

AUSTRIA-HUNGARY AND THE TREATY OF BREST-LITOVSK:
THE QUEST FOR BREAD AND THE FUNDAMENTAL
REORDERING OF EUROPE

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Eric T. Phillips
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Thesis Approvals:

Dr. Jay Lockenour, Thesis Advisor, History
Dr. Rita Krueger, History

ABSTRACT

This thesis analyzes how the Habsburg state tried to preserve itself late in the First World War by cooperating with German plans to create a powerful Central European economic block. While Habsburg leaders initially aimed to preserve a conservative monarchical order in the Austro-Hungarian sphere of influence, this paper argues that the Dual Monarchy's response to the increasingly serious shortage of food and its economic negotiations with Germany, which culminated at the peace conference in Brest-Litovsk, show how by late 1917 the Habsburg state was willing to participate in a fundamental reordering of Europe in a final attempt to save itself.

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CHAPTER 1

INTRODUCTION

Writing in his memoirs, the former Austro-Hungarian Foreign Minister Ottokar Czernin argued that when Emperor Franz Josef rejected Edward VII's inducements to join the powers encircling Germany in the years before the war, Austria-Hungary reached a turning point. "From that day we were no longer the independent masters of our destiny," he wrote. "Our fate was linked to that of Germany; without being conscious of it, we were carried away by Germany through the Alliance."¹ To an extent, Czernin's remark is true. Once the war began, Austria's fate was inseparable from Germany's. But even more fundamental to the Dual Monarchy's fate was food, because it was the search for food that became the driving force underlying Austria-Hungary's foreign policy as the war dragged on and most determined the nature of its relationship to Germany.

The two Central European allies had related, but ultimately divergent war aims. While the Austro-Hungarians hoped to quell the rise of nationalism by crushing irredentist Serbia, the Germans had more far-ranging plans of achieving economic and political dominance in Central Europe. Sure enough, an enlarged and reinvigorated Habsburg ally fit nicely into German plans, and many Austrians embraced the idea of forming closer economic ties with Germany. But the Dual Monarchy's chief concern was the preservation of a bureaucratic-absolutist order in its sphere of influence. Even as the Habsburgs reluctantly yielded to reality and began deferring to Germany's strategic plans in return for military and economic assistance, they continued in their attempts to

¹Count Ottokar Czernin, *In the World War*. (London: Cassell, 1919), 2.

preserve the Monarchy's independence. Only at Brest-Litovsk, which represented the last in a long series of clashes between Austro-Hungarian and German grand strategies, were Habsburg leaders forced to accept German leadership of the alliance and abandon their conservative plans for preserving a bureaucratic-absolutist order in Europe. They nonetheless continued to fight for the survival of the Monarchy by acting as junior partners in the establishment of an economically integrated Mitteleuropa.

Historians generally agree that Vienna's position vis-à-vis Berlin weakened markedly when the Germans were forced to send reinforcements to shore up Austro-Hungarian lines after a string of Russian and Serbian victories. In *The Army of Francis Joseph*, Gunther Rothenberg explains that German generals increasingly demanded greater control over any joint operations, even when German formations represented only a small fraction of the troops involved.² Further, he contends, "as the war continued, it became common practice to claim credit for success in all joint German-Austro-Hungarian operations for the Germans and blame all failures on the 'slack' Austro-Hungarians."³ Not surprisingly, then, the two allies repeatedly quarreled over the direction of the war and engaged in mutual recriminations. One former Austrian chief of staff, after being replaced by the German Hans von Seeckt, wrote that, "One cannot avoid the unhappy feeling that the monarchy not only is fighting the external enemy, but also has to resist the Prussian will to dominate, which wants to use the war to subdue Austria-Hungary."⁴ This insecurity among the Austrian leadership is the subject of Gary

² Gunther Rothenberg, *The Army of Francis Joseph* (West Lafayette, IN: Purdue University Press, 1976), Ch. 12-14.

³ Ibid, 181.

⁴ Ibid, 198.

Shanafelt's analysis of the Austro-German alliance.⁵ For him, Germany was Austria-Hungary's "secret enemy"; even when, in 1917, all the hostile states surrounding the Dual Monarchy had been defeated or humbled, its independence was threatened by German ambitions. "Austria-Hungary faced a situation," Shanafelt writes, "in which its stronger partner's war aims came to threaten its own existence, and when it itself became a war aim of its ally."⁶ While the timing of Austria's acquiescence to the "German Course" cannot be "pinpointed with any great precision," over the course of the war the Monarchy's options were progressively limited.⁷ The German alliance, Shanafelt argues, drove the Austrians "into a blind alley from which there ultimately was no escape."⁸

Intra-alliance tension is also a central theme of Holger Herwig's *The First World War: Germany and Austria-Hungary, 1914-1918*. Herwig explains that he is "convinced that one cannot write the history of the Central Powers at war between 1914 and 1918 simply from the perspective of Berlin."⁹ In each of the major German bids for victory on the continent—from the attempt to carry out the Schlieffen Plan in 1914, to Falkenhayn's attempt to "bleed France white" at Verdun, to Ludendorff's 1918 offensives—planners had to consider the interconnected nature of each theater of war. In all these campaigns, German generals relied on the Austro-Hungarians to secure both the Eastern and Southern fronts. Unfortunately for the Central Powers, there was frequently "no

⁵ Gary Shanafelt, *The Secret Enemy: Austria-Hungary and the German Alliance, 1914-1918* (New York: Columbia University Press, 1985).

⁶ *Ibid.*, vii-viii.

⁷ *Ibid.*, 149.

⁸ *Ibid.*, x.

⁹ Holger Herwig, *The First World War: Germany and Austria-Hungary, 1914-1918* (London, New York, Sydney, Auckland: Arnold, 1997), 4.

coordination between Habsburg and Hohenzollern staffs” and often, “each ally conducted its own campaign with little regard for the other.”¹⁰ Only late in 1918 did Hindenburg and Arz von Straussenburg finally come to an agreement that provided for regular officer exchanges, cooperation in the construction of rail networks, and more the systematic coordination of war planning. “No one asked,” Herwig writes, “why this had not been the case in 1914.”¹¹

Herwig, like Rothenberg, catalogs a litany of disputes between high-ranking German and Austro-Hungarian commanders. The Austrian Chief of the General Staff Franz Conrad von Hötzendorf especially bristled at his “egotistical ally,” and, in a fit of despair following the disasters of 1914, even suggested that the Monarchy seek a separate peace with Russia before its independence was lost to either the Russian enemy or the German ally.¹² While Conrad himself quickly dropped this line of advice, the threat of making a separate peace became the Austrians’ chief diplomatic weapon against German attempts to more thoroughly dominate the aims and policies of the Triple Alliance.¹³ Emperor Karl, for example, used his brother-in-law, the Bourbon Prince Sixtus, as an intermediary in secret peace negotiations with the French. As Robert Kann argues in *Die Sixtusaffäre und die geheimen Friedensverhandlungen Österreich-Ungarns im ersten Weltkrieg*, these talks were not an attempt at “treachery” as many Germans claimed when knowledge of the peace feelers became public in 1918. Karl instead wanted to use the

¹⁰ Ibid, 135.

¹¹ Ibid, 370.

¹² Ibid, 95.

¹³ Wolfdieter Bihl, *Österreich-Ungarn und die Friedensschlüsse von Brest-Litovsk* (Vienna, Graz, Cologne: Verlag Böhlau, 1970), 13-4, 129.

threat of a separate peace to convince German leaders to scale back their ambitious war aims and thus to facilitate the conclusion of a general peace settlement.¹⁴

According to John Wheeler-Bennett, Karl and Czernin were prepared to use the same strategy at Brest-Litovsk; they would threaten a separate peace to try to convince the Germans to moderate their demands and agree to a peace settlement as quickly as possible. In his 1939 book, *Brest-Litovsk: The Forgotten Peace*, he outlines the failure of this strategy. Unfortunately for the Austrians, the German Supreme Command would not consider evacuating Poland, Lithuania, or Courland. These territories “formed part of their munition establishment. The railway *materiel*, the factories, and, most important of all, the grain, were indispensable so long as hostilities lasted. The German *Realpolitik* rendered withdrawal impossible.”¹⁵ As Austria’s deteriorating position and dependence on Germany became apparent, Czernin’s protests were soon drowned out. The Austrians, for Wheeler-Bennett, were pawns in the larger struggle between German militarism and Bolshevism. And while the Germans initially appeared to be the victors, “the signature of the treaties of Brest inspired a unity of purpose and a degree of co-operation between America and the Western Powers which all previous negotiations between them had failed to achieve.”¹⁶ The Germans therefore sealed both their own and their allies’ fate with their punitive treatment of Russia.

Wheeler-Bennett’s main focus was the development of German-Soviet relations, which obviously was a major issue when his book was published in 1939. Wolfdieter

¹⁴ Robert A. Kann, *Die Sixtusaffäre und die geheimen Friedensverhandlungen Österreich-Ungarns im ersten Weltkrieg*. (Vienna: Verlag für Geschichte & Politik, 1966).

¹⁵ John W. Wheeler-Bennett, *Brest-Litovsk: The Forgotten Peace, March 1918* (London, Melbourne, Toronto: Macmillan, 1939), 124.

¹⁶ *Ibid*, 363.

Bihl's contribution to the literature, then, is his specific focus on Austria-Hungary's participation in these late-war peace conferences. In his 1970 book, *Österreich-Ungarn und die Friedensschlüsse von Brest-Litovsk*, Bihl explains Czernin's desire for a conciliatory peace. Not only was Austria-Hungary's domestic situation in 1917 worse than Germany's, her war aims were also more limited. With nationalist and antiwar agitation growing, worker strikes increasing in frequency, food shortages worsening, and Austria-Hungary's chief Balkan enemies—Serbia and Romania—already humbled, Habsburg leaders were eager to end the war, even at a price. Bihl quotes Czernin: "As quickly as possible peace must be concluded with Russia, then the fighting will of the Entente will be broken and a peace—even with sacrifices—will be concluded: that is my plan and the hope for which I live."¹⁷ Bihl doubts, however, whether this was a realistic strategy. Listing the litany of failed peace talks and feelers, from those between Hugo Stinnes and Protopopov in 1916, to those Prince Sixtus delivered to the French in 1917, to the terms suggested by Pope Benedict, he wonders how Czernin was planning to succeed where his predecessors had failed, especially now that the German Supreme Command felt that they were on the brink of victory.¹⁸ And in addition to Germany's strong bargaining position, powerful interests in the Dual Monarchy (mainly the military leadership and the Slavic parties who feared Magyar domination) would have strongly resisted an open breach with Germany.¹⁹ In the end, of course, Czernin's strategy did fail. Bihl believes that the Monarchy's deal with the Ukrainians—the cessation of the Cholm

¹⁷ Bihl, 18. Unless otherwise noted, all translations are my own.

¹⁸ *Ibid.*, 13, 21.

¹⁹ The Magyars, conversely, feared that too close an association with the Reich would undermine the Monarchy's (and therefore Hungary's) sovereignty.

district in Russian Poland in exchange for rights to Ukrainian grain—was especially indicative of the Monarchy’s weakness. This show of weakness, in turn, destroyed Austria-Hungary’s bargaining power. Ultimately, Bihl concludes, “signs of internal disintegration led to a gradual dwindling of the possibility of influencing the policies of the German Empire. The threat of a separate peace, for example, was at first partially effective, but at the end was not at all.”²⁰ Because the German Supreme Command succeeded in getting virtually everything they demanded at Brest, the Western powers lost any remaining hopes they had held about Austria’s ability to moderate her ally.

German demands at Bresk-Litovsk were consistent with what historians have termed a “Mitteleuropa policy,” whereby the Imperial government pursued German economic domination of Central Europe with the goal of reducing states from Denmark to Austria to vassal-status. According to Fritz Fischer’s account, by the latter half of the war many high-ranking Austrian officials were concerned that they could not convince their population to go on fighting solely for the sake of securing German domination of the Baltic and Poland. Their German counterparts considered promising them extra territory in the Balkans as compensation, but ultimately, according to Fischer, they simply forced the Austrians to go along with their plans. After the peace talks stalled, the Austrians only joined the renewed German advance into Russia after the Supreme Command applied “extremely heavy pressure.” In this new campaign, the Central Powers secured the nominal independence of a swath states formerly under Russian rule. Fischer argues that,

Germany’s aim was not to confer independence and national liberty on Poland, Lithuania, Courland, Livonia, Estonia and the Ukraine, but on the contrary to

²⁰ Bihl, 129.

fetter them closely to the German Reich and to Mitteleuropa by treaties which were only nominally international and by personal unions, economic and customs unions, and military conventions.²¹

Ultimately, however, Fischer contends that because the Central Powers could not agree on the partition of Poland or on a customs union between Germany and Austria-Hungary, Brest-Litovsk “marked the end of Mitteleuropa.” “Thereafter,” he continues, “both states tried to follow an ‘autarky policy’ of their own—the one out of consciousness of weakness, the other in an illusion of strength.”²²

Gerd Hardach expands upon Fischer’s interpretation of Mitteleuropa in his economic history of the war. This concept, he argues, “was a suitable focal point for the coordination of war aims among the Central Powers.”²³ Practically, the implementation of this strategy took place within the context of interest-group politics. Influential organizations like the Pan-German League, key business leaders like Walther Rathenau of A.E.G. and Arthur von Gwinner of Deutsche Bank, and prominent members of the intelligentsia like Dietrich Schäfer and Otto Hintze all submitted petitions to the government which advocated the annexation of French iron ore districts, the conquest of large swaths of farmland in the East, and the creation of a Central European Federation led by Germany. There were apparent differences among the war-aims programs; the Pan-German League, for example, envisioned the Mitteleuropa Federation as an association of German satellite states, while Rathenau and Gwinner imagined a more ‘indirect’ method of rule where Germany would assume the role of economic hegemon in

²¹ Fritz Fischer, *Germany’s War Aims in the First World War*, trans. C.A. Macartney (New York: W.W. Norton, 1967), 507.

²²Ibid, 533.

²³ Gerd Hardach, *The First World War, 1914-1918*. (Berkeley, Los Angeles: University of California Press, 1977), 232.

a Central European customs union. These differences, however, were more apparent than real: the result of the Pan-Germans tailoring their rhetoric to fervent nationalists and the businessmen tailoring theirs to bourgeois liberals and social democrats. Either way the war-aims programs were formulated, the demands incorporated the practical interests of powerful and well-connected economic interests within the framework of an aggressive nationalist ideology. “The military partnership between Germany and Austria-Hungary,” Hardach continues, “provided the basis for the international Mitteleuropa movement...”²⁴ Despite a wave of enthusiasm for the idea following the conquest of Serbia and the publication in 1915 of Friedrich Naumann’s book however, Hardach argues that “when the Central Powers actually got down to negotiations, the concept proved much more difficult of realization than had been supposed.”²⁵ At Brest-Litovsk, national particularism clearly emerged and tensions between the *Mittelmächte* increased. Ultimately, Hardach concludes, the events of 1917 and 1918 proved that the Mitteleuropa idea was an unrealistic alternative to integration in the world economy both because of the difficulties of political coordination between the Central Powers and because the resources in the area concerned were not sufficient to meet the needs of the modern German industrial economy. The only beneficiaries of the idea were the “various and competing private business interests” who used the program as an “ideological screen” for their own self-aggrandizement.

Austria-Hungary’s wartime economy, the subject of Robert Wegs’ *Die Österreichische Kriegswirtschaft*, was constructed along similar lines to the German one,

²⁴ Ibid.

²⁵ Ibid.

albeit on a smaller scale.²⁶ Both were run by the semi-private *Wirtschaftszentralen*, and both were faced with the immense challenge of isolation from the world economy. Even so, Wegs argues that Austria's wartime economy performed well. The Monarchy's battlefield defeats, he explains, were due to poor tactics and strategy, not poor equipment or a lack of armaments. Wartime production reached its peak in 1916 by which time government subsidization of large firms had driven their smaller competitors out of business. The resulting concentration of production resulted in a boon for favored wartime industries such as metallurgy, fuel, transportation, and armaments. By 1917, however, material shortages began to take their toll. Productivity steadily declined as more and more skilled workers were pressed into military service. Inflation, food shortages, and exhausting work hours eventually led to the worker strikes and civil unrest that foreshadowed the end of the Monarchy.²⁷

More recent scholars, such as Maureen Healy, have focused on the nature of the civil unrest that spread across the Monarchy as essential economic resources became more and more scarce. In *Vienna and the Fall of the Habsburg Monarchy*, Healy examines the social disintegration of Austrian society in the capital city.²⁸ Vienna "fell," she argues, before the Habsburg state collapsed militarily and politically in the fall of 1918. This "falling" was "a process of decline characterized by hunger, violence and a deterioration of social norms that left Vienna nearly ungovernable."²⁹ Municipal and

²⁶ Robert J. Wegs, *Die Österreichische Kriegswirtschaft*, trans. Heinrich Mejzlik, (Vienna: Verlag A. Schendl, 1979).

²⁷ *Ibid.*, 130-132.

²⁸ Maureen Healy, *Vienna and the Fall of the Habsburg Empire: Total War and Everyday Life in World War I*. (Cambridge: Cambridge University Press, 2004), 3.

²⁹ *Ibid.*

imperial officials lost their legitimacy in the eyes of the population as they proved themselves unable to provision the city with food. The *Zentralen*, Healy demonstrates, became particularly reviled. People accused them of war profiteering and participated in black markets to circumvent their perceived corruption.³⁰ Imperial officials desperately tried to combat this trend, but their decrees were largely ignored. The administrative state, which before the war was a fundamental source of political order and cultural rules, was discredited.³¹

The Habsburg state's attempts to preserve its authority on both domestic and international fronts is a dominant theme of recent literature on the Monarchy's participation in the war. Jonathan Gumz, in one of the latest explorations of Austria-Hungary's goals in World War I, examines how the Habsburgs planned to preserve a bureaucratic-absolutist order in their sphere of influence. In *The Resurrection and Collapse of Empire in Habsburg Serbia, 1914-1918*, he contends that Austria-Hungary's occupation of her southern neighbor "shows how the Army's war in Serbia was inextricably intertwined with its attitudes and projects vis-à-vis the entire Empire."³² That is, the Habsburgs' attempt to "denationalize" Serbia and fully integrate the country into the Empire was based on nineteenth century conservative convictions. Austria, unlike Germany, he writes, "remained hesitant about a fundamental reordering of international relations in Europe."³³ Examining the conventional war in 1914 -15, the occupation

³⁰ Ibid, 46.

³¹ Ibid, 10.

³² Jonathan E. Gumz, *The Resurrection and Collapse of Empire in Habsburg Serbia, 1914-1918* (Cambridge: Cambridge University Press, 2009), 11.

³³ Ibid, 12.

administration's policies, the economic management of the country's food supplies, and guerilla war, he concludes that the Habsburg occupation of Serbia had far more in common with nineteenth century instances than with later examples. "Clearly," he explains, "a huge gulf separated National Socialist-occupied Poland and Habsburg-occupied Serbia."³⁴ While many on the home front pushed for the exploitation of Serbia to alleviate food shortages in Austria, the Army strictly adhered to a kind of thinking that "separated the realm of the home front from that of the Army."³⁵ According to this ideology, the front had absolute priority when it came to the distribution of supplies. This consideration, along with the fear that hunger in Serbia would be a sign of the Monarchy's economic weakness, ensured that food shortages early in the occupation were alleviated and that, eventually, the Serbs were actually better supplied than German-Austrians. "Protected by the Habsburg Army," Gumz explains, "Serbia did not suffer an occupation of plunder that would have allowed the home front to use the country as a feeding appendage."³⁶

The present paper seeks to complicate Gumz's analysis. If Austria-Hungary's occupation of Serbia shows how the Monarchy's war aims were initially concerned with the preservation of a conservative bureaucratic-absolutist order³⁷ in the Habsburg sphere

³⁴ Ibid, 248.

³⁵ Ibid, 191.

³⁶ Ibid, 233.

³⁷ Gumz refers to the Habsburg government as an "anational, bureaucratic-absolutist state" with an army guided by an "antidemocratic, bureaucratic-absolutist tradition." See Gumz, 6,10. While clunky, the last Austro-Hungarian Finance Minister, Josef Redlich, defended a similar terminology. The main difference between the old regime that died in 1848 and the "new absolutism," he wrote, "was that the principle of ruthless bureaucratic centralization, developed in France, was introduced throughout the Austrian system, subject only to such technical modifications as had, for instance, long been adopted in Prussia and in Bavaria. In other words, the patriarchal police absolutism of 1748-1848 was translated into what

of influence, its economic cooperation with Germany, its reactions to the food crisis, and its participation in the economic exploitation of the Ukraine show how the Monarchy was, by the end of the war, willing to participate in a fundamental reordering of Europe in a final attempt to save itself.

contemporary critics, attached to the older ideas, called ministerial absolutism.” See Josef Redlich, *Austrian War Government* (New Haven: Yale University Press, 1929), 1.

CHAPTER 2

FIRST MOVES TOWARDS AN ECONOMIC ALLIANCE

Gustav Gratz and Richard Schüller, two high-ranking Austro-Hungarian economic officials during the war, characterized the wartime negotiations between the Dual Monarchy and Germany as an “attempt to organize two Empires into a more or less common economic territory.”³⁸ This idea originated before the war as a plan to create a unified economic block strong enough to safeguard its interests against the British Empire, the United States, and Russia, which were each, in a sense, rival economic blocks. But while both Austrian and German supporters of the plan organized efforts to push for its realization, no practical reforms were implemented until the war stirred public opinion in favor of a closer relationship between the two allies. Official negotiations to cement an economic alliance began late in 1915 and would continue, in one form or another, until the end of the war. These talks, conferences, and negotiations are the chief subject of Gratz and Schüller’s neglected account of Austro-Hungarian economic policy during the war.³⁹

A liberal economist committed to the economic integration of Mitteleuropa, Gustav Gratz was appointed to head the trade division of the Common Foreign Ministry in early 1917. In June, he was chosen as Hungarian Finance Minister, a position he held until the beginning of the negotiations at Brest-Litovsk, where he served as *chef de*

³⁸ Gustav Gratz and Richard Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns; Mitteleuropäische Pläne* (New Haven: Yale University Press, 1925), 1.

³⁹ While Gratz and Schüller’s work has been cited by many scholars, the importance of some of their more technical points has been largely ignored.

cabinet to Count Czernin.⁴⁰ Richard Schüller, a favorite student of the pioneering Austrian economic theorist Carl Menger, served much of his career in the Austrian state bureaucracy, reaching the rank of permanent undersecretary of trade in the Foreign Office by the time of Brest-Litovsk.⁴¹ Both economists favored closer commercial ties with Germany as part of a larger free trade program. At the same time, they feared German domination of any proposed economic alliance. From the start, Gratz and Schüller contend, the Germans insisted on including political provisions in treaty negotiations that the Austrians were not prepared to accept. In the first round of economic discussions in late 1915, the *Auswärtiges Amt* suggested uniting the administration of German, Austrian, and Hungarian railroads, opening up navigation of the Elbe and Danube Rivers, and tying German concessions on the future of Poland to the Austrians' willingness to lower their particularly high tariffs so as to open up Austrian and Hungarian markets to German industry. The reply from the Austro-Hungarian Ministry of Foreign Affairs indicated a willingness to negotiate closer economic ties, but insisted on treating the Polish Question separately. Because they feared encroachments on their sovereignty, the Austro-Hungarians stalled and insisted on a "thorough discussion of details" before they made any commitments.⁴²

⁴⁰ Vince Paál and Gerhard Seewann ed., *Augenzeuge dreier Epochen. Die Memoiren des ungarischen Außenministers Gustav Gratz 1875-1945* (Munich: R. Oldenbourg Verlag, 2009). After the war and the October Revolution of 1918 in Hungary, Gratz fled to Vienna and joined the Hungarian anti-Bolshevik Committee. After the fall of the Soviet Republic of Hungary, he became the Hungarian ambassador in Vienna before being promoted to head the foreign ministry in April 1921. Gratz continued to push for the economic integration of Central Europe by promoting cooperation among Austria-Hungary's successor states.

⁴¹ Earlene Craver, "The emigration of the Austrian economists," *History of Political Economy* 18, no. 1 (1986): 18; Ludwig von Mises, *Memoirs*, trans. Arlene Oost-Zinner (1940; repr., Auburn, AL: Ludwig von Mises Institute, 2009), 83.

⁴² Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 9-14.

The Austrian Government shared the Foreign Ministry's concerns. While many Austro-Germans hoped that support from Germany would help them gain leverage against the other nationalities in the Monarchy, few desired to become the explicit subordinates of the German Reich.⁴³ Still, many Austrians sensed the benefits of liberalizing trade. Abolishing agricultural tariffs within the common economic area would facilitate the flow of food from areas of abundance to areas of scarcity. And increasing trade with Germany could also ensure access to raw materials not available domestically; the German *Reichs-Kohlensteuergesetz*, for example, imposed a heavy tax on coal exported to Austria-Hungary, depriving the Monarchy's war effort of a much-needed resource. Breaking down this trade barrier would reopen the flow of coal from the Ruhr and Upper Silesia.⁴⁴

Responding to this increased interest in an economic alliance, two members of Austria's upper chamber of Parliament, Joseph Maria Baernreither and Gustav Marchet, launched investigations into the possible integration of Mitteleuropa beginning in 1915. Baernreither, chairman of the *Arbeitsausschusses für Mitteleuropa* and former Minister of Trade, drafted a confidential memorandum on the subject later in the year.⁴⁵ Austria-

⁴³ See Richard W. Kapp, "Divided Loyalties: The German Reich and Austria-Hungary in the Austro-German Discussions of War Aims, 1914-1916," *Central European History* 17, no 2/3 (June – September, 1984), 120-139; Robert A. Kann, *A History of the Habsburg Empire, 1526-1918* (Berkeley: University of California Press, 1974), 498-500. Kapp argues that "Austro-German leaders invariably demanded close military, economic, and political ties with Germany." Kann explains that Friedrich Naumann's Mitteleuropa program "received strong support from the [Austrian] German Right, but also from German and Magyar moderate rightist and center parties, in addition to that of the right-wing Socialist Karl Renner, and of the Magyar leftist Oscar Jászi."

⁴⁴ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 60-66. On the wartime German coal trade, see Bergrat Ernst Herbig and Andreas Biemüller, "The Coal Question in Germany," *Annals of the American Academy of Political and Social Science* 92 (Nov., 1920), 66-75.

⁴⁵ Henry Cord Meyer: *Mitteleuropa in German Thought and Action 1815-1945* (The Hague: Nijhoff, 1955) 160-180.

Hungary, he argued, needed free trade with Germany to boost its economic productivity and avoid its deterioration into an isolated backwater. Since the proposed trade bloc would occupy a strong strategic position between the North Sea, the Mediterranean, and the East, it would match all the major world powers in its economic and cultural influence. Baernreither thought that Austria-Hungary's involvement in such a Mitteleuropa would solidify its position as a great power, as long any agreement did not hinder the Monarchy's political freedom of action. He could not imagine any joint German-Austrian-Hungarian authority working smoothly, and contended that far-reaching plans to create such an institution would unnecessarily complicate the two empires' relationship. The goals of the alliance could be achieved, he concluded, within a framework that facilitated economic cooperation and preserved political independence.⁴⁶

Baernreiter realized that maintaining the Monarchy's freedom of action would be difficult if ties to Germany were to be strengthened. But he thought that the problems facing Austria-Hungary—in particular, its weakening status as a great power and the rise of nationalist sentiment—were too great to handle without a close alliance with Germany. He argued, therefore, that “Germany must help us and through its influence activate our ruling circles. If we become weak, then we are in any case a vassal state for sure. So it appears to be...paradoxical, that we need Germany's help in order to remain strong and independent towards Germany.”⁴⁷ The Dual Monarchy's future negotiations with its more powerful ally would be guided by this principle—seeking Germany's help “in order to remain strong and independent towards Germany.”

⁴⁶ Joseph Maria Baernreither, “Denkschrift über das wirtschaftspolitische Verhältnis Österreich-Ungarns zu Deutschland.” Nachlass Baernreither, Karton 30, Österreichisches Staatsarchiv, Haus- Hof- und Staatsarchiv, Vienna (hereafter cited as ÖStaA-HHStA).

⁴⁷ Qtd. In Kapp, 130.

When it came time to negotiate a new *Ausgleich* with Hungary in January 1916, Baernreither's view had gained enough support to ensure that the Austrian Prime Minister Count Carl von Stürgkh insisted on taking into account the impending trade negotiations with Germany. Stürgkh proposed that the length of the *Ausgleich* both be extended from ten to thirty years and be made coterminous with any future economic alliance with Germany. That way, the periodic uncertainty in the relationship between Austria and Hungary would be much reduced and negotiations with Germany made far simpler. The Hungarians, however, saw the renewal negotiations every ten years as an opportunity to extract greater autonomy from the Austrians and, led by Prime Minister Count István Tisza, demanded a number of trade-related and financial concessions in return for the long-term agreement.⁴⁸ After several weeks of debate, the Austrians agreed to considerable sacrifices in return for a twenty-year *Ausgleich*; over the course of the treaty, they agreed to increase their quota contribution to the common government from 63.6 percent to 65.6 percent, to allow the Hungarians to operate salt, tobacco, oil, and alcohol monopolies, and to assume a heavier burden of the Monarchy's indirect taxes.⁴⁹ While the fall of the Tisza administration in 1917 ensured that the new agreement never came into effect, the willingness of the Austrians to make significant compromises with

⁴⁸ According to one observer, the political and economic negotiations for the *Ausgleich* every ten years "shook the Monarchy to its very foundations." See Josef Grunzel, *Handelspolitik und Ausgleich in Österreich-Ungarn*, (Vienna: A. Hölder, 1912), 103.

⁴⁹ Gratz and Schüller, 14-44. On the basis of pre-war expenditure, Gratz and Schüller estimate that every one percent of the quota equaled about 3,000,000 kronen. That means, Austria's contribution would increase by 6,000,000 kronen, while Hungary's would decrease by the same amount. They valued Austria's other financial concessions at 15-18 million kronen per year.

the Hungarians in order to facilitate an agreement with Germany shows the high value they placed on an economically integrated—if not politically integrated—Mitteleuropa.⁵⁰

In the spring of 1916, Austro-Hungarian and German officials began work on creating a uniform tariff schedule, a necessary precondition for an economic alliance. Tariff laws in each empire were built up independently over centuries and contained numerous distinct classifications and provisions incompatible with one another. In Germany, for example, there was a single tariff applied to all “toys,” whereas in Austria, no such category existed, and each toy was taxed based on the material it was made of. For this and for thousands of similar cases, the two allies needed to adopt like classifications so they would have a common basis for negotiation on trade issues. Progress slowed during this first concrete step towards economic integration because each clause protected certain special interests. No industry wanted to be reclassified in such a way that would reduce its tariff protection, and the Austro-Hungarians began to express their fear that most Austrian industries could not compete against their larger, more efficient counterparts in Germany without tariff protection.⁵¹ In the fall of 1916, the Mid-European Economic Society’s Austrian branch, a collection of some of the most influential businessmen in the Monarchy, issued a statement that was decidedly lukewarm on the issue of economic integration with Germany. As the Hungarian Prime Minister Tisza commented:

All the competent practical men of Austrian economic life: Brosche, Günter, Kestranic, Schuster, Carus, Landesberger, come out very strongly against the idea of reductions and emphasize the necessity to maintain tariff protection; they also

⁵⁰ Ifor L. Evans, “Economic Aspects of Dualism in Austria-Hungary,” *The Slavonic and East European Review* 6, No. 18 (Mar., 1928), 540-542.

⁵¹ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 46-48.

attack fairly vehemently those theoreticians and political careerists who play about with slogans of economic rapprochement and unity.⁵²

Austrian negotiators kept these industrial interests in mind during their discussions with the Germans, and they would never agree to completely open up the Austrian market to the German economy. By this point in 1916, however, the “theoreticians and political careerists” like Gratz, Schüller, Baernreither, and Marchet had won the argument. Closer economic ties with Germany were necessary for both the health of Austria’s economy as a whole and for the preservation of German-Austria’s influence within the Monarchy. After drawn out talks, by October 1916 an agreement on 1,336 common tariff classifications was finalized.⁵³

The next step towards cementing an economic alliance required deciding what the tariff duties on each of those 1,336 classifications would be. The completion of the uniform tariff schedule attests to both empires’ commitment to an economic alliance, but at this stage, both Austro-Hungarian and German leaders were skeptical about the possibility of forming a complete customs union with unrestricted free trade between the two empires and uniform tariffs applied to the rest of the world. The Austro-Hungarians had yet to be convinced that the concessions the Germans were offering were sufficient compensation for subjecting Austrian industry to German competition.⁵⁴ Both sides agreed, therefore, to work out a compromise arrangement—a system of “reciprocal preference” in trade relations. That is, instead of wholesale free trade, the mutual

⁵² Qtd. in Kapp, 138.

⁵³ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 46-48. Gratz and Schüller wrote their account in the hopes of providing a blueprint for the successor states—who put up numerous tariff barriers after their independence—to succeed where they had left off when the war ended.

⁵⁴ Kapp argues that Austrian industry grew more opposed to an economic agreement with Germany as the negotiations went on. See Kapp, 137-140. This opposition, however, failed to stall the continuing talks.

reduction of certain tariffs and duties.⁵⁵ Gratz himself, during discussions on how to handle negotiations with Germany, argued that a trade agreement with the Reich should be concluded so long as the terms were reconcilable with the economic interests of the Monarchy, were not antagonistic towards other states, and did not “put the independence of Austria-Hungary into the shadows.”⁵⁶

Gratz and his colleagues had good reason to worry. By the middle of the war, the military situation put the Germans in a strong position to challenge the independence of Austria-Hungary. As more German formations joined the fight in the Balkans and against the Russians, successive German generals battled with Conrad over the command and control of joint operations.⁵⁷ The tenacious Austrian chief of staff, however, never yielded to German attempts to take complete control over the Eastern and Southern fronts, and in the Spring and Summer of 1916 the German and Austro-Hungarian armies essentially pursued their own plans and offensives without consulting each other.⁵⁸

Despite this intra-allied discord, victories in the East consolidated the Central Powers’ interior position, giving the alliance control of a continuous swath of territory from the North Sea to Iraq. Combined with the economic isolation enforced by the British blockade, the Central Powers’ military conquests gave further impetus to the Mitteleuropa idea. Shortly after the conquest of Serbia, Conrad outlined his vision for the

⁵⁵ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 63.

⁵⁶ Ibid , 65-66. The Austro-Hungarians were worried that a special agreement with Germany would anger their trade partners that had been guaranteed most-favored nation status. In the worst-case scenario, this could spark a slew of tariff wars which would cripple the Austro-Hungarian export industry.

⁵⁷ Lawrence Sondhaus, *Franz Conrad von Hötzendorf: Architect of the Apocalypse* (Boston: Humanities Press, 2000), 181-182.

⁵⁸ Lawrence Sondhaus, “Planning for the Endgame: The Central Powers, September 1916-April 1917,” in *1917: Beyond the Western Front*, Ian F. W. Beckett ed. (Boston: Brill, 2009), 10.

postwar Monarchy in a confidential memorandum submitted to Emperor Franz Josef. The Monarchy's best chance for survival, Conrad wrote, lay with its participation in a "Central European block," the creation of which he thought should become the guiding principle of Austro-Hungarian foreign policy. Integrating Austria-Hungary's original war aim within the Mitteleuropa framework, Conrad argued that any loss of territory for Russia—even if that territory accrued to Germany—would so isolate Serbia that it would be possible to completely annex the small Slavic nation and finally destroy its irredentist aims.⁵⁹ Some scholars argue that it was in this optimistic mood following the conquest of large swaths of territory in the Balkans that the apogee of the Mitteleuropa program was reached.⁶⁰ But while the Austro-Hungarian leadership was beginning to plan for long term cooperation with Germany at this time, even Conrad had few expansionist dreams in line with the much more sweeping plans of his German counterparts. The most conquest he conceived of in Russia was the annexation of the rest of Poland; and the only reason he favored the complete conquest of Serbia was because he thought any independent Slavic state would stir the type of nationalist agitation that could prove fatal to the Monarchy.

And Conrad was more ambitious than most. Like Ludendorff and Hindenburg in Germany, he was more extreme in his demands than most civilian leaders. He clashed with both Foreign Minister Burian and Hungarian Prime Minister Tisza, for example,

⁵⁹ Franz Conrad von Hötzendorf, "Denkschrift über das Kriegsziel," Karton 1178 25-1/5, Militärkanzlei Seiner Majestät des Kaisers, Österreichisches Staatsarchiv, Kriegsarchiv, Vienna (hereafter cited as ÖStA-KA); Robert Joseph Kerner, "Austro-Hungarian War-aims in the Winter of 1915-1916 as Revealed by Secret Documents," *The Journal of International Relations* 10, no. 4 (Apr. 1920), 444-70.

⁶⁰ See Hardach, 232-233; Kerner writes, "[It is true] there were internal differences as between Austrian Germans and Magyars and as between Germans of the Empire and of Austria, but these were subsidiary to the Ausgleich of 1867 and to the Central European conception," Kerner, 259.

over the desirability of completely annexing Serbia. Burian and Tisza were in favor of handicapping the Serbs by occupying the northwestern corner of the country and dividing up several other strategically important areas between the Bulgarians and Albanians. They believed that such territorial revisions would leave Serbia isolated and dependent on Austria-Hungary without bringing another large national group into the Monarchy. Conrad, on the other hand, argued that a humbled Serbia could rise again just as a humbled Prussia rose again to defeat Napoleon. Either way, German plans for a powerful Mitteleuropa were far more expansive, and Austria-Hungary as of yet had no plans to participate in such a fundamental reordering of the European balance of power.⁶¹

Conrad realized that the Central Powers' success in late 1915 and early 1916 might prove to be temporary. In his memorandum, he emphasized that the Monarchy's manpower reserves were extremely limited due to enormous losses early in the war. Even more pressing, however, was the food situation. The devastation of the important grain-producing region of Galicia, poor climatic conditions in Hungary, and wartime labor, livestock, and fertilizer shortages all combined to reduce the Dual Monarchy's grain yields to about half of prewar levels. Price controls meant to keep food affordable exacerbated the situation by making it more profitable for farmers to use arable land for grazing, hay making, or growing animal feed than for producing food.⁶² And as domestic production plummeted, the British naval blockade made it impossible to increase imports.

⁶¹ Kerner, 448-449.

⁶² Max-Stephan Schulze, "Austria-Hungary's economy in World War I," in *The Economics of World War I*, ed. Stephan Broadberry and Mark Harrison (Cambridge: Cambridge University Press, 2005), 93. Ludwig von Mises, an economist in the Austrian state bureaucracy, later argued that "It was pure dilettantism of the worst sort to set maximum prices for these goods. Production could have been stimulated only by high prices; the limitation of price increases throttled it." See Ludwig von Mises, *Nation, State, and Economy*, trans. Leland B. Yeager. (Indianapolis: Liberty Fund, 1983, 2006), 120.

By 1917, epidemics caused by poor nutrition broke out,⁶³ bread riots raged in cities throughout the empire, and nationalist unrest increasingly challenged the government's authority.⁶⁴ The newly crowned Emperor Karl, who had promised in his accession manifesto "to win back for my peoples the sorely-missed blessings of peace," feared the situation would deteriorate into mass starvation and outright revolution.⁶⁵ Early in the year, he opened up secret peace talks with the French, using his brother-in-law Prince Sixtus of Bourbon-Parma as an intermediary. As Robert Kann and Gordon Brook-Shepherd demonstrate, Karl as yet had no plans to conclude a separate peace with the Entente.⁶⁶ His chief goal was to convince the Germans to curtail some of their more ambitious war aims, by offering them concessions in Poland or the Balkans if necessary. Specifically, he wrote to Sixtus that he would "support the just claims of France concerning Alsace-Lorraine with all means at my disposal and exert all my personal influence with my allies to that end."⁶⁷ It quickly became apparent that these plans were unrealistic. After Sixtus had been contacted, Karl arranged a meeting with the Kaiser and tried to convince him that no peace talks would be successful unless he was willing to

⁶³ Arthur J. May, *The Passing of the Habsburg Monarchy* (Philadelphia: University of Pennsylvania Press, 1966), 1: 333-4. A widespread tuberculosis epidemic in Vienna inspired the term, "Vienna sickness" to refer to disease triggered by poor nutrition.

⁶⁴ Zdenek Jindra, "Der wirtschaftliche Zerfall Österreich-Ungarns," in *Österreich und die Tschechoslowakei 1918-1938*, ed. Alice Teichova and Herbert Matis (Vienna: Böhlau, 1996), 17-50. Jindra argues that the government's inability to ensure that the population was fed was a key factor in the Monarchy's collapse. After the weakening of the dynasty with the death of Franz Josef and the humbling of the army on the battlefield, "Mit dem Schwinden der Staatsautorität und dem Versagen des Verwaltungsapparates bei der sensiblen Kreisversorgung der österreichischen Bevölkerung wurde die letzte Säule, auf die sich die Habsburgermonarchie noch stützte, untergraben."

⁶⁵ Qrd. in Gordon Brook Shepherd, *The Last Habsburg* (London: Weidenfeld and Nicolson, 1967), 62.

⁶⁶ Brook-Shepherd, 100-101; Kann, *Die Sixtusaffäre*, 9-90. See also, Ingeborg Meckling, *Die Aussenpolitik des Grafes Czernin* (Vienna: Verlag für Geschichte und Politik, 1969), 314-358.

⁶⁷ Qrd. in Brook-Shepherd, 72.

surrender Alsace-Lorraine to the French. The Austrian Empress Zita, who accompanied her husband to the conference, described the problem:

If we had a friend in Germany it was the Emperor William. But he was completely under the thumb of his generals. This, I think, was largely because he was a dreamer. He believed in his dreams and one of them, unfortunately, was that of final victory. And so he handed over everything to Hindenburg and Ludendorff.⁶⁸

Karl concurred, telling his wife, “There are frightful difficulties with the Germans because they simply cannot be brought to reason.”⁶⁹ Abandoning them to the Entente was still, however, out of the question.

⁶⁸ Qtd. in Brook-Shepherd, 74.

⁶⁹ Ibid, 75.

CHAPTER 3

SETTING THE FOUNDATIONS FOR MITTELEUROPA: THE NEGOTIATIONS AT BREST-LITOVSK

The Germans would be even more difficult to deal with after the Kerensky government fell in November 1917. After seizing power, the Bolsheviks, yielding to the widespread desire for peace in Russia and hoping to buy time for the revolution, quickly arranged an armistice with the Central Powers. They hoped that their calls for a “just and democratic peace,” concluded without annexations and indemnities would lay bare Germany’s imperialistic intentions and encourage the workers of the world to overthrow their capitalist governments. As a condition of the armistice, the Central Powers agreed to negotiate on the basis of anti-imperialism and self-determination, but as the Imperial Chancellor Georg Michaelis remarked, the application of these principles would be subject to German interpretation.⁷⁰

As soon as the fighting on the Eastern Front ceased, Hindenburg and Ludendorff began planning the transfer of their eastern armies to the Western Front in the hopes of preempting the “American danger.”⁷¹ Yet no matter how crucial time was for their operational plans, they were not prepared to relinquish their superior military position in the east without substantial annexations and reparations. On December 19, 1917, the Kaiser and his top generals convened a Crown Council at Kreuznach to give Germany’s chief diplomat, Richard von Kühlmann, instructions for the impending negotiations at Brest-Litovsk. Hindenburg and Ludendorff outlined their plans for the east: the

⁷⁰ Bennet-Wheeler, 99-100.

⁷¹ Erich Ludendorff, *My War Memories: 1914-1918*, vol 2 (London: Hutchinson, 1920), 544.

dismemberment of Poland and the annexation of its border regions; the transformation of Courland and Lithuania into two Grand-Duchies ruled by the House of Hohenzollern; the domination of Estonia and Livonia. Kühlmann, a traditional Prussian diplomat who did not share the General Staff's grand ambitions, asked the two warlords why they wanted these territories. Hindenburg allegedly replied, "For the maneuvering of my left wing in the next war." Ludendorff added that the Eastern provinces would bolster Germany's food supply and give her a new source of manpower.⁷² Wilhelm von Gayl, who was soon to be charged with carrying out Hindenburg and Ludendorff's plans, later wrote that the intention was "to create for the German army, outside of our own Reich territory, an expansive, defensible area for deployment against Russia and Poland, as well as a commanding flanking position against Poland in case of a new East war."⁷³ These Eastern territories would be tied to German through military treaties for German garrison rights and economic treaties that provided for a common currency and an integrated customs union.⁷⁴ Such a desire for economic and political domination of Eastern Europe was wholly incompatible with the Bolsheviks' call for a peace without indemnities or annexations.

The Supreme Command's position was also opposed to that of Karl and Czernin, who saw peace as the Dual Monarchy's only chance for survival. Czernin was happy to

⁷² Ludendorff, 544-545; Wheeler-Bennett, 107-109. According to Ludwig von Mises, "The clearer it had become in the course of the war that the Central Powers were bound to be finally defeated in the war of starving out, the more energetically were the references made from the various sides to the necessity of preparing better for the next war. The economy would have to be reshaped in such a way that Germany would be capable of withstanding even a war of several years. It would have to be able to produce inside the country everything required for feeding its population and for equipping and arming its armies and fleets in order to be no longer dependent on foreign countries in this respect." Mises, *Nation, State, and Economy*, 121.

⁷³ Qtd. In Vejas Gabriel Liulevicius, *Warland on the Eastern Front: Culture, National Identity, and German Occupation in World War I* (Cambridge: Cambridge University Press, 2000), 202.

⁷⁴ *Ibid*, 202.

endorse the principle of a peace without indemnities or annexations because if the Entente endorsed the same idea, they would be forced to abandon the Treaty of London, which promised large swaths of Austria-Hungary to Italy. As before, the goal was the preservation of the Monarchy. And without a *Brotfrieden* that reopened commerce with Russia on the basis of the pre-war commercial treaty, the Monarchy was doomed.⁷⁵

Czernin nevertheless realized that his German allies had much more ambitious aims; on December 10, the Dual Monarchy's ambassador to Berlin, Prince Gottfried von Hohenlohe, informed him of Kühlmann's failure to soften Hindenburg and Ludendorff's demands.⁷⁶ While Czernin still hoped to curtail these ambitions by threatening to conclude a separate peace with Russia if the Supreme Command's dreams of an eastern empire slowed down negotiations, he was not seeking a break with Germany. "Austria-Hungary will never detach itself from its allies," he flatly declared in a note to the Monarchy's envoy to the Netherlands.⁷⁷ Accordingly, for the secret peace talks with General Jan Smuts of Britain on December 18 and 19, Czernin instructed the Austrian representative to discuss terms for a general peace only and not to entertain any discussion of a separate agreement.⁷⁸ If the Monarchy was to survive in an increasingly liberal-nationalist world order, he believed, the Habsburgs' relationship to Germany would be just as important as their relationship to Hungary.

⁷⁵ Czernin, "Protokoll über Berliner Besprechungen vom 5. February 1918," P. A. rot 504, ÖStaA-HHStA.

⁷⁶ Hohenlohe to Czernin, 10 December 1917. P.A. rot 504, ÖStaA-HHStA.

⁷⁷ Czernin to Szechenyi, 21 October 1917, P.A. rot 963, ÖStaA-HHStA.

⁷⁸ Qtd in Clifford F. Wargelin, "A High Price for Bread: The First Treaty of Brest-Litovsk and the Break-up of Austria-Hungary, 1917-1918," *The International History Review* 19, No. 4 (November 1997), 768.

Czernin later justified his refusal to abandon the Reich by arguing that any separate agreement with the Entente would have prompted a German invasion.⁷⁹ Such an outcome would have been far worse than continuing the fight against the Entente because, despite the Monarchy's increasingly deteriorating situation on the home front, Austria-Hungary had achieved all of its initial territorial war aims. Serbia was conquered. The Italians had been humbled and forced off Austrian territory after the Battle of Caporetto. And the Russians were on the verge of exiting the war. Exchanging this position of relative strength for "the conversion of Austria-Hungary into a theatre of war" was therefore out of the question.⁸⁰

The Monarchy's best hope, in Czernin's mind, was to work for its interests within the German alliance. For the most part, pursuing this strategy meant pushing the Germans to curtail their demands with the goal of speeding the conclusion of a general peace. But when Hindenburg and Ludendorff proved intractable in their insistence on continuing the war, Czernin pushed vigorously for his government's territorial and strategic interests. Late in December, he wired Karl to express his frustration with German plans to take all the spoils of war for themselves. "It is completely unacceptable," he wrote, "that Your Majesty should in this case come away empty-handed and play the role of having fought three years only thereby to provide Germany with conquests."⁸¹ The tension between Czernin's conflicting desires for peace on the one

⁷⁹ Czernin, 24. "It is out of the question," Czernin wrote, "that at such a moment and under such conditions [Hindenburg and Ludendorff] could have replied to the falling away of Austria-Hungary otherwise than by violence."

⁸⁰ Ibid.

⁸¹ Qtd in Wargelin, 769.

hand but parity with the Reich on the other underlay all Austro-German negotiations at Brest-Litovsk.

As soon as Kühlmann and Czernin arrived at the peace conference, they agreed to immediately continue negotiations for an economic alliance during the talks. Throughout 1917, progress on the matter slowed primarily because the Austrians continued to fear competition from German industry.⁸² At Brest-Litovsk, all the old controversies immediately resurfaced, but Schüller, who represented the Austrian Ministry of Commerce at the conference, and Gratz, who represented the common Ministry of Foreign Affairs, nonetheless argue, “This conference was a crucial moment for the negotiations; all three governments showed secure conviction and a strong will to finish the work [of establishing an economic alliance.]”⁸³ The governments were, indeed, committed enough to the idea of a new Central European economic order that they set about convincing the other governments represented at the conference to renounce any claim based on the principle of most-favored-nation treatment to share in any of the benefits from Austria-Hungary and Germany’s system of reciprocal preference.⁸⁴ That is, every nation was to recognize that the two Central European empires were forming a special relationship, distinct and separate from the normal types of commercial treaties.

⁸² There were other problems as well. A significant amount of German exports to the Balkans passed through Austria-Hungary, while very few Austro-Hungarian exports passed through Germany. Germany stood to gain much more, therefore, if both allies agreed to reduce their railroad tariffs. As a result, the Austrian policy was to delay coming to any agreement on railroads until more concessions could be extracted from the Germans. One such concession the Austrians hoped for was the establishment of a new Veterinary Convention and reform of the German Meat Inspection Law; Hungarians in particular complained that Germany had continually used the pretext of veterinary and health precautions to block the importation of livestock and meat from the Dual Monarchy. The Germans, of course, denied having any motive in their trade policy other than a concern for the public’s health and safety. See Gratz and Schüller, 80-82.

⁸³ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 82.

⁸⁴ *Ibid*, 82-83.

While disagreements between the two allies continued, these differences were becoming secondary to the Mitteleuropa conception.

Meanwhile the economic isolation which had pushed the Central Powers together, and given a concrete form to the dreams of liberal German imperialists, continued unabated. And unfortunately for the Austrians, who were desperate for a *Brotfrieden*, the peace talks bogged down. The Bolsheviks were initially optimistic when the Central Powers agreed to negotiate on the basis of no annexation and no indemnities. But when the Germans agreed to this idea, they did not mean what the Bolsheviks thought they meant. After the *Reichsheer* occupied the Baltic States in 1917, the occupation authorities organized local collaborators into *Vertrauenräte* who were instructed to “ask” for German protection. For the Germans then, it was not an annexation when these parts of the former Russian Empire declared independence and, through the newly constituted *Vertrauenräte*, sought “protected status” within the German Empire.⁸⁵ The Russians, however, initially believed that their old 1914 borders were being guaranteed. Soon after negotiations began, General Max Hoffman, the chief of staff for all *Mittelmächte* forces on the Eastern Front, recognized the misunderstanding and took it upon himself to explain to Adolph Joffe, the head of the Soviet delegation, his misapprehension. According to Hoffman, after he explained that he and his allies did not consider it annexation if Poland, Lithuania, and Courland reached direct agreements with the Central Powers to the exclusion of Russia, “Joffe looked as if he had received a blow to the head.” In the following drawn out meeting, Mikhail Pokrovsky cried “with tears in his

⁸⁵ Prince Max of Baden, *Memoirs*, vol. 1, trans. William Moir Calder and C. W. H. Sutton (London: Constable, 1928), 208; Gerhard Ritter, *Staatskunst und Kriegshandwerk: Das Problem des Militarismus in Deutschland*, Band 4, (München: Verlag R. Oldenbourg, 1968), 98-100.

eyes,” that it was impossible to speak of a peace without annexations when eighteen provinces were about to be torn from the Russian Empire.⁸⁶

When Joffe threatened to break off the talks, Czernin panicked. He offered Kühlmann and Joffe a compromise that would have allowed German troops to remain in the eastern territories until a general peace had been ratified, but then would have provided for plebiscites with guarantees given to the Russians that the elections would be free and fair. “Apparently,” Czernin wrote in his diary, “this suits neither party. Situation much worse.”⁸⁷ When Joffe left Brest-Litovsk for Petrograd to discuss the situation with his superiors, Czernin was “beside himself,” and considered opening up separate negotiations with the Russians.⁸⁸ Expressing distrust of both of the other parties, Czernin wrote, “Berlin and Petrograd were really both opposed to an uninfluenced vote. Austria-Hungary, on the other hand, desired nothing but final peace.”⁸⁹ According to Hoffman, Czernin’s “nerves completely gave way, and he spoke very excitedly with [Kühlmann] of his intentions of making a separate peace, but he also sent his military advisor to my office, to threaten me in the same manner...”⁹⁰ Hoffman was unmoved. The idea of a separate peace between Austria and Russia was a brilliant idea, he told the Austrian

⁸⁶ Major-General Max Hoffmann, *War Diaries and Other Papers*, vol.2., trans. Eric Sutton (Uckfield, East Sussex: The Naval & Military Press, 2004), 202-203.

⁸⁷ Czernin, 227-228.

⁸⁸ Hoffmann, vol. 2, 203.

⁸⁹ Czernin, 228. Czernin, of course, distrusted the German General Staff. But his opinion of the Soviets was lower still. He wrote, “They are strange creatures, these Bolsheviks. They talk of freedom and the reconciliation of the peoples of the world, of peace and unity, and withal they are said to be the most cruel tyrants history has ever known. They are simply exterminating the bourgeoisie, and their arguments are machine guns and the gallows. My talk today with Joffe has shown me that these people are not honest, and in falsity surpass all that cunning diplomacy has been accused of, for to oppress citizens in this fashion and then talk at the same time of the universal blessing of freedom—it is sheer lying. See Czernin, 221-222.

⁹⁰ Hoffmann, vol. 2, 203.

General Csiscerics, for it would free up the twenty-five German divisions now tasked with supporting the Habsburg army while at the same time securing his right flank.⁹¹ Czernin backed down, temporarily mollified by Kühlmann, who agreed to forward Czernin's position to the Kaiser.⁹²

Hoffmann's dare to Csiscerics should not necessarily be taken as his serious position. Hoffman correctly foresaw that Joffe's threat to break off the peace talks was a bluff; the Russian army was in shambles and the masses were demanding peace. The Bolsheviks would not hold on to power, he reasoned, if they continued the war.⁹³ Sure enough, Petrograd overruled Joffe, and the peace talks continued.⁹⁴ Hoffmann's reply to Csiscerics, therefore, should simply be seen as the German General's brusque way of rebuffing the Austrian desire for compromise. As Ludendorff would later explain, Austrian manpower was crucial for the German plans for empire in the East.

The peace conference temporarily adjourned on December 28th, and when it reconvened on January 4th, 1918, the situation had changed in several important respects. First, as was expected, the Entente had refused to discuss a general peace on the basis agreed upon at Brest-Litovsk. Second, Lenin replaced Joffe with Leon Trotsky, who was tasked with delaying the negotiations as much as possible by spouting the gospel of Marxism and advocating a worldwide proletarian revolution. As a sign of things to come, when Trotsky arrived he immediately declared that the Russian delegation would no longer eat at the common table, a move which made all private discussions between the

⁹¹ Hoffmann, vol. 2, 204.

⁹² Czernin, 228.

⁹³ Hoffmann, vol. 2, 203.

⁹⁴ Wheeler-Bennett, 126.

two parties nearly impossible. And finally, a Ukrainian delegation arrived with the goal of obtaining recognition of the independence their country and negotiating a separate peace without any involvement from the Russians.⁹⁵ Representatives of the newly constituted national assembly, the *Rada*, these young liberal nationalists would aggressively seek a favorable settlement for their embryonic government. This last development seemed fortunate for the Central Powers; Czernin and Kühlmann began plotting about how to bring the Ukrainians over to their side, and how to secure grain supplies from this apparently newly independent republic.⁹⁶ It remained unclear, however, how much control these Ukrainians had over their country. For weeks, the representatives at Brest would receive conflicting reports about the military situation around Kiev.

Almost immediately after the conference reconvened the talks deadlocked. Trotsky demanded that the Central Powers evacuate the occupied territories so the peoples there could exercise their right to self-determination. In response, Kühlmann presented documentary evidence of the existence of the *Vertrauenräte*. Trotsky was unimpressed and denounced the German view of self-determination, “by which the will of the people was in reality replaced by the will of a privileged group acting under the control of the authorities administering the territories.”⁹⁷ Kühlmann was drawn in, and over the following days engaged in a series of repetitive and unproductive debates with Trotsky. All the while, the blustery revolutionary belittled Czernin and provoked

⁹⁵ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 127-129; Bihl, 50-55; Wheeler-Bennett, 150-166.

⁹⁶ Czernin, 232; Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 133.

⁹⁷ *Proceedings of the Brest-Litovsk Conference*. (Washington, DC: Department of State, 1918), 61-63.

Hoffmann.⁹⁸ Hoffmann finally responded with a threatening and belligerent speech, but his rhetoric, according to Czernin, did nothing “beyond exciting the people at home against us.”⁹⁹ The people demanded peace and bread, not annexations. Ludendorff similarly complained of the “chorus of indignation in a large number of German and Austro-Hungarian papers” in response to Hoffman’s speech. Ludendorff noted in his memoirs that, “Trotsky would have been a fool to have given in on any point; but he was far too clever and energetic for that. His tone became more and more provoking, although he had no real power behind him.”¹⁰⁰

Meanwhile, Czernin’s physical and mental state deteriorated as he daily received news about food shortages and civil unrest in the Monarchy.¹⁰¹ During his trip to Vienna he met with the Emperor and several leading politicians, including Joseph Maria Baernreither, Alexander Wekerle, and Ernst Seidler. Baernreither had grown increasingly worried about the imbalance of power between Austria and Germany and had begun to qualify his support for the Mitteleuropa project. He saw no present alternative, however, to remaining loyal to the Germans. In June, he had confessed to Josef Redlich that they had to agree to German plans for Mitteleuropa because they owed the *Reich* four billion Marks.¹⁰² Wekerle, the Hungarian Minister-President, feared any break with the Germans and was deeply concerned about the implications that any acceptance of the Bolsheviks’

⁹⁸ See *Proceedings*, 102-111.

⁹⁹ Czernin, 237.

¹⁰⁰ Ludendorff, 552.

¹⁰¹ According to Hoffmann, Czernin’s “nerves became worse everyday.” See Hoffmann, vol. 2, 211.

¹⁰² Kapp, 139; Josef Redlich, *Schicksalsjahre Österreichs, 1908-1919, Das Politische Tagebuch Josef Redlichs*, ed. Fritz Feller, vol. 2, (Graz and Cologne: H. Böhlau, 1954), 208.

self-determination rhetoric would have on the internal affairs of the Monarchy.¹⁰³ Seidler, the Austrian Minister-President, was above all concerned with the dire food situation.¹⁰⁴ “The opinion of almost all,” Czernin wrote in his diary, “may be summed up as follows: ‘Peace must be arranged, but a separate peace without Germany is *impossible*.’”¹⁰⁵ Clearly frustrated, Czernin fatalistically noted, “No one has told me how I am to manage it if neither Germany nor Russia will listen to reason.”¹⁰⁶

Early in January, the daily ration of bread throughout the Monarchy was reduced from 200 to 165 grams a day. Soon, even this could not be provided. On the 15th, Czernin received a report from the governor of Bohemia which warned that, unless 30,000 more truck loads of grain were secured in the next few weeks, the Austrian war effort would grind to a halt and famine would break out. The situation was marginally less serious in Hungary, but the government there was cautious, and refused to allow any of their meager surpluses to be exported to other parts of the Monarchy.¹⁰⁷ Czernin reported back that he was making “every conceivable effort to get some grain from the Ukraine.” “It will probably arrive,” he cautioned, “only in small quantities and only late in the spring.”¹⁰⁸ Czernin realized, however, that small quantities of grain in the future would not avert disaster. He therefore appealed directly to Kühlmann for German aid. But because the Germans themselves were suffering from severe food shortages, Kühlmann doubted that

¹⁰³ Demblin to Czernin, 27. December 1917. P.A. rot 1052, ÖStaA-HHStA; Czernin to Wekerle, 28. December 1917. P.A. rot 1052, ÖStaA-HHStA.

¹⁰⁴ Czernin to Hohenlohe, 16. Jänner 1918. P.A. rot 1079, ÖStaA-HHStA.

¹⁰⁵ Czernin, 230. Emphasis in original.

¹⁰⁶ Czernin, 230.

¹⁰⁷ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 131-133.

¹⁰⁸ Qtd. in Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 133.

Berlin would spare anything. Czernin wrote to a contact in Berlin: “Dr. Kühlmann has telegraphed Berlin, but has little hope of success. The only hope is that His Majesty, as I have advised, will immediately and urgently wire Kaiser Wilhelm himself.”¹⁰⁹ Shortly later, Czernin wired the Emperor, advising him to do just this.

In his message, Czernin bitterly complained about Prime Minister Seidler’s handling of the food situation. In his view, the Hungarian Minister of Supply Andreas Hadik was hoarding provisions that Austria desperately needed, and Seidler was doing nothing about it. “The weakness of the Vienna Ministry,” he wrote, “seems to be past all understanding.”¹¹⁰ But it is doubtful that any institution could have fared better.¹¹¹ The frantic search for food had brought the Habsburg Empire into “near-autarkic decomposition.”¹¹² Individual ministries, cities, and army units desperately hunted for sustenance while they hoarded their own meager supplies. Everywhere black markets expanded, and governing “became an exercise in wringing hands and issuing empty decrees.”¹¹³ Frustrated by the slow pace of the negotiations, Czernin angrily wrote to Seidler, “I very greatly regret my inability to counteract the effect of all the errors made

¹⁰⁹ Czernin to General Landwehr, 16. January 1918. P.A. rot 818, ÖStA-HHStA.

¹¹⁰ Czernin, 239. Mises agreed with Czernin’s assessment. “It is easy to understand,” he wrote, “why the Czech district leaders in the Sudetenland, whose hearts were on the side of the Entente, sought as much as possible to limit the export of foodstuffs out of the districts under their leadership to the German parts of Austria and, above all, to Vienna. It is less understandable that the Vienna government put up with this and that it also put up with its imitation by the German districts and also with the fact that Hungary shut itself off from Austria, so that famine was already prevailing in Vienna while abundant stocks were still on hand in the countryside and in Hungary.” See Mises, *Nation, State, and Economy*, 121.

¹¹¹ Even if the shortage of food could have been overcome, Josef Redlich explains that “With the best will in the world, officials, officers, and industrialists involved in the countless wheels of the war machine, in its multifarious departments, groups and sections, Combines, [Zentralen], and the rest found themselves, as a matter of course, often complicating or paralyzing each others’ work, instead of helping it along and speeding it up.” See Redlich, *Austrian War Government*, 124.

¹¹² Gumz, 177.

¹¹³ Healy, 10.

by those entrusted with the food resources.”¹¹⁴ But he refused to give up. Access to the supposedly vast grain reserves in the Ukraine seemed like a panacea—with ample food flowing in to the Monarchy from the east, famine would be averted, revolutionary sentiments quelled, and the Habsburg government’s authority and legitimacy restored.

In the meantime, the Germans finally agreed to dispatch a small but desperately needed emergency shipment of flour to the Monarchy.¹¹⁵ Only a few days before, Czernin had seriously contemplated “throwing the Monarchy under England’s mercy,” but now any breach with the Reich would destroy any possibility of receiving further food shipments from Germany.¹¹⁶ Emperor Karl continued to implore Czernin to make peace regardless of Hindenburg and Ludendorff’s “Courland, Livonia and Polish dreams.”¹¹⁷ But if that was ever possible, it was certainly not now, at least not without risking mass starvation. Instead, the Austrians would have to come up with eastern dreams of their own. Forced to go along with the Supreme Command’s expansionist aims, they would have to emulate Germany’s empire-building strategy.

Circumstances did not yet allow for such a change of course, however. The Ukrainian delegation had been closely following the news of unrest in Austria-Hungary and saw the food shipment from Germany as a sign of the Dual Monarchy’s weakness. They took the opportunity to demand the cessation of the Cholm district of Austrian-occupied Poland from the Habsburg Empire. Not only would it be humiliating for a Great Power such as Austria-Hungary to surrender territory to a nation which had yet to firmly

¹¹⁴ Czernin, 239.

¹¹⁵ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 136.

¹¹⁶ Czernin to Hohenlohe, 16. January 1918. P.A. rot 1079, ÖStA-HHStA.

¹¹⁷ Gratz and Schüller, *Die Äussere Wirtschaftspolitik Österreich-Ungarns*, 139-140.

establish its independence, ceding Cholm to the Ukraine would enrage the Monarchy's Polish subjects, who saw the province as a part of Poland. Shocked by the new development, Czernin wrote in his diary, "The impression of the troubles [in Vienna] is even greater than I thought, and the effect disastrous. The Ukrainians no longer treat with us: they *dictate!*"¹¹⁸

In return, however, the Ukrainians offered the Monarchy a commercial agreement that would ensure access to their nation's grain reserves. While Czernin initially rejected this idea, back in Vienna he warned members of the Crown Council that if they refused the deal, the negotiations at Brest-Litovsk would in all likelihood end without the signing of any peace treaties. Seidler, convinced that widespread famine was only weeks away, gave his full support to the deal, confidently reassuring the members of the council that he could gain parliamentary support for the scheme even over the inevitable objections of the Polish delegates. Burián concurred, and over Wekelerle's sole objection, Emperor Karl authorized Czernin to deal with the Ukrainians.¹¹⁹ On February 9, peace was concluded with the Ukraine. In return for Cholm, the Ukrainians agreed to supply the Central Powers with at least a million tons of foodstuffs and agricultural produce. It still remained unclear, however, if the Ukrainians had the authority to meet their promises. Civil war raged throughout Russia, and no party in Brest-Litovsk could be sure whether it

¹¹⁸ Czernin, 241. Emphasis in original.

¹¹⁹ Protokolle des gemeinsamen Ministerrats 1917/18, 22. January 1918. P.A. XL, ÖStaA-HHStA; see also, Czernin, 241-245. Member of the council included the emperor, Austrian Prime Minister Seidler, Hungarian Prime Minister Wekerle, War Minister Stöger-Steiner, the Chief of the General Staff Arz, Finance Minister Burián, and Sektionschef Gratz. Wekerle, who was dealing with a marginally less serious food situation in Hungary, feared that granting concessions to nationalities based on the idea of self-determination would undermine the ideological legitimacy of the Monarchy.

was the Ukrainians or the Bolsheviks who were in charge in Kiev. “I wonder if the *Rada* is still really sitting at Kiev,” is Czernin’s diary entry for the day.¹²⁰

The Bolsheviks had themselves been relying on the Ukraine for grain shipments, and Trotsky bitterly opposed the settlement between the *Rada* and the Central Powers. The peace with the Ukraine, therefore, set off a chain of events that led to the Russian withdrawal from the peace conference. Without signing any treaty, Trotsky declared that Russia was demobilizing and leaving the war.¹²¹ Over the objections of Kühlmann and the entire Austro-Hungarian ruling class, Hindenberg and Ludendorff interpreted this action as a breach of the original armistice agreement and immediately began preparations for the resumption of the war.

Czernin realized that Austria-Hungary was trapped. “We could not induce Germany,” he later wrote, “to resign the idea of Courland and Lithuania. We had not the physical force to do so.” Given the Bolsheviks’ intransigence, therefore, the war was bound to continue. But without peace, the Dual Monarchy could not abandon its plans for the Ukraine. “We had then to choose,” he concluded, “between leaving Germany to itself, and signing a separate peace, or acting together with our three Allies and finishing with a peace including the covert annexation of the Russian outer provinces.”¹²²

For several reasons, the reluctant Austrians would be compelled to follow the German course of “covert annexation.” First, the Austrians realized that the Allies were taking note of their desperate economic situation and declining bargaining power. On February 12, Czernin received a message from one of his contacts in Vienna who claimed

¹²⁰ Czernin, 249.

¹²¹ *Proceedings*, 172-173.

¹²² Czernin, 250.

that a “reliable source” had informed him that the French were reconsidering their disposition to enter into peace talks with the Habsburg Empire. According to the source, the French doubted the Austrians’ ability to influence their German allies and wondered whether the old dynasty “is perhaps already threatened with the fate of Russia.”¹²³

Karl and Czernin’s options were further limited as accurate news about the military situation in the Ukraine finally reached them. A day before the treaty with the Central Powers had been signed, the Bolshevik Army of General Muravyev expelled the government of the *Rada* from Kiev and established a Ukrainian Soviet Republic tied to Moscow. The *Rada* retreated to Zhitomir and desperately appealed to the Central Powers for aid in resisting this “barbaric invasion of our northern neighbors.”¹²⁴ Now if the Austrians wanted bread from the Ukraine, they would have to support the German effort to renew the advance east and reestablish the *Rada*.

While Czernin realized that it would be necessary to intervene in the Ukraine “in favor of the new state for our interests against the Bolshevik terror,”¹²⁵ Karl initially tried to forestall this inevitability and personally directed General Arz von Straussenberg, the Chief of the Austro-Hungarian General Staff, not to participate in the renewed German advance, which commenced on February 17.¹²⁶ Karl’s hope was that the Germans would reinstitute the *Rada*, which would then make it possible for the economic provisions of

¹²³ Czernin, 250.

¹²⁴ Qtd. in Wheeler-Bennett, 311.

¹²⁵ Czernin to Demblin, 10. February 1918. P.A. rot 1053, ÖStA-HHStA.

¹²⁶ Ludendorff, 465; Hoffmann, vol. 2, 222; Gratz and Schüller, *The Economic Policy of Austria-Hungary During the War in its External Relations*, trans. by W. Alison Phillips (New Haven: Yale University Press, 1928), 131. Arz also opposed an advance into the Ukraine until the Romanian front could be completely secured. See Storck to Czernin, 27. February 1918, P.A. rot 836, ÖStA-HHStA.

the Ukrainian peace treaty to take effect. Celebrations had broken out in Vienna on the news of the Ukrainian peace, and the Emperor feared the consequences that news of renewed hostilities would bring.¹²⁷ Ludendorff, however, would not stand for such a defensive strategy on the part of his chief ally. When Arz informed Ludendorff that Emperor Karl had forbidden an advance into the Ukraine, the Supreme Command informed its recalcitrant ally that if they refused to cooperate in the occupation of the Ukraine, Germany would block the implementation of any food sharing agreements that Vienna had reached with the new Ukrainian government in any area occupied by German troops.¹²⁸ On February 24, Emperor Karl backtracked and ordered Arz to send troops into the Ukraine. With preparations underway for 1918 offensive on the Western Front, the Germans needed Habsburg manpower to build their eastern empire. Ludendorff would later write, “The final adhesion of Austria-Hungary was a relief to me; we could not possibly have solved the problem by ourselves.”¹²⁹

But even before the German ultimatum forced the issue, Austrian opinion was shifting in favor of intervention. As much as the Monarchy desired peace, it desired bread even more. When news of the German intervention in the Ukraine spread, large segments of the starving Austrian public became concerned that the Germans would take all of the

¹²⁷ Wheeler-Bennett, 233-234. Negotiations between Germany and Austria on their cooperation in the exploitation of the Ukraine had begun even before the Austrians agreed to commit troops to the operation. See „Verhandlungen Über ein Gemeinschaftliches Vorgehen Deutschlands und Österreich-Ungarns bei der Wiederanknüpfung von Handelsbeziehung mit den Einzelnen Teilen Ehemaligen Russischen Reiches.“ 21. Februar 1918, Series II, Folder 8, Files 36-37, Ludwig von Mises Archive, Ludwig von Mises Institute, Auburn, Alabama (Hereafter cited as LvMA).

¹²⁸ Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 131.

¹²⁹ Ludendorff, 566.

grain that they had been promised for themselves.¹³⁰ The sentiment was pronounced enough that the mayor of Vienna, Richard Weiskirchner, was able to convince Seidler to drop his previously adamant opposition to intervention.¹³¹ On February 28, Seidler told Parliament that the conditions had shifted significantly and that the Monarchy could not ignore the repeated requests of the Ukrainians for assistance. The Monarchy was therefore undertaking, he reported, “an act of neighborly legal and administrative assistance.”¹³²

Czernin favored intervention since he first received news of the *Rada*'s pleas for help. Starvation, he reasoned, was a greater threat than war exhaustion. But he also saw an opportunity to recover a small measure of the Monarchy's prestige by demanding political concessions from the Ukrainians in return for Austro-Hungarian troops.¹³³ The Ukrainians agreed to negotiate, and after meetings with Czernin and members of the Austrian Parliament at the end of February, they accepted a supplementary agreement that provided for the formation of a commission composed of representatives of the Central Powers, the Ukraine, and Poland that would decide the future of Chelm.¹³⁴

Back at the front, neither the practically disintegrated old Russian Army nor the infant Red Army was any match for the combined Austro-German advance. Within days, the Bolsheviks capitulated and asked for a renewal of the armistice. No longer opposed

¹³⁰ Bihl, 111.

¹³¹ *Stenographische Protokolle über die Sitzungen des Hauses der Abgeordneten des Österreichischen Reichsrathes*, vol. XXII. Session 3, (Vienna: k.u.k Hof- und Staatsdruckerei, 1918), 3167.

¹³² Bihl, 111.

¹³³ Czernin to Arz, 16. Februar 1918. P.A. rot 836, ÖStaA-HHStA.

¹³⁴ Protokoll aufgenommen im Ministerium des Äußern, 18. Februar 1918, P.A. rot 523 Geheim XLVII Krieg, ÖStaA-HHStA.

by Kühlmann or Czernin, who had both departed to work out a peace treaty with Romania, General Hoffmann offered a brusque ultimatum:

The old armistice is dead and cannot be revived. According to Article 10 of the German terms submitted on February 21 peace must be concluded within three days after the arrival of the Russians at Brest-Litovsk. Until then the war is to go on...for the protection of Finland, Estonia, Livonia, and the Ukraine.¹³⁵

The Bolsheviks grudgingly bowed to the reality of their situation and, on March 3, 1918, peace was finally concluded between Russia and the Central Powers. The treaty, which forced Russia to surrender Poland and the Baltic States to German police forces and recognize the independence of Finland and the Ukraine, both provided the foundation for a Mitteleuropa marked by German and Austrian economic hegemony over semi-autonomous satellite states and enshrined the economic alliance that the two allies had been negotiating into international law.

Article III gave the two Central European empires a free hand in determining the future of the former Russian provinces. While Russia was to refrain from “all interference in the internal relations of these territories,” Germany and Austria-Hungary would “determine the future status of these territories in agreement with their population[s].”¹³⁶ Appendix II forced Russia to recognize the Austro-German economic alliance and forbade her from claiming “the advantages which Germany grants to Austria-Hungary or to any other country allied with her by a customs union, and adjoining Germany either immediately or through an intervening country allied with her or with Austria-Hungary by customs union.” Any areas the Central Powers designated as “colonies, outlying possessions and territories under protectorate” were to be afforded the same privileged

¹³⁵ Qtd. in Wheeler-Bennett, 246.

¹³⁶ *Texts of the Russian “Peace.”* (Washington, D.C.: U.S. Department of State, 1918), 17.

status as the two mother countries.¹³⁷ Almost identically worded clauses were included in the treaties with the Ukraine (Article VII, Section IV), Romania (Article A, Section IV), and Finland (Article VI, Section III).¹³⁸ In other words, these four nations agreed to renounce any claim based on the principle of most-favored-nation treatment to share any of the benefits from Austria-Hungary and Germany's system of reciprocal preference.¹³⁹ They recognized that the two Central European empires were forming a special relationship, distinct and separate from the normal types of commercial treaties.

While the Austro-German economic alliance continued to take on an increasingly concrete character, intra-allied disputes persisted nonetheless. The two high commands had agreed to roughly divide the Ukraine into two parts, with the Germans taking the north of the country and the Austrians taking the south.¹⁴⁰ But the Germans, having launched their offensive a week earlier than the Austrians, had advanced into the Austrian zone and occupied several strategic positions on the Black Sea coast. The Austrians were particularly set on capturing the port of Odessa, of which the Germans were on the verge of taking control. On March 10, Hoffman wrote in his diary, "Endless trouble with the Austrians in the Ukraine. They want to enter Odessa alone, and are behaving with their usual meanness when the knife is not at their throat." Even more exasperated the next day, he mused, "It is a pity that the Italians do not attack. One can deal with the Austrians

¹³⁷ Ibid, 27.

¹³⁸ *Texts of the Ukrainian "Peace."* (Washington, D.C.: U.S. Department of State, 1918), 19; *Texts of the Roumanian "Peace."* (Washington, D.C.: U.S. Department of State, 1918), 57; *Texts of the Finland "Peace."* (Washington, D.C.: U.S. Department of State, 1918), 31.

¹³⁹ Gratz and Schüller, 82-83.

¹⁴⁰ Ludendorff, 622-623.

only when they are in difficulty.”¹⁴¹ Meanwhile, the Emperors themselves quarreled over who would control the Crimea. Only after much acerbic correspondence between the two and their advisors was an agreement reached: Austria-Hungary was to receive Odessa and Kherson, while Germany retained Nikolaev and Sevastopol.¹⁴² When all was settled, the Germans controlled the northern and northeastern regions of the country along with the Crimea, while the Austrians held the western and central regions along with the southwestern Black Sea coast.

¹⁴¹ Major-General Max Hoffmann, *War Diaries and Other Papers*, vol. 1, trans. Eric Sutton (Uckfield, East Sussex: The Naval & Military Press, 2004), 202-203.

¹⁴² Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 132.

CHAPTER 4

THE APOGEE OF MITTELEUROPA: THE OCCUPATION OF THE UKRAINE

Central to the framework of what soon became the joint Austro-German occupation of the Ukraine were the *Wirtschaftszentralen*—semi-private cartels tasked with procuring raw materials, distributing supplies to producers, setting prices, and enforcing production quotas in on the Austro-Hungarian and German home fronts.¹⁴³ With the support of occupation troops, these organizations took up the same responsibilities in the Ukraine.

In Austria-Hungary, planners from the finance and war ministries hastily organized the *Zentralen* after the outbreak of the war. Because existing government institutions were inadequately equipped to run a wartime economy, the planners forced all private companies into existing business organizations and subordinated those organizations to the relevant Austrian or Hungarian ministries. By the end of the war they had organized ninety-one *Zentralen* for dozens of categories of goods, ranging from sugar to gasoline to wood.¹⁴⁴ Comparing this organization of the war economy to the ad-hoc stockpiling and provisioning networks in a besieged city, Josef Redlich later wrote that the system “was not based either in Austria or Germany on a unified plan thought out in advance. The broad, guiding ideas underlying the whole structure were, however, clearly apprehended within a few weeks after the outbreak of the War by a handful of far-seeing economists and public servants, who grasped the special character given to the

¹⁴³ Götz Briefs, “Kriegswirtschaft und Kriegswirtschaftspolitik,” *Handwörterbuch der Staatswissenschaft*, vol. 5, (Jena: Gustav Fischer, 1923), 984-1022; Daroczy to von Sendler, 30. September 1918, Series II, Folder 8, File 22, LvMA.

¹⁴⁴ Redlich, *Austrian War Government*, 117-122.

struggle by the enemy's land and sea blockade."¹⁴⁵ Initially, the Habsburg war economy was broken down along dualist lines, with the Austrian *Zentralen* answering to the Austrian government and the Hungarian *Zentralen* answering to the Hungarian government. But as the war progressed, the *k.u.k. Kriegsministerium* took direct control over the steel, mining, and armaments cartels in an effort to centralize economic power in Vienna.¹⁴⁶ On paper, these joint Austro-Hungarian *Zentralen* had authority across the empire, but their legitimacy and power deteriorated as food and other vital economic goods became increasingly scarce. By 1917, the situation had become so dire that government officials had to stop breaking up black market rings because the underground economy had become so important to the provisioning of Vienna. The Austrian Price Regulation commission acknowledged this fact in a March 1918 report and conceded that the government would have to let the black markets operate until it could "guarantee the essential needs of the population" itself.¹⁴⁷

Habsburg leaders—Czernin foremost among them—were acutely aware of their waning authority. But by cooperating with German plans for a fundamental reordering of Europe and integrating the Ukraine and its rich natural resources into the centralizing Habsburg economic system, they hoped to forestall the disintegration of the empire. Even before Karl decided to send troops into the Ukraine, German representatives from the *Auswärtigen Amt*, *Reichswirtschaftamt*, and *Heeresleitung* met with Austro-Hungarian

¹⁴⁵ Redlich, *Austrian War Government*, 119. One of these "far-sighted public servants" was, according to Redlich, the head of the Ministry of Trade, Richard Riedl, who "apprehended correctly in the very early months of the War the true significance of the first steps precluding the momentous phenomena of war economy, which, daily expanding and developing, were to assume a magnitude and complexity almost impossible to grasp as a whole." See Redlich, *Austrian War Government*, 129.

¹⁴⁶ Schulze, 90.

¹⁴⁷ Qtd. in Healy, 64.

representatives from the *k.u.k Kriegsministerium*, the Austrian *Finanzministerium*, and the Hungarian *Finanzministerium* and worked out general guidelines for the two empires' cooperation in sharing information, promoting transportation, and setting economic policy in the new country.¹⁴⁸ In a series of supplementary agreements concluded in February, the two governments and advisers from their respective *Zentralen* agreed on ratios for how every good they could conceivably obtain in the Ukraine would be divided, and on which *Zentrale* or individual firm would be in charge of that good's acquisition and distribution.

In some cases, the two groups of economic planners awarded the German *Zentralen* more favorable ratios and greater authority. They granted two German *Zentralen*—the *Manganerzgesellschaft* and the *Eisenzentrale*—a monopoly over all of the manganese, iron ore, and scrap iron extracted from the Ukraine. These organizations were allowed to keep 80% of their acquisitions; the remaining 20% was shipped to the Dual Monarchy. The Austrians and Hungarians at the negotiations did manage to convince the Germans to allow them to send representatives to these firms to ensure that their governments received their allotted shares, but these representatives played no direct role over the management of these materials.¹⁴⁹ Not all of the February agreements, however, were so lopsided. For the exploitation of a wide variety of metals, the two governments agreed to merge the Austro-Hungarian *Metallzentrale* and the German *Kriegsmetall A.G.* into a common organization, with its headquarters to be established in

¹⁴⁸ „Verhandlungen Über ein Gemeinschaftliches Vorgehen.“ 21. Februar 1918, Series II, Folder 8, Files 36-37, LvMA.

¹⁴⁹ „Niederschrift Über Verhandlungen der Kommission I.“ 15. Februar 1918, Series II, Folder 8, Files 38-40, LvMA.

Berlin. Of the twenty-two metals listed on the agreement, the Dual Monarchy received a greater ratio of four (aluminum, zinc, copper, and copper vitriol) while another four were divided evenly (platinum, cobalt, bismuth, and radium). Germany received preponderance of the remaining fourteen types.¹⁵⁰ In all of the remaining February agreements, which covered the division of livestock, leather, timber, rubber, coal, flax, cork, paper, wool, and an assortment of chemicals, the two allies agreed to create some form of joint *Zentrale*.¹⁵¹ The *Zentralen* that comprised these joint-organizations—which came to be called *Kartellorganisationen*—continued their separate and independent functions on their respective home fronts. In the Ukraine, however, they acted as single organizations, with headquarters and offices throughout Germany and Austria-Hungary.¹⁵² Creating one final layer of bureaucracy, the Austrian, Hungarian, and German officials agreed to organize all of the *Kartellorganisationen* into one *Ostsyndikat*, which was managed by Austrian and German merchants experienced trading in Eastern grain markets.¹⁵³ Josef Redlich wrote after the war that the post-1848 Habsburg state was based on the principle of “ruthless bureaucratic centralization.”¹⁵⁴ At this late stage in the state’s history, Austro-Hungarian leaders proved the truth of that observation.

¹⁵⁰ “Sitzung am 15. Februar 1918, Nachmittags 4 Uhr.” Series II, Folder 8, File 41, LvMA.

¹⁵¹ See Series II, Folder 8, Files 42-49, LvMA.

¹⁵² The organization for the procurement of paper, for example, was based in Vienna, while the timber cartel was based in Bremen with offices in Vienna and Budapest. See, “Niederschrift Über die Verhandlungen des Ausschusses Betreffend Gemeinsame Rohstoff-Beschaffung in Russland.” 15. Februar 1918, Series II, Folder 8, File 46, LvMA; and „Sitzung am 18. Februar 1918.“ Series II, Folder 8, File 45, LvMA.

¹⁵³ “Bermerkungen zum Auswanderungsproblem.” 18. September 1918, Series II, Folder 8, File 4, LvMA.

¹⁵⁴ Redlich, *Austrian War Government*, 1.

Bureaucratic centralization, however, does not necessarily lead to outright war socialism.¹⁵⁵ Austrian officials in charge of the war effort and the food supply designed the complex imperial apparatus in the Ukraine to be an alliance of pre-existing business and political institutions rather than as a streamlined state bureaucracy. They aimed both to harness the expertise and resources of Central European private industry for the joint Austro-German war effort and to ensure a “fair” division of the spoils between the two allies. As Redlich explained, “the whole war regime was possible only in so far as the State, a mere vehicle of might, could rely on the cooperation of great industrial and agricultural groups... Thus, there sprang up spontaneously within the compulsions of the war-waging state a singular system of industrial self-government.”¹⁵⁶ Ludwig von Mises added a cynical twist to this observation, contending that,

The army administrations of Germany and Austro-Hungary knew very well why they did not give in to the pressure for state ownership of the war-supplying enterprises. They put aside their outspoken preference for state enterprises oriented towards power policy and state omnipotence, which would have better suited their worldview, because they knew quite well that the great industrial tasks to be accomplished in this area could be accomplished only by entrepreneurs operating on their own responsibility and with their own resources.¹⁵⁷

“State omnipotence” was out of the question for the disintegrating Dual Monarchy. The Habsburg state could only survive and continue to project its power if its bureaucratically organized semi-private cartels could manage to collect enough resources within the Central Powers’ area of control to both fuel the Austro-Hungarian war machine and sustain the domestic population.

¹⁵⁵ “War socialism” being defined simply as direct state ownership of the means of production for the purposes of waging war.

¹⁵⁶ Redlich, *Austrian War Government*, 129.

¹⁵⁷ Mises, *Nation, State, and Economy*, 116-117.

For the exploitation of the all-important foodstuffs in the occupied Ukraine, Austrian and German planners organized three *Kartellorganisationen*—the *Kartell für Aufkauf von Getreide*, *Kartell für Aufkauf von Lebensmitteln in aller Art*, and the *Kartell für Aufkauf von Ölen und Fetten*. The first two were umbrella organizations for one German and one joint Austro-Hungarian *Zentrale* each, while the last was a cartel of one German, one Austrian, and one Hungarian *Zentrale*.¹⁵⁸ The two allies tasked these organizations with managing the procurement and distribution of foodstuffs in the Ukraine along the lines of an agreement finalized in May. Taking into account the more severe food crisis in Austria-Hungary, the Germans agreed to ensure the shipment of 151,000 tons of cereal to the Dual Monarchy before the cartels sent any to Germany. Once that quota was reached, Germany was set to receive all grain exports until a 1:1 ratio was reached, and thereafter the grain was to be divided in a 2:1 ratio in favor of the *Reich*.¹⁵⁹

The Central Powers began implementing these agreements in March, as soon as they conquered most of the Ukraine and reestablished the *Rada*, which was now little different from the *Vertrauensräte* the Germans were propping up in the Baltic States. The Ukrainian assembly had little popular support, and the situation in the country remained unstable. “The difficulty in the Ukraine,” Hoffman explained in his diary, “is simply that the Central Rada has only our rifles behind it. The moment we withdraw our troops their authority will collapse at once.”¹⁶⁰ But this difficulty was also an advantage, for it

¹⁵⁸ “Käufe in der Ukraine: Berechtigung, Ausweise.” 29. June 1918, Series II, Folder 9, File 14, LvMA.

¹⁵⁹ „Berliner Vertrag: Neuregelung der Aufbringung.“ 18. May 1918, Series II, Folder 8, Files 31-36, LvMA.

¹⁶⁰ Hoffmann, vol. 1, 209.

allowed the Central Powers both to conduct their occupation with at least a thin veneer of legitimacy and to keep the *Rada* in a subservient position.

Soon after German forces captured Kiev, an Austro-Hungarian trade commission headed by Count Johann von Forgách arrived to oversee the civilian elements of the occupation administration. Alarmed at the Ukraine's primitive transportation infrastructure, Forgách telegraphed Vienna, urging the government to "at once dispatch the emissaries of our great organizations, especially those charged with the grain supplies, into the nearest districts occupied by our troops and under the protection of our troops at once begin with the actual trade and then with the export."¹⁶¹ These "emissaries" began arriving in March, and by springtime, the economic occupation administration began to take concrete form.

Austrian and German planners established thirty-one collection points throughout the country, each manned by constituent firms of the *Zentralen*. Since the agreements that divided the spoils of the Ukraine between the two allies were not based on where Austrian or German troops were deployed, both Austrian and German firms were assigned to points across the country. In economic terms, the occupation of the Ukraine was a joint-occupation. In Austrian-controlled Odessa, for example, three firms were put in charge of managing the export of raw materials back to Central Europe. One was German (*Rosiny-Mühlen, A.G.*, based out of Duisburg); one was Austrian (*Gebrüder Brode*, based out of Aussig); and one was Hungarian (*Ung. Allg. Credit-Bank*, based out of Budapest). On the other hand, in German-controlled Nikolaev, two firms were granted trading rights—one German (*M. Neufeld & Co.*, based out of Berlin) and one Hungarian

¹⁶¹ Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 133.

(*Kraftfutter A.G.*, based out of Budapest).¹⁶² Representatives from these firms were, according to their identification passes, granted the right to engage in “unrestricted commercial activity in the *common interest* of the allied governments.”¹⁶³ Friction between the two allies never ceased, but differences between the Austrian and German grand strategies were becoming secondary to the *Mitteleuropa* conception.

In Kiev, Forgách was overwhelmed with his task. In telegrams to the Foreign Ministry, he complained about the non-cooperation and disorganization of the Ukrainian government, the hostility of the peasants, and the continuing interference of Bolshevik partisans.¹⁶⁴ Further agreements with the Ukrainian government and the instructions leaders of the *Zentralen* were issued and reflect these worries. In agreements on the supply of bacon and sugar, the Austrian occupation authority expressly required the Ukrainian government to support the requisitioning of the *Zentralen* and to ensure that peasants made supplies available at “reasonable” prices.¹⁶⁵ Forgách and his military counterpart, *Ost Armee* commander Karl von Sandler, instructed *Zentrale* officials to do their best to foster a good relationship with the bureaus of the Ukrainian food ministry but to report any “lack of assistance from local authorities.” They further ordered the *Zentralen* to report on the amount of supplies available in their assigned areas, on the state of the transportation infrastructure, on the peasants’ willingness to sell their

¹⁶² „Deutsch-österr.-ung. Wirtschaftszentrale.” Series II, Folder 9, Files 163-166, LvMA.

¹⁶³ See Series II, Folder 9, Files 18-20, LvMA. Emphasis added.

¹⁶⁴ Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 133-134.

¹⁶⁵ “Vereinbarung über den Einkauf von Speck in der Ukraine.” 15. Mai 1918, Series II, Folder 9, Files 139-140, LvMA; „Vereinbarung über den Lieferung von Zucker in der Ukraine.“ 24. Mai 1918, Series II, Folder 9, Files 142-145, LvMA.

supplies, and on the scope of the black market.¹⁶⁶ As was increasingly the case on the home front, the Habsburg state's goal in the Ukraine was to combat the autarkic hoarding of supplies that was leading to the continual degeneration of its authority.

Up to April 14, however, the Austrians had met with little success—only 1,600 truck loads of foodstuffs had made it from the Ukraine to the homeland. The so-far disappointing yield did not visibly discourage Austrian planners, however. They continued to devise new ways to exploit their newly conquered territory. In the summer and fall of 1918, officials in the occupation administration began to discuss plans to both improve the transportation situation in the Ukraine and, at the same time, bolster the value of the devalued Austrian *Krone*.

Austria-Hungary, like all of the warring states, was never able to cover its war expenses with tax revenues. The empire funded its operations by borrowing (mostly from Germany), and by printing new *Kronen*. And as the amount of currency in circulation increased so prices rose and the Krone's exchange rate fell. Government planners feared both developments, but were unwilling to halt the printing presses. Instead, they imposed price and wage controls and, on February 24, 1916, established the *Devisenzentrale*, which was tasked with regulating dealings in foreign currencies.¹⁶⁷ Neither of these measures was successful. The price controls caused massive shortages and the widespread emergence of black markets, and, despite the *Devisenzentrale's* efforts, the

¹⁶⁶ „Instruktion für die Leiter der Nebenstellen der deutsch-österreich. Wirtschaftszentrale.“ Series II, Folder 9, Files 166-167, LvMA.

¹⁶⁷ Ludwig von Mises, “Austrian Empire: Finance and Banking,” *Encyclopedia Britannica*, 12th ed. vol. 30, (1921), 323-324.

real value of the *Krone* continued to fall on foreign currency markets (even though it was legally fixed).¹⁶⁸

Ultimately, the only way to restore the *Krone's* value would have been to end the war, but once it became clear that the Germans were not going to let that happen, Austrian planners began to plot about to how to use their occupied territories to solve their currency problems. One economic advisor to the *Ost Armee*, an Oberstleutnant Dumba, urged his superiors to encourage Austro-Hungarian companies to liberally invest in road, railway, and river improvement projects in the Ukraine. Not only would these projects improve the primitive Ukrainian transportation system that was partly to blame for the lower than expected food yields from the East, it would guarantee the *Krone's* use over a wider area. Increased demand for the currency would then bolster its purchasing power. "Through investment in productive enterprises," Dumba explained, "a part of our bad currency will be transplanted to a land rich in natural resources." Austria would benefit from the fruits of these investments, he argued, and the Ukraine would "thanks to its inherent real value, survive."¹⁶⁹ Such undertakings would be funded through the creation of a central bank "with Eastern character," a solution Dumba had taken from the Germans who had already founded the *Zentralbank für Handel und Industrie in Kiew* to fund their own investment in the Ukraine.¹⁷⁰

Even though these projects had yet to be undertaken, the *Zentralen* had already brought a large amount of *Kronen* east. To prevent this already sizeable surplus from

¹⁶⁸ Schulze, 94; Mises, "Austrian Empire: Finance and Banking," 324.

¹⁶⁹ "Bermerkungen zum Auswanderungsproblem." 18. September 1918, Series II, Folder 8, Files 1-6, LvMA.

¹⁷⁰ *Ibid.*, 3.

growing, economists working for the *Bankstelle* of the Austrian occupation administration considered a plan already in operation in occupied Italy where the *Zentralen* paid their suppliers with *Darlehenskassenscheinen*, which were denoted in lire. Italian banks in the occupied zone were required to redeem these notes in lire, meaning that the Austrians were essentially counterfeiting the Bank of Italy's notes. After the Germans began making payments in rubles in the Eastern territories, the economists of the *Bankstelle* worked out a system that would allow them to do the same. The idea was to open up a branch office of the Austro-Hungarian Central Bank in Kiev, which would be tasked with absorbing Krone surpluses and issuing rubles in their place. The effect, the *Bankstelle* hoped, would be to lower the value of the ruble on the foreign exchange markets, which would, naturally, increase the relative value of the *Krone*.¹⁷¹

This plan to open up a branch office of the Austro-Hungarian Central Bank in Kiev to export the negative effects of inflation reveals the extent to which Austrian planners viewed the Ukraine as an economic colony to be exploited for the benefit of the mother country. As Dumba wrote, the point was to “transplant” Austria's depreciated currency into this unfortunate land in exchange for the resources necessary for the *Zentralen* to continue the war effort. But the complicated system of exploitation that the Austrians and their German allies were establishing in the Ukraine would take more than a few months to become fully operational. When Dumba wrote his memorandum in September 1918, there was still only a trickle of supplies flowing to the Monarchy. Transportation problems, peasant resistance, and Bolshevik raids continued to hamper the occupation effort. Dumba nonetheless urged his colleagues to persevere. Addressing the

¹⁷¹ “Memorandum.” 25. August 1918, Series II, Folder 51, Files 61-63, LvMA.

growing number of pessimists who argued that the expected benefits from the occupation of the Ukraine would hardly be sufficient to alleviate the Monarchy's economic troubles, he argued that "Such thoughts must be energetically refuted."¹⁷² He did not specifically say why, nor did he say that such thoughts were inaccurate.

Ironically, the day Dumba wrote his memorandum, the Allies launched what would be the last offensive on the Salonika front. Bulgaria was out of the war by the end of the month, and Austria-Hungary's southern flank lay wide open. By November 3, when the disintegrating Dual Monarchy signed an armistice with the Allies, only 57,000 tons of foodstuffs had made it from the Ukraine to Austria-Hungary, slightly more than five percent of the promised million tons.¹⁷³ Ultimately, the combined Austro-German occupation did not have enough time to set up the institutions that were necessary to integrate the Ukrainian economy into Mitteleuropa. The political situation in the newly independent country was still too chaotic, and plans to improve the country's primitive transportation system were still in embryonic stages.

The plans did exist, however. And so did plans for a thorough-going economic alliance between Austria-Hungary and Germany, which were almost finalized by the time the last commission on the subject adjourned on October 11, 1918. In the Spa Agreement of May 1918, the Austrians and Germans had agreed to conclude an economic alliance "with the object of paving the way to complete free trade between the two treaty-making Powers."¹⁷⁴ After four years of isolation from the global economy, the Austrian

¹⁷² "Bermerkungen zum Auswanderungsproblem." 18. September 1918, Series II, Folder 8, File 3, LvMA.

¹⁷³ Bihl, 124.

¹⁷⁴ Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 59.

negotiators had accepted the fact that free trade over the largest possible area in Central and Eastern Europe would be necessary to secure the materials the war effort required, even as they continued to guard their political independence and unique economic interests. The treaty draft provided for the almost complete opening up of the German market, even while Austria was allowed to retain many intermediate duties that kept a degree of protection for the Monarchy's industries. These tariffs were nonetheless still substantially lower than those charged on imports from any other nation.¹⁷⁵ Even at this late date, the Germans were willing to make concessions to secure their ally's cooperation.

¹⁷⁵ Ibid, 67.

CONCLUSION

Gratz and Schüller offered the following observation on the negotiations that they both were involved in for the length of the war:

However little practical importance these negotiations and operations may have, they are remarkable as showing how the gigantic economic machinery created during the War went on functioning with the utmost precision up to the very eve of the final collapse. They also show how little conscious were the organs of the administrative systems of the true situation of their States.¹⁷⁶

But however blind officials like Oblt. Dumba were as they meticulously planned an economic order that would never exist in full, there was a clear strategy behind Austria-Hungary's participation in the plan for an economically integrated Mitteleuropa. Cut off from the world economy and unable to make peace, Karl and Czernin chose to go along with German plans for a customs union in Central Europe and the "covert annexation of Russia's outer provinces." They hoped that liberalized trade with Germany and the exploitation of the occupied Eastern territories would provide the Habsburg state's economic apparatus with enough resources to forestall the autarkic fragmentation of the empire.

It is incorrect, therefore, to view 1916 as the apogee of the Mitteleuropa ideal. It is true, as Gerd Hardach argues, that "Mitteleuropa commended itself as an economic concept central to Germany's internal war aims discussion...because the various schools of thought could interpret it according to their own lights and give it whatever concrete substance they chose."¹⁷⁷ Nonetheless, this abstract, sometimes vacuous concept became very concrete as soon as the Central Powers began carving up East and Central Europe.

¹⁷⁶ Gratz and Schüller, *The Economic Policy of Austria-Hungary*, 136.

¹⁷⁷ Hardach, 232.

Mitteleuropa should be seen as a very real attempt to create a powerful economic block in response to the British blockade. It is in the aftermath of Brest-Litovsk, then, that the apogee of the Mitteleuropa ideal was reached.

The apparent triumph in the East, therefore, did not create a monolithic empire, but a layered system of hegemony whereby German and Austrian cartels connected to their respective states worked together to control and exploit the states in their spheres of influence. While Germany claimed a larger share of the spoils, Austria-Hungary was never reduced to the status of a vassal. The German Supreme Command did limit the Dual Monarchy's options by using economic and military aid as leverage, but the Habsburg state's army and economic apparatus remained independent and committed to the preservation of the century's old Monarchy until the end of the war. Even in October 1918, the Austrians were able to extract favorable terms from the Germans in their final negotiations on creating an economic alliance.

This complicated, multilayered system failed because the Central Powers did not have the time necessary to impose a new political and economic order in an underdeveloped Eastern Europe torn apart by revolution and because, ultimately, there were just not enough raw materials in Germany and Austria-Hungary to compete with the world economy, no matter how efficient trade was made between the two empires.

Even before it became clear that nowhere near the promised bounty of Ukrainian food was going to make it into the Monarchy, many Austrian leaders were skeptical of what the mayor of Vienna hailed as Czernin's *Brotfrieden*. Finance Minister Josef Redlich called the peace a "swindle." Count Forgách called it a "massive mistake." Kajetan von Mérey, one of Czernin's subordinates, doubted that it would bring any

practical benefits.¹⁷⁸ But despite this skepticism, the Habsburg state, which was initially concerned only with the preservation of a conservative, bureaucratic order in its sphere of influence, was drawn into a grand imperial project that would have fundamentally reordered the European balance of power. The “gigantic economic machinery created during the War went on functioning.” The Habsburg state would not give up its power without exhausting all possibilities for survival.

¹⁷⁸ Bihl, 121.

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