this form of treatment, unless you are prepared to come to an agreement to sell your goods at prices which represent a reasonable return, then we will fight you and beat you at your own game.' This country is infinitely stronger financially than . . . Germany, and therefore we have great advantages, advantages which I believe will result in our winning the light; but it is an essential preliminary that our own industries should be organized. Where they have been organized, they have succeeded, over the last few months, in making satisfactory agreements with their opposite numbers in Germany . . ."[2]

(1) *Share of Greater Germ/my (including Austria and Czecho-Slovakia) in Fareign Trade of South -Eastern European Countries (1938)*

Country	*Imports from Greater Germany* %	*Exports to Greater Germany* %
Bulgaria ..	57 9	63·6
Greece	31	43
Yugoslavia	50·0	49·9
Rumania	48·5	35·9
Turkey	51·3	47·3
Hungary	46·1	50·

(2) In the House of Commons, *Hansard*, November 30, 1938, *col. 502-4*