1972

Nazi penetration into southeastern Europe 1933-1941

David A. Nash
The University of Montana

Let us know how access to this document benefits you.
Follow this and additional works at: https://scholarworks.umt.edu/etd

Recommended Citation
Nash, David A., "Nazi penetration into southeastern Europe 1933-1941" (1972). Graduate Student Theses, Dissertations, & Professional Papers. 5172.
https://scholarworks.umt.edu/etd/5172

This Thesis is brought to you for free and open access by the Graduate School at ScholarWorks at University of Montana. It has been accepted for inclusion in Graduate Student Theses, Dissertations, & Professional Papers by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
THE NAZI PENETRATION INTO SOUTHEASTERN EUROPE, 1933-1941

by

David A. Nash

B.A. University of Montana, 1969

Presented in partial fulfillment of the requirements for the degree of

Master of Arts

UNIVERSITY OF MONTANA

1972

Approved by:

Chairman, Board of Examiners

Dean, Graduate School

April 24, 1972
Acknowledgements

There are several persons to whom I owe a great deal of gratitude in the preparation and presentation of this paper. Among them are Mrs. Ann Melton and Mrs. Gladys McKinsey, who did the bulk of the typing along with a considerable amount of editing. To these women I am greatly thankful.

To Professors Robert Turner and Oscar J. Hammen, I am deeply indebted. Without the guidance, advice and (very) critical evaluation of these two scholars, this thesis could never have been completed.

It is also imperative to express a word of thanks to the members of the 1970-71 European History Seminar. Their suggestions concerning the earlier drafts of the paper greatly aided me in arriving at the final revision.
Preface

The purpose of this paper is to offer an interpretation of the Reich's involvement in Southeastern Europe from 1933 to the capitulation of Yugoslavia and Greece in 1941. It illustrates the method of German penetration as it occurred—in distinct stages. Having primarily an economic motive at the outset, diplomatic and political developments between Germany and the Western democracies prompted the Reich to adopt an increasingly aggressive policy towards the Balkans.

By the very nature of its title, The Nazi Penetration into Southeastern Europe, 1933-41, this thesis evaluates Germany's change in policy, from economic penetration to political strangulation. The paper also supports the premise that the political saturation and military occupation of the Balkans were consequences of a successful German policy of economic exploitation. No preconceived plan for military subjugation of these states existed. However, as Germany's difficulties with the West increased, likewise did her ambitions concerning the Balkans. From 1937 onward, the Reich began to realize the importance of the Southeast not only in terms of economics but also in respect to its strategic value.

Also of major importance to the thesis is the weakness shown by France and Great Britain in the face of Nazi aggression. This paper emphasizes the consequences of the West's hesitancy to halt the Nazis in their aggressive European policy. It facilitated the Reich's advancement into an isolated Southeastern Europe.
The majority of the sources contributing to the research for this paper are documentary. The most valuable reference materials are the League of Nations' annual financial publications, *World Economic Survey*, *Review of World Trade*, and *International Trade Statistics*. Great Britain's Department of Overseas Trade publications also contributed heavily to the research. The most vital of the non-economic references are the United States Department of State's *Documents on German Foreign Policy*, Series "C" and "D."

Of the first-hand accounts, or memoirs, those of Ciano and Churchill are the most frequently cited. Others, such as Horthy, von Papen, and Nicolson are used primarily for background study.

Many secondary sources are utilized, but the most valuable for this paper are Gerhard Schacher's *Germany Pushes Southeast*, Antonin Basch's *The Danube Basin and the German Economic Sphere* and John Luckacs', *The Great Powers and Eastern Europe*. Special recognition must be given to the invaluable aid provided by the Royal Institute of International Affairs' *Survey of International Affairs, 1931-1941*. These volumes provide an excellent guide for both reference and further bibliographical exploration.
CURRENCY EQUIVALENCIES AS OF

JANUARY 31, 1936*

<table>
<thead>
<tr>
<th>One UNITED STATES DOLLAR</th>
<th>2.5 REICHSMARK (Germany)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>49. DINAR (Yugoslavia)</td>
</tr>
<tr>
<td></td>
<td>127 LEU (Rumania)</td>
</tr>
<tr>
<td></td>
<td>105 DRACHMA (Greece)</td>
</tr>
<tr>
<td></td>
<td>74 LEVA (Bulgaria)</td>
</tr>
<tr>
<td></td>
<td>3.5 PENGO (Hungary)</td>
</tr>
<tr>
<td></td>
<td>24 KORUNA (Czechoslovakia)</td>
</tr>
<tr>
<td></td>
<td>5.4 SCHILLING (Austria)</td>
</tr>
<tr>
<td></td>
<td>16.0 FRANC (France)</td>
</tr>
<tr>
<td></td>
<td>.22 POUND (Great Britain)</td>
</tr>
</tbody>
</table>

*By no means are these figures stationary. Throughout the period covered by this paper, the values of the various currencies (with exception of the Reichsmark) fluctuated. The date, January 31, 1936, was chosen because it represented the most approximate consistency of the proportionate values during the era. Compiled from: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, Vol. 22, February, 1936 (Washington: United States Government Printing Office, 1936), pp. 3-45.
**TABLE OF CONTENTS**

<table>
<thead>
<tr>
<th>LIST OF TABLES</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>vii</td>
</tr>
</tbody>
</table>

**Chapter**

1. THE GERMAN AND BALKAN SITUATION IN 1933 | 1
2. REORIENTATION OF THE REICH'S COMMERCIAL POLICY | 17
3. SCHACHT'S TOUR OF THE BALKANS | 38
4. THE EFFECT OF THE ANNSCHLUSS AND THE OCCUPATION OF CZECHOSLOVAKIA ON THE BALKAN STATES | 51
5. THE MILITARY OCCUPATION OF THE BALKANS | 66
6. CONCLUSIONS | 100

**BIBLIOGRAPHY** | 104
LIST OF TABLES

Table                                      Page
1. Total Value of World Trade, 1929-1932     3
2. Decrease in the Reich's Overseas Supplies (1934-36)   26
3. Trade Statistics Between Germany and the Balkans   32
4. Yugoslavia Export-Import Trade With Selected European Countries   41
CHAPTER I
THE GERMAN AND BALKAN SITUATION IN 1933

Between 1929 and 1933 the whole world was in an economic crisis. Its effects were felt not only in financial circles but in all aspects of life. The over-expansion of world production during the first World War and the ensuing decade had not been satisfactorily curbed, causing an over-abundance in agrarian produce. A sharp reduction in the demand for agricultural products resulted in a drastic price decrease, leaving millions jobless, poverty-stricken and starving. 1

Worldwide industrial production experienced a similar decline during the years of the depression. In the years 1928-1932, total world production of manufactured goods decreased by 34 per cent. 2

One of the immediate effects of the economic debacle was an overwhelming number of people left jobless. It has been estimated that world unemployment in 1929 amounted to 10 million persons. 3 By 1932, however, discounting

2 Ibid., p. 329.
3 Ibid., p. 332.
part-time employed, the number approximated 40 million. The average rate of unemployment for the countries of Europe and North America reached nearly 25 per cent.

Throughout the world, each country tried to ward off the effects of the depression. Nations attempted to maintain an export surplus in order to keep as many people employed as possible. On the other hand, each country restricted the quantity of its imports to a minimum of essentials. The entire system failed. Declining prices made it necessary to sell more and more abroad. Foreign sales became more difficult as each nation strove to become as self sufficient as their domestic resources would permit.

The Great Depression had many effects on the stability of the international economy. A world-wide tendency toward economic nationalism in the form of tariffs was an early result. The universal imposition of tariffs ruined free trade throughout the world, as illustrated by the following table:

\[ \text{\underline{The League of Nations publications set the figure at 25 million.}} \]


\[ \text{\underline{Anderson, p. 332.}} \]

\[ \text{\underline{This procedure became known as the "export of depression."}} \]

\[ \text{\underline{Anderson, p. 335.}} \]

\[ \text{\underline{League, \textit{W.E.S.}, 1931/1932, p. 65.}} \]
Table 1
Total Value of World Trade - 1929-1932

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Total</th>
<th>First Quarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>35,606</td>
<td>33,035</td>
<td>68,641</td>
<td>15,292</td>
</tr>
<tr>
<td>1930</td>
<td>20,083</td>
<td>26,492</td>
<td>55,575</td>
<td>13,885</td>
</tr>
<tr>
<td>1931</td>
<td>20,847</td>
<td>18,922</td>
<td>39,769</td>
<td>9,685</td>
</tr>
<tr>
<td>1932</td>
<td>13,885</td>
<td>12,726</td>
<td>26,611</td>
<td>6,460</td>
</tr>
<tr>
<td>1933</td>
<td></td>
<td></td>
<td>6,006</td>
<td></td>
</tr>
</tbody>
</table>

An overall effect of the depression was a sixty-five per cent decline in world trade from the first quarter of 1929 to the same quarter in 1933. The disruption of normal trade by the inauguration of restrictive tariffs had the overall effect of a shrinkage of world markets. Accordingly, trading countries, particularly debtor nations, experienced increasing difficulty in gaining credit. This in turn produced a highly tightened money situation, a decline in national income and a rise in unemployment.

---

9 League, W.E.S., 1932/33, p. 2.

10 Ibid., p. 3.

The decision of Great Britain and the United States to abandon the gold standard did not serve to lessen the problem of financial stability but in fact complicated it. By mid-1933, three main currency groups in the world had emerged. These monetary factions were the gold bloc, the sterling bloc and the dollar bloc. France and Italy led the countries of the gold bloc, Great Britain and the United States formed the nucleus of the sterling and dollar blocs, respectively. By 1933, however, a fourth group composed entirely of debtor nations, with Germany as the most prominent member, began to form. This was known as the foreign exchange bloc, whose common goal was the maintenance of the individual currencies of the various states. Besides Germany, the new bloc consisted of Bulgaria, Rumania and Yugoslavia.

In January, 1933, Germany underwent the most abrupt upheaval since the inception of the Weimar Republic. Adolf Hitler and the National Socialist

13 The term "foreign exchange" will be dealt with in detail later. For now, a simple definition of "goods for goods" will suffice.
14 One of the chief goals of the new Nazi Regime in Germany was to escape devaluation of the mark. The new government feared that devaluation would be interpreted by the German people as a sign of another ineffective government. It must be remembered that at this early stage, the National Socialist Party still faced stern competition at home.
The nation's internal economic situation was perhaps the major factor contributing to the political unrest that existed within the Reich. Germany, which experienced the depression in a most acute way, was particularly slow in showing signs of economic recovery. Of the six largest industrial nations in the world, Germany proved to be the only one not to show a slight increase in 1932 over the previous year in the quantum of imports and exports.

Seeking relief from the economic chaos, a rapidly increasing portion of the population enthusiastically lent their support to Hitler's barrage of promises. The Fuehrer's program called for the complete reorganization of the Reich. On May 1, 1933, the Nazi leader launched an extensive public works program. The immediate aim was the reduction of the vast numbers of unemployed within the country.

The following day, May 2, all labor and trade unions became nationalized, under the control of the Party. The following February, the Reich enacted a "Law to Prepare the Organic Reconstruction of the German Economy," enabling the Nazis to regulate all types and quantity of German industrial output.

---


17 At the time of Hitler's accession to power, there were from six to seven million unemployed in Germany. See: Vaso Trivanovitch, Economic Development of Germany under National Socialism (New York City: National Industrial Conference Board, Inc., 1937), p. 6.

18 Trivanovitch, p. 9.

stimulate the lowest agricultural index since 1913, the Reich at the same time assumed complete control over that aspect of the economy.

The man chosen to guide the Reich in Hitler's program of "organic recovery" was Dr. Hjalmar Horace Greeley Schacht, appointed as Minister of Economic Affairs. (In the early thirties he already had shown the economic feasibility of a totalitarian movement by making the following remarks:)

... the secret of financing Germany's political and economic tasks lies in a centralized and rigid concentration of the whole public and private activities of the German Reich, that is, public finance as well as private economy. This concentration is only possible within a state based on authoritarian rules.


21 The term "organic recovery" refers to recovery of every aspect of Germany's economic situation.

22 A former president of the Reichsbank, Schacht had resigned in 1931 over a dispute concerning payment of the Young Plan installments. Hitler reappointed him to the post in 1933. In 1934 he was also given the portfolio of Minister of Economics. At no time was Schacht a member of the Nazi Party. He was acquitted at the Nuremberg Trials.

23 The actual head of the Reich's economic recovery program was Herman Göring, and consequently Schacht's position was actually subordinate. Schacht's refusal to join the Nazi Party probably explained the titular head of the recovery program being given to Göring.

24 Schacht's sympathy towards a totalitarian government does not necessarily refer to the Nazi Party. Viewing the situation from strictly an economic viewpoint, a totalitarian government, to him, was the most feasible.

After 1933, Dr. Schacht's control over business activity became absolute. When he assumed his duties, the Reich's debt, not including direct foreign investments within Germany, foreign owned bonds, or foreign owned private real estate, was over RM. 4.9 billion. Of this RM. 2.2 billion were short-term debts that had matured one month prior to Schacht's appointment.

An enormous task faced Hitler, Schacht and other members of the government in their efforts to rehabilitate the German economy. A high rate of unemployment, a faltering production output, an unstable currency, the tight money and scarce markets due to tariffs were problems that seemed insurmountable.

To be sure, the Reich was not alone in its economic difficulties. The world-wide depression and its immediate effects were equally as dire in the countries of Southeastern Europe. Several factors explained the depressed status and the slow recovery of the Balkan States. One of the area's chief problems was rural overpopulation and the low production ability of the farmer.

26 Brady, p. 242.


28 In 1930, 61.5 per cent of the rural population in Yugoslavia was regarded as "surplus," 53 per cent in Bulgaria, 51.4 per cent in Rumania, and 50.3 per cent in Greece. For a detailed graph of the chronic situation, see: L. S. Stavrianos, The Balkans Since 1453 (New York: Rinehart and Co., Inc., 1958), p. 596.
general, one Balkan farmer grew enough for 1.5 persons while in countries of western Europe, the ratio was one to four.

The problem was compounded by the adoption of protective measures by other European countries to protect their own agricultural production. Due to the more highly mechanized farming methods of overseas producers, Balkan farmers found themselves undersold on the world market. Consequently, the agrarian sector of Southeastern Europe found itself unable to compete with western European cereal producers at world market price levels.

Even before Hitler's advent, the countries of Southeastern Europe had found themselves on a veritable treadmill. The primary problem was overpopulation in relation to their productivity. This resulted in low agricultural incomes.

---

29 Ibid., p. 59. "population pressure" (the number of people dependent upon one acre of land) is not incompatible with agricultural prosperity. As a case, one can look at the Netherlands, where 81.7 population pressure exceed Rumania (79.7, the highest in the Balkans). Yet the Netherlands income and standard of living far exceeded the Balkans. The key to the problem is productivity.

30 N.I.C.B., Situation in Germany, p. 18

31 For purposes of space, this paper deals primarily with Rumania, Yugoslavia, Bulgaria and Greece. Albania, largely accepted as a sphere of Italy, is dealt with peripherally. Turkey is ignored altogether.

A drastic reduction in the national income curtailed economic development in other areas. Protective import and immigration quotas by foreign countries, when added to all of the above, clearly left the Balkan States in a quandary. The greatest problem of the Balkans, however, was the inability of the respective governments to relieve the people of their plight. Political instability made attempts to alleviate the economic situation very difficult. The Draconian peace settlements at the end of World War I also seriously affected the political rapport among the Balkan States. Bulgaria was particularly embittered. The Treaty of Neuilly (November 27, 1919) had given Southern Dobrudja to Rumania and Western Thrace to Greece. The Bulgars also had lost 975 square miles of their most strategic areas to Yugoslavia, which included access to the vital Belgrade-Saloniki Railway network. The result of the treaty was to alienate Bulgaria from the other Balkan States. The harsh impositions on Bulgaria by the victorious nations would one day return to haunt the other Balkan States. The Neuilly Treaty was to be the main factor

33 L. S. Stavrianos, p. 597.
34 Ibid., p. 598.
35 Ibid.
36 Greece did offer Bulgaria a trade outlet to the Aegean Sea but Bulgaria refused, preferring to nurse a grievance rather than accept a settlement and injure their resettlement claims. See: Stavrianos, p. 579.
37 In addition, Bulgaria was saddled with a 450 million dollar reparation settlement. She was also forced to limit the size of her army to 53,000 men.
in the failure of the inter-Balkan conferences during the thirties. Bulgaria's dominant policy concerning her relationship with other Balkan countries was directed towards territorial revision. In short, Bulgaria's revisionist aims divided the southeastern European states at precisely the moment when unity was needed the most.

The Balkan States failed to draw together and barter as a single unit. Instead, each country dealt with foreign competition individually, often working openly against one another. Throughout the period, however, there were several attempts at Balkan unit.

A series of conferences began in 1930. The first convened in Athens in October. Little was accomplished because arguments concerning minority problems and revisionist disputes overshadowed economic discussions. A week prior to the opening of the talks, Bulgaria decided not to participate at all because the minorities question was not on the agenda. But Alexander Papanastassiou persuaded the Bulgarian delegation to attend by promising that the minorities situation would be discussed "in principle." But the assembly decided,

38 The loss of land was not the only difficulty established at Neuilly. Vast population changes caused problems not only for Bulgaria, but for countries receiving the land.

39 Former Premier of Greece, head of the First and Third Balkan Conferences.

against Bulgaria's wishes, to place the minorities question on the agenda for a second conference. Although all controversial issues were thereby carefully avoided, the talks failed to achieve any progress contributing to economic cooperation among the Balkan States. These shortcomings were primarily due to the disputes on the minorities question. In fact, the most significant accomplishment of the conclave was agreement concerning the agenda of a second conference.

The second Balkan conference met in Istanbul in January, 1931. Bulgaria's animosity toward Yugoslavia again contributed to the failure of this meeting. In his speech to the representatives during the early discussions, Mohammed Konitza, head of the Albanian delegation stated:

When one wishes to build a house, one does not begin with the doors and windows, but with the foundation, and the foundation of the common house we wish to build is the equitable settlement of the rights of minorities.

One of the few times that the minorities and revisionist questions were mentioned on the floor of the conference discussions was in Konitza's speech.

---

41 Ibid., p. 47.

42 Ibid.

43 Yugoslavia was against the formation of a tariff union among the Balkan States, about the only thing on the agenda that Bulgaria did approve of. The two nations were also at odds over joint border claims.


45 Kerner and Howard, p. 51.
During this congress, attention was given to the possibility of the formation of a Balkan union. A controversy over the value of such a confederation developed between Yugoslavia and Greece. Professor Th. Georgevich, a prominent member of the Yugoslav delegation, believed the idea of a political union to be premature. Papanastassiou, while disclaiming the need for economic rapprochement, vigorously supported the proposals for multilateral political discussions among the Balkan States. The fate of the conference was sealed on the second day of the sessions when Mr. Papanastassiou rejected any proposals for treaty revision for the remainder of the talks. Heated debates over minority issues were already occurring at the meetings. Albania accused Yugoslavia of ill treatment towards the minority groups. The Bulgarian delegation again unleashed its hostile disposition on Yugoslavia over territorial disputes.

---

46 Dr. Georgevich, Yugoslavia's foremost economic expert, believed economics to be the root of almost every Balkan problem. He postulated that a Balkan bank would not only lead to an inter-Balkan customs association but stimulate a general southeastern European agricultural recovery. In this way, he reasoned, harmony among the states would branch out into all aspects of political and commercial intercourse. See: Kerner and Howard, *The Balkan Conferences*, p. 49.

47 Kerner and Howard, p. 49.

48 Ibid.

49 Ibid.

50 Ibid., p. 52.
For a second time, the post-war settlements thwarted an attempt at Balkan unity. The achievements of the Second Balkan Conference were negligible. The meager accomplishments of the conclave were limited achievements related to inter-Balkan railway and telephone communications, postal cooperation and mutual protection and guarantee of agricultural products. The delegations also approved a proposal calling for diplomatic discussions at regular intervals. Economically, the conference achieved nothing of importance.

The Third Balkan Conference, held in Bucharest in October, 1932 proved even less successful than the two previous meetings. Boundary claims and minority disputes erupted before the opening ceremonies were completed. On October 21, the Bulgarian delegation presented M. Ciceo Pop with a letter announcing its withdrawal from the talks. The Albanian representatives

---

51 It must be mentioned here that in conjunction with the main conference at Istanbul, an agricultural conference of the same nations was held in Sophia, Bulgaria. The conference dealt primarily with agricultural research collaboration and studied the possibilities of alleviating barriers to an inter-Balkan Customs Union. The refusal of Yugoslavia to participate in the discussions lessened the conference's effectiveness and ultimately caused its failure. See: Kerner and Howard, The Balkan Conferences, p. 48. See also: Arnold J. Toynbee, Survey of International Affairs, 1931. (London: Royal Institute of International Affairs, 1932), pp. 324-329.

52 Kerner and Howard, p. 65.

53 The major economic achievement was the founding of a Balkan Tobacco Office to coordinate and adapt tobacco production to the needs of the world market.

54 Ciceo Pop, President of the Rumanian Chamber of Deputies, head of the Rumanian delegation, was chosen as President of the Third Balkan Conference.

threatened a similar boycott if discussion of the minorities question was not placed on the agenda. The delegates, without Bulgaria's participation, approved the formulation of a Balkan pact that would take into consideration problems of minority groups and revisionist claims. This was the most significant accomplishment of the third conference.

In November, 1933, Balkan representatives met in Salonika for a fourth congress. It accomplished little more than the three previous ones. The most important accomplishment of the meeting was an agreement by the delegates to meet again and to formulate a Balkan pact.

The underlying factor in the failure of the four congresses was Bulgaria's refusal to accept the Neuilly Treaty as final. The Bulgars vehemently opposed any proposal that called for recognition of the status quo.

56 The Albanian delegation did withdraw temporarily but, unlike Bulgaria, left observers. Within four days, Albania returned to the Congress. See: Kerner and Howard, The Balkan Conferences, p. 75.

57 The conference was originally scheduled for September, but trouble between Yugoslavia and Bulgaria over boundary disputes postponed the opening for two months. See: Kerner and Howard, The Balkan Conferences, p. 95.

58 Private bilateral discussions between Bulgaria and Yugoslavia were held in conjunction with the regular conferences. This was the only way in which the Bulgars could be induced to send a delegation to Salonika. See: Kerner and Howard, The Balkan Conferences, p. 96.

59 Stavrianos, p. 738.
In February, 1934, a final attempt at southeastern European unity occurred with the signing of the Balkan Pact by representatives of Greece, Yugoslavia, Turkey and Rumania. The pact was later transformed into the Balkan Entente.

It provided the participating governments with some measure of unity but Bulgaria's refusal to participate weakened the pact. The Balkan Entente achieved precisely the opposite results that the four conferences had intended. The congresses' initial objective was inter-Balkan unity, achieved by lessening Bulgaria's problems. However, in failing to reach a detente concerning revisionist claims and minority disputes, the conclaves met with little success. The Entente, an offshoot of the conferences, had, as its basic premise, maintenance of the post-war status quo. As any idea of the sort was unacceptable to the Bulgars, the signing of the Balkan Pact left Southeastern Europe divided more than ever. Bulgaria was isolated from the rest of the Balkans.

Instead of forming a homogenous unit to fight the encroachment of foreign nations, the Balkan countries chose to operate as single units. Inter-Balkan disputes, primarily caused by the bitter disputes between Bulgaria and Yugoslavia about the boundary settlements made at the end of World War I, pitted the countries against one another. The four Balkan Conferences had achieved nothing. The offshoot of the conferences, the Balkan Pact, was ineffective. In fact, the

---

60 Ibid., p. 738.

61 Ibid.
Pact did more harm than good. It split Southeastern Europe into two camps. By the end of 1933, the Balkan States, as far as unity was concerned, were in a worse position than they had been when the conferences began.

The German Reich was also in a condition of economic instability in 1933. The world was gradually emerging from the years of the depression, but Germany, saddled by war reparations and outstanding debts during the period, was slower to emerge from the depths of the economic recession of 1929-1931.

The formation of international currency blocs further isolated both Germany and Southeastern Europe from the world market. It was this impediment that would soon awaken both areas to the advantages of economic cooperation.
CHAPTER II
REORIENTATION OF THE REICH'S COMMERCIAL POLICY

The deterioration of German diplomatic ties with the West was to be a determining factor in the shift in emphasis to Southeastern Europe. The political differences between Germany and the western democracies brought about a complete reorganization of Nazi Germany's commercial policy.

As early as April, 1933, public opinion in the United States and Great Britain showed a great deal of misgivings concerning the Nazi Regime. The Reich's treatment of Jews produced a wave of indignation in both countries. The feeling was also expressed at the diplomatic level, as on April 12, 1933, the German Ambassador to Great Britain, Leopold von Hoesch, warned the Reich Foreign Ministry that: "... in recent weeks Germany has lost an extraordinary amount of ground in England." Hoesch talked with Great Britain's Sir John Simon, who told him:

... it was an undeniable fact that Germany has lost a great deal of sympathy in England during the past few weeks, and precisely with the very persons who had formerly been staunch advocates of Germany. The British government regretted this exceedingly, since it disrupted its policy.

---


2 British Secretary of State for Foreign Affairs.

Resentment in the United States towards Germany's anti-Semitic policies closely paralleled that in Great Britain. A remark made by Secretary of State Stimson in March, 1933, revealed the concern of the United States Government with Germany's anti-Semitic policies: "While this government is disinclined to lend credence to the reports (of Jewish persecution), it is causing widespread distress among a large section of the American people."  

The feelings of hostility aroused over the treatment of the Jews affected the success of discussions concerning other matters. In August, 1933, von Hoesch described the danger of the strained commercial relations between Great Britain and Germany in his report to the German Foreign Ministry. This report also discussed the Anglo-German relationship as being:

... worse in financial circles, where apart from everything else, an unfavorable effect is caused ... by danger of the loss of financial transactions with Germany and ... by (the) anxiety concerning a further deterioration in the business situation through threatening political complications.  

The greatest rift between Germany and the West was one which had both political and economic consequences. It occurred in June, 1933, when the Reich cabinet approved a law calling for a complete Transfer Moratorium.  

---


essence, the Act provided for an indefinite postponement of payments on the Dawes and Young loans. Sir Eric Phipps described Schacht's defense of the Moratorium in a speech to the Diplomatic Corps as "very badly received by the non-German section of the audience."

That same month, Scherpenberg was sternly rebuffed in his attempt to follow Schacht's plan to establish clearing agreements concerning trade regulations with Great Britain. Von Hoesch wrote the Reich Foreign Office in Berlin that:

(The British Government) drew attention to the great irritation caused in Britain by Germany's announcement that she was postponing her transfers in respect to the Reich government's loan, bonds of which were held (in Britain) among all sections of the population as investment securities.


8 British Ambassador to Germany, August, 1933 - April, 1937.


10 Schacht's son-in-law, and Secretary of the Legation at the German Embassy in London.


12 Ibid., p. 51.
The British Government immediately retaliated by drastically curtailing German imports. The tariff was called, "The Debts Clearing Office Import Restrictions Act." 13

In October, 1933 another problem arose which produced not only diplomatic and military complications but formed the basis for a major economic division between Germany and the West. Diplomats and economists from France, Germany, Great Britain, Italy, and the United States, deadlocked at the Geneva Disarmament Conference since early January, heard Hitler's special envoy announce: "We shall have to leave both the Disarmament Conference and the League of Nations, since the condition that we be recognized as a nation with equality of rights is not fulfilled." 14

At the end of 1933, Germany's relations with the western democracies was comparable to the immediate post-war era. It is possible that the Moratorium was the primary factor responsible for the strained economic relationship between the Reich and the West, although its withdrawal from the League certainly

13 The Reich further retaliated with a "Law on the Application of Measures for Reprisals Against Foreign Countries." The statute gave the government the power to regulate business with any country that, in the Nazi view, appeared to be discriminatory towards Germany. See: Department of State, D. Ger. F.P., Ser. "C", Vol. III., p. 86.

14 Ibid.
accelerated the diplomatic schism. Since it anticipated continued problems with the West, not only politically but economically, the Reich realized the necessity of reorientating its commercial policy.

In both theory and practice, German economic recovery paralleled industrial output, with armament production the ultimate goal. Dr. Schacht believed that the manufacture of weapons was the most useful expenditure.\(^{15}\)

The industrialization program in the early years of 1933 and 1934 achieved Schacht's immediate aim. During this period, unemployment fell sharply while the national income greatly increased. The total net income went from RM. 45.2 billion in 1932, reached RM. 46.6 billion in 1933 and then soared to RM. 52.7 billion in 1934.\(^{16}\) The armament expenditure was RM. 1.6 billion at the end of 1933 and rose to RM. 9.8 billion by the end of 1935.\(^{17}\)

Dr. Schacht felt that a vast rearmament program would provide the quickest solution to Germany's unemployment problem. The relevance of rearmament to the German economy was summarized by his statement to the London press corps in early 1935: "A country which was not armed could not defend itself and

\(^{15}\) Simpson, p. 90.


consequently, it would have no voice in the concert of Nations."

Dr. Schacht's "New Plan" for German foreign policy had two main objectives: 1) to import nothing that could not be paid for from the proceeds of exports, and 2) to regulate German imports to the basic national needs. Schacht's plan included four methods of operation. The first provided for a "Clearing Agreement" with a foreign country. Using this device, the Reich could predetermine the amount of trade with a country before transacting any commercial agreement. The two countries would agree to sell identical amounts of goods, and in this way both participants could avoid a surplus which would result in a deficiency of accounts.

The second method was known as the "Barter System." When this device was used, Germany and another country would exchange a certain product of one type for a specified amount of another. Importers and exporters then received compensation from clearing houses.

---


19 Simpson, p. 93. This, of course, changed when the Reich began stockpiling.

20 Poole, p. 143. See following footnote.

21 Ibid. The producers and eventual exporters were paid for their goods by their own governments. Consequently, only goods and no money crossed the border. This was an integral part of Schacht's plan. Any surplus of goods going into the Balkans merely increased the amount of the Reich's credit in that country. In this way, the Reich often violated its agreement in exchanging production amounts equal in value.
"Licensing" was employed, only goods vital to German production and livelihood entered the Reich. The fourth and final modus operandi was known as the "Export Subsidy Turnover Assessment Law." This guise further regulated the flow of trade and also provided a tax schedule for certain imports. To obtain needed vital materials, German exporters drastically cut their prices below both the foreign market prices and their own production costs. After the exporters obtained the needed materials, they received a rebate from the equalization fund created by forced contributions from the entire industry under the terms of the Export Subsidy Turnover Assessment.

Schacht's economic policy also resorted to the utilization of "Blocked Marks." Foreigners who owned funds within Germany were forbidden to transfer them outside the Reich. Entrapped within Germany, the notes on the funds provided a quick profit for German investors. Schacht's position enabled him to raise the rate of discount (sometimes as high as fifty per cent) and resell the notes to German speculators. Thus, foreign creditors lost while German speculators

---

22 By this device, a list of items drawn up compelled each importer to check with his local clearing house for its approval before bringing items into the country. See: Poole, *German Financial Policies*, p. 144.

23 Ibid.


The government, in turn, placed a tax on the profits realized by the discounts.

Dr. Schacht tightened his grip on German foreign trade even further when he introduced the "Aski-Mark." With these an exporter who sold goods to Germany was paid in a special issue of marks that could be used only as payment for other German products. The value of the Aski-Marks varied from country to country and were non-negotiable outside the nation in which they first were issued. The advantages of these marks were twofold: 1) Reich manufacturers had complete control over the prices of their products in a foreign country. German marketers could undersell, depending on the competition, or raise the prices at will, as the marks were good only for German products; 2) the German exporters could force the value of the "Aski-Marks" down by restricting the type of products or by manipulating the prices of goods within a country. The profit was realized when the "Aski-Marks" began to reappear within Germany at a mark-up in value.

Under Schacht's plan, Germany abandoned the entire system of multilateral trade. There were three reasons for this: 1) Germany had no desire to

---

26 Blocked Marks differed from Ask-Marks in that Blocked Marks were restricted entirely to internal Germany, while Ask-Marks (essentially the same thing) were used in foreign countries.

27 Trivanovitch, p. 166.

28 Simpson, p. 97.

29 Ibid.
expand trade with countries whose economic structure resembled her own; 2) the Reich wished to develop a sound economic relationship with countries that complemented her own, and 3) German trade relations with western Europe and the United States showed a continual decline.  

Prior to Schacht's involvement, Germany's total trade with the United States alone dropped from $254 million in 1929 to $176 million in 1930. By the end of 1933, the amount had not yet reached the $200 million level.

There were numerous reasons for the Reich's economic interest in the Balkans. Most important was Germany's trouble with the West. The foreign trade policy of Great Britain and the United States made it necessary for the Reich to seek commerce with nations who were willing to sell their products without payment in the normal foreign exchange bills. The Balkans' inability to compete with western Europe on the world market made them much more accessible to German trade overtures.

The Reich's trade with countries who had formerly provided her with her main sources of raw materials showed a steady decline. The following table

30 Basch, p. 171.


32 ibid., p. VII.

33 Basch, p. 46.
illustrates the continued decrease of her overseas supplies.

<table>
<thead>
<tr>
<th>Year</th>
<th>1934</th>
<th>1935</th>
<th>1936</th>
<th>% Of Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1934</td>
</tr>
<tr>
<td><strong>Imports from:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>373</td>
<td>241</td>
<td>232</td>
<td>8.4</td>
</tr>
<tr>
<td>British Dominions</td>
<td>264</td>
<td>121</td>
<td>127</td>
<td>5.9</td>
</tr>
<tr>
<td>Netherlands &amp; France</td>
<td>132</td>
<td>120</td>
<td>113</td>
<td>3.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>152</td>
<td>143</td>
<td>119</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>921</td>
<td>625</td>
<td>591</td>
<td>20.7</td>
</tr>
</tbody>
</table>

The year 1935 showed an increase in the Reich's economic ambitions in Southeastern Europe. In that year, German imports increased from 248 to 319 million or by 29% and exports to the Balkans rose from 171 to 252 million marks, a respectable 40% increase. During the same period, imports from Germany's heretofore largest suppliers of raw materials, mainly the United States, Canada

34 Ibid., p. 40.
and Great Britain, declined from RM. 576.6 to RM. 292.5 million, nearly a 50% decrease.  

Southeastern Europe represented an ideal and logical choice for German economic exploitation. The Balkan area fit perfectly into the Nazi plan for economic penetration since Germany, even during the depression years, had been the chief supplier of goods for these countries. These factors helped the Reich to gain unlimited credit in the area.

A look at the production possibilities of the Balkan States prompted the Nazi Government to make a great effort to exploit the potential of those countries. Schacht himself directed a trade offensive into the Balkans. He understood the necessity of gaining economic control of the Balkan States. A study of the resource possibilities of the area showed that complete domination of the countries would result in an end to the Reich's foodstuff shortage. Statistics revealed that control of Southeastern Europe's grain and cereal production would overcome Germany's annual deficit of 41 million metric quintals. Similar

36 Ibid.


38 Hjalmar H. G. Schacht, Confessions of the "Old Wizard" (Boston: Houghton Mifflin Company, 1956), p. 303. Schacht's personal journey to the Balkan capitals will be discussed in Chapter III.

39 A quintal is approximately the equivalent of a hundredweight.
studies also revealed that Balkan natural resources could greatly alleviate the
Reich's need for raw materials (particularly oil from Rumania). The deficit, in
fact, would change to a surplus, as the yearly average from southeast Europe's
production (not including that retained for domestic consumption) was approxi-
mately 46 million metric quintals.

By mid-1935, Germany's timber requirements reached about 44.5
million metric quintals per annum. The combined annual Balkan timber produc-
tion approximated 38 million metric quintals. Southeastern Europe also possessed
the capability of ameliorating the Reich's annual thirteen million metric quintals
bauxite requirement. (Yugoslavia alone exported eight million m.g. annually).
In addition to this, Yugoslavia and Rumania could fulfill Germany's need for 2.75
million tons of copper ore per year.

Germany was the largest importer of hides in Europe. The Reich pur-
chased nearly 110,000 metric tons yearly, mostly from South America. The
Balkan production, led by Greece, produced approximately 85,000 metric tons
per annum.

Great Britain, Department of Overseas Trade, Economic Conditions
in Germany to March, 1936 (London: His Majesty's Stationery Office, 1936),
p. 175. Hereafter cited as: Great Britain, Department of Overseas Trade.

Ibid., p. 151

The Economist, Nov. 5, 1938, p. 266.

Cleona Lewis, Nazi Europe and World Trade (Washington: The
Brookings Institution, 1941, p. 18.

Ibid., p. 266. The German need for leather was acute. A
shortage existed in the manufacture of shoes, upholstering, etc.
For Germany, the search for oil resources received top priority as early as mid-1935. This was because of Germany's rearmament program and her increase in the production of industrial machinery. By the end of 1936, the Reich had imported over 3.7 million metric tons of crude and refined oil. Germany's oil requirement ranged from 30 to 40 million m.q. per year but Rumania had only supplied at most, 10 million m.q. annually. On the basis of a report issued by Dr. Funk, Director of the State Institute of Geology, Germany was willing to invest and assist in sinking additional wells in Rumania. Basing his information on conducted tests, Dr. Funk estimated that Rumanian oil deposits could range from between 105 to 110 million tons of oil. Foreign interest in Rumanian oil fields, particularly on the part of Great Britain and France, prompted the Reich's plan for speedy exploitation of Rumania's oil trade.

45 Ibid., p. 98
46 Great Britain, Department of Overseas Trade, p. 179.
47 Dr. Walter Funk replaced Hjalmar Schacht as Minister of Economics in November, 1937 when the latter fell out of favor with Hitler
48 The Economist, Nov. 5, 1938, p. 266.
49 S.E.E., p. 196. The publishers quote these figures using other sources, but go into somewhat of a disagreement with them, saying that Funk's figures are too high.
50 Ibid., pp. 129-135.
An extensive program of trade with Southeastern Europe also promised relief to Germany's cotton and wool deficiencies. Trade in these products showed a remarkable shift. When the New Plan was first initiated, three-quarters of Germany's imported cotton came from the United States. By the beginning of 1936, however, the figure was less than one-quarter and was still declining.  

Germany began her plan of economic penetration in southeastern Europe by taking advantage of the Balkan’s surplus of raw materials and foodstuffs. The first goal of the Reich was to obtain more credit with the Balkan countries. Germany initiated its plan by offering the Balkan producers prices five to ten percent above the current world market prices. Finding difficulty in securing markets and unable to compete with the lower price indexes offered by western Europe and the United States, the countries of southeastern Europe had no choice but to accept the prices offered by the Reich. The high prices paid for Balkan goods greatly enhanced the image of Germany in the eyes of the peasants of the countries. Germany's popularity with the agrarian class in the Balkans made it very difficult for the governments of southeastern Europe to decrease trade with Germany. If trade was discouraged, the Balkan governments feared strong

51 Great Britain, Department of Overseas Trade, p. 159.

52 Basch, p. 174.

53 S.E.E., p. 196.
opposition at home. This factor did a great deal to make the Reich successful.

Germany continued to tighten her grip on the Balkan countries. The second phase of Schacht's plan was to dictate the amount, quality, and terms of trade within the Balkan area. In March of 1935, the Reich began to increase its absorption of Balkan products, having already gained access to any amount of credit it desired in the area.

The effect of these plans resulted in an enlargement of the Reich's debt to the Balkan countries. By March of 1935, the German indebtedness to southeastern Europe had reached a total of RM. 567 million, an increase of RM. 127 million from the same date in 1934. The German policy of purchasing goods from the Balkan area at higher prices greatly influenced the shift in Balkan economic policy. As creditor nations, they sought as quick a return on their loans as possible. Acceptance of German products represented the most immediate tangible method. Decreasing their importation from western Europe and the United States, the Balkans increased their purchases from the Reich. The following table illustrates the tremendous upswing in commercial activity between Germany and Southeastern Europe.

---

54 Schacher, p. 150

55 Ibid.

56 Basch, p. 175.

57 Ibid., p. 174.
Table 3

Trade Statistics Between Germany and the Balkans
1933 - 1936

<table>
<thead>
<tr>
<th>Imports (from S.E. Europe)</th>
<th>In RM. (millions)</th>
<th>Exports to (S.E. Europe)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1933</td>
<td>1934</td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>34</td>
<td>41</td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>55</td>
<td>59</td>
</tr>
<tr>
<td>Rumania</td>
<td></td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>59</td>
<td>80</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>36</td>
<td>61</td>
</tr>
</tbody>
</table>

The percentage of Germany's total imports from Southeastern Europe rose from six per cent in 1933 to 12 per cent in 1936 while exports to the Balkans rose from 3.9 per cent to 9.5 per cent in the same period. By 1936, Germany accounted for approximately 50 per cent of the entire world trade of Southeastern Europe.

Germany's economic policy towards Southeastern Europe took a sudden change in the latter part of 1935. Because of her indebtedness to the Balkan countries, the Reich was able to dictate trade policy between Germany and the Balkan countries. If Germany paid five to 10 per cent above world prices for Balkan products, it in turn marked up her own prices for exports destined to the Balkans by

58 Schacher, p. 154.

59 Ibid.

60 Ibid.
20 to 30 per cent above world market prices. The smaller countries had no choice but to accept. This was the only way in which they could lessen frozen German debts. The only thing that the southeastern countries could do was to pay the inflated prices to Germany in the hopes that they would be able to alleviate as much of the German debt as possible. Germany began to import more foodstuffs from the Balkan countries than it actually needed in order to increase Balkan dependency on itself. The Reich also wished to stockpile for the future.

The Reich then began to regulate the type of commodities that it exported to the Balkans. Germany broadened her export policy towards Southeastern Europe. Besides flooding the Balkan market with manufactured goods, it began to export outdated machinery to the Balkans. In this way, Germany was able to rid herself of obsolete machinery, and increase Balkan dependency at the same time.

---

61 S.E.E., p. 196.

62 In 1935 several of the Balkan States attempted to break away from this but failed, largely due to the League sanction against Italy, depriving them (especially Yugoslavia) of a large portion of their trade. See: Basch, The Danube Basin, pp. 179-180.

63 S.E.E., p. 196.

64 The Balkan region had been, since 1930, a "dumping ground" for German exporters. The shipping of obsolete machinery to these countries came only after the Balkan markets were flooded with articles such as Leica cameras, mouth organs, aspirin, false teeth, cosmetics, toiletries, and certain medicines. This account, however, is questioned by the writers of S.E.E., p. 196.

65 A favorite trick of the Germans was offering the machinery at very reduced prices, but skyrocketing the price for spare parts once the machine broke down.
time. With the machinery, the Reich assumed that the Balkan region would be able to improve its economic development. Thus, Southeastern Europe would be in a better position to aid Germany in fulfilling its need for raw materials for armament production.

The export of machinery was only one method which the Germans used to coerce the Balkan countries into supplying the materials needed in the Reich economy. Germany also influenced a change in the type of crops produced in southeastern Europe to those that would best supplement the Reich's deficiencies. A German industrial firm, I.G. Farben, Inc., received land grants in Rumania and Bulgaria. These land grants totaled nearly 100,000 hectares. The land was used exclusively for soya bean production and experiments. At the time, Germany provided the lone market for the Balkan soya bean industry. The loss of a market for the soya crop affected the Rumanian and Bulgarian economy.

Germany extended her exploitation of Southeastern Europe. It gave the Balkan countries no other recourse but to trade with the Reich at whatever price she dictated. In this way, Germany could resell her Balkan imports to other

---

66 Basch, p. 179.

67 Schacher, p. 193.

68 One hectare = 2.47 acres.

69 Soya beans were highly valuable to the Reich economy. From the seeds, a base additive was used in preparation of food that was to be stored for long periods of time.
countries. This represents a pure profit as Germany merely increased her indebtedness to the Balkans with no intent of repayment.

An opportunity for Germany to test Schacht's New Plan presented itself when economic sanctions were imposed on Italy by the League of Nations. This sanction was imposed because of Italy's aggressive action in Ethiopia. Yugoslavia, Italy's main customer in Southeastern Europe, chose to obey the sanctions. The sanctions, however, dealt a severe blow to the Yugoslavian economy. By choosing to obey the sanctions, Yugoslavia lost 90 per cent of her exports to Italy.

The greatest loss to Yugoslavia was in its timber industry. Lumber exports to Italy dropped from 37.1 million dinars in 1935 to 37.3 dinars in less than one year.

Yugoslavia, realizing the predicament caused by the loss of its chief customer, succeeded in gaining a few concessions from Great Britain and France. Britain's efforts were only half-hearted. She did allow certain quantities of eggs from Yugoslavia to enter her country duty-free. His Majesty's government also reduced the duty on turkeys and chickens and increased her quota of Yugoslav bacon.

The total value of Britain's concessions to Yugoslavia approached the

---

70 Schacher, p. 163.

71 Basch, p. 192.

72 Ibid.

The Yugoslav government fared worse with France. French importers continued to do most of their timber buying from non-sanctionist Austria rather than buy timber from Yugoslavia. The total increase in French purchasing from Yugoslavia amounted to eleven head of horses. The total amount of concessions granted by Great Britain, Czechoslovakia, and France covered no more than 25 per cent of Yugoslavia's export losses. This meant that Yugoslav exporters sustained a 500-600 million dinar loss in a single year.

The German Foreign Office wasted little time in taking advantage of the opportunities presented by the League sanction. On March 27, 1936, Carl Clodius attended an economic conference at Zagreb, Yugoslavia and reported:

The negotiations have led to our reaching an objective for which we have striven for a year: The Yugoslav government is now prepared . . . to undertake a large scale shift over of total imports and purchases from Germany . . . This would mean that the German share of Yugoslavia's imports would rise to more than a third and that the German government would obtain the predominating position in the Yugoslav market which Italy held for fifteen years.

---

74 Ibid.

75 Ibid.

76 Basch, p. 193.

77 Carl Clodius, head of the Economic Policy Division, Department III of the German Foreign Ministry.

The same month, Krupp, the great munitions and steel producers from Germany, received two separate contracts. The first contract called for a 160-million dinar contract to convert the Zenica Iron Works in Bosnia into an armaments plant. The second contract provided for the manufacture of bridge materials for an extensive Yugoslav highway project. At the conference in Zagreb, the Yugoslavian government decided to place orders in Germany for railway materials in order to use up as much of the balance owed to Yugoslav creditors as possible.

The most logical and the most practical solution to the problems of the Reich was for Germany to increase her economic involvement in Southeastern Europe. In 1935, therefore, the first of the two "New Plans," directed by Dr. Schacht, was initiated. These plans were designed to take advantage of obvious weaknesses in the Balkans and, therefore, Germany would be able to capitalize on the Balkan resources that were vital to the German economy. The New Plan, in effect, was designed to destroy the system of multilateral trade in Europe.

The League of Nation's sanctions against Italy gave Germany its greatest opportunity to put its trading methods into operation. This opportunity, together with the reluctance of the West to concern itself in Balkan affairs, resulted in the economic capitulation of Yugoslavia. It also gave Germany a strategic economic advantage in her drive to gain control of the Southeast.


80 Hoptner, 1934-41.

81 Survey of International Affairs, 1936, p. 530.
CHAPTER III

SCHACHT'S TOUR OF THE BALKANS

The imposition of economic sanctions on Italy by the League of Nations changed the scope of the Reich's penetration and exploitation of Southeastern Europe. The League's action facilitated Germany's commercial aspirations in the area. The Balkan States ceased to be of secondary importance. Their expanded role in the Reich economy became apparent when, in June, 1936, Dr. Schacht left for a tour of the Balkan capitals as a special emissary of both the Foreign Ministry and his own Ministry of Economics.

Dr. Schacht's first stop was Belgrade, Yugoslavia. The Germans had far-reaching motives for the tour, as the stop in Belgrade illustrated. As early as 1933 von Neurath, the German Foreign Minister, had outlined a scheme to high Nazi officials calling for extensive financial aid to Yugoslavia in order to gain political influence there in addition to maintaining it as an important market for German exports.1

In Belgrade, Schacht showed his ability as a negotiator. On June 12, 1936, Milivje Pilvja2 signed a treaty with Germany, greatly reducing

---

1 Schacher, p. 147.

2 Yugoslav Assistant Minister of Foreign Affairs.
Yugoslavia's trade with the Netherlands, Great Britain, the United States, and other countries. These trade restrictions were advantageous to Germany.

The Yugoslav Prime Minister, Milan Stoyadinovitch, said of the agreement: "Today we are inaugurating a new economic policy." Stoyadinovitch also agreed to permit Germany to send experts to examine the iron ore deposits of Lubidja. The Yugoslav Premier made very clear his intentions of ignoring the strong anti-German element in his country that had hindered Yugoslav-German trade relations.

Charles S. Nelson, the United States Ambassador to Yugoslavia, wrote to the Secretary of State expressing his fear of "...Yugoslavia becoming the economic, and eventually, perhaps, the political satellite of Germany. But at the present time, and under present conditions (I can) see no alternative course for (that) country..."

The agreement provided that Yugoslavia would import only certain commodities, up to 35 per cent of its import volume, from non-clearing countries. The purpose was to cut imports from currency and foreign exchange countries and increase commerce with clearing countries, particularly her greatest clearing debtor, Germany.

---

3 Survey of International Affairs, 1936, p. 530.
4 Pro-Minister of Foreign Affairs.
5 Survey of International Affairs, 1936, p. 530.
8 Hoptner, p. 102.
Germany's endeavors, prompted by the League sanctions, showed immediate results in connection with Italy. Italian exports declined from 672 million dinars ($336 million) to 137 million ($66.5 million) from 1935 to 1936. Germany's investment in Yugoslavia during the same period rose from 55 million dinars ($27.5 million) to 820 million ($410 million). The table following on page 41 (Table 5) illustrates the overall direction of Yugoslav trade from 1926 - 1939.

Dr. Schacht's trip to Belgrade resulted in some impressive gains for Germany. Above all, Italy ceased to be Yugoslavia's largest customer. In the first half of 1935, Italy accounted for slightly more than 20 per cent of Yugoslavia's total trade. Germany only accounted for 16 per cent of Yugoslavia's trade in 1935 but in the first half of 1936, Italy's share of the trade, as a result of the League action, slipped to less than two per cent while Germany's share increased to over 25 per cent. When he left Belgrade, Schacht expressed pleasure at the success of his visit. At their last meeting, Premier Stoyadinovitch related to the President of the Reichsbank that economic cooperation between Germany and Yugoslavia entailed his "firm intention of overcoming in the future more

9 Basch, p. 192.
10 Hoptner, p. 102.
11 Survey of International Affairs, 1936, p. 531.
12 Ibid.
Table 4

YUGOSLAV EXPORT - IMPORT TRADE WITH SELECTED EUROPEAN COUNTRIES

1926 - 1939

(annual averages in percentage of value of trade)

<table>
<thead>
<tr>
<th>Country</th>
<th>1926 - 1930</th>
<th>Imports (from)</th>
<th>1931 - 1935</th>
<th>Imports (from)</th>
<th>1936 - 1939</th>
<th>Imports (from)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Exports</td>
<td>Exports</td>
<td>Exports</td>
<td>Exports</td>
<td>Exports</td>
</tr>
<tr>
<td>France</td>
<td>3.4</td>
<td>2.4</td>
<td>2.4</td>
<td>4.5</td>
<td>2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Great Britain</td>
<td>1.3</td>
<td>3.3</td>
<td>8.6</td>
<td>8.4</td>
<td>10.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>9.2</td>
<td>12.8</td>
<td>14.3</td>
<td>10.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rumania</td>
<td>.5</td>
<td>.6</td>
<td>2.2</td>
<td>.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>7.7</td>
<td>4.2</td>
<td>1.3</td>
<td>3.4</td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.2</td>
<td>0.1</td>
<td></td>
<td>0.2</td>
<td></td>
<td>0.1</td>
</tr>
<tr>
<td>Austria</td>
<td>18.9</td>
<td>17.9</td>
<td>13.8</td>
<td>11.4</td>
<td></td>
<td>9.2</td>
</tr>
<tr>
<td>Hungary</td>
<td>7.0</td>
<td>4.5</td>
<td>4.0</td>
<td>4.2</td>
<td></td>
<td>3.4</td>
</tr>
<tr>
<td>Italy</td>
<td>25.8</td>
<td>21.4</td>
<td>12.9</td>
<td>7.4</td>
<td></td>
<td>7.8</td>
</tr>
<tr>
<td>Germany</td>
<td>10.4</td>
<td>14.1</td>
<td>16.0</td>
<td>28.3</td>
<td></td>
<td>34.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84.4</strong></td>
<td><strong>83.8</strong></td>
<td><strong>81.3</strong></td>
<td><strong>77.7</strong></td>
<td><strong>77.6</strong></td>
<td><strong>79.6</strong></td>
</tr>
</tbody>
</table>

a. Includes year of League sanctions against Italy
b. Does not include 1939

successfully than hitherto the political obstacles in this sphere.

Schacht's second stop was Athens. His visit there required much more caution than his trip to Belgrade. The Reich Minister accurately predicted a more suspicious press in Athens than he had encountered in Belgrade. The Messager d'Athens stated that his trip had more political reasons than economic motives. Schacht's basis for opening Greco-German trade discussions was understandable, as Germany was the largest market for Greek exports. The exports over the past three years indicated that Greece had a favorable balance of approximately 30 million Rm. ($12 million).

Schacht's goal lay primarily in the stimulation of non-agricultural undertakings in Greece. The Reich faced its sternest competition in Greece from Great Britain, and the German emissary presented a plan whereby the Reich would match British investments in Thracian ore mining. Germany, he stated, was willing to provide the capital and labor in return for a share of the holdings. Schacht's "package-deal" called for the placing of larger orders for manufactured goods from the Reich. The Greeks refused to negotiate until Schacht granted two concessions: 1) a guarantee against any accumulation of

15 Schacher, p. 227.
17 Ibid., p. 643.
debts on Germany's part, and 2) a guarantee against depreciation of the
Reichmark. 18

As a result of the negotiations, at the beginning of 1937, a 230-million
drachma ($33 million) loan from Germany at three per cent interest was granted
to aid in the Greek rearmament program. 19 Schacht's visit succeeded in that
it laid the groundwork for a steady increase in trade between the two countries.
Between 1930 and 1938, Greek exports to Germany increased from 23.5 to 38.8
per cent of the total from Germany rose from 10.1 to 28.8 per cent of Greece's
total imports. 20

Schacht's progress in obtaining economic gains for Germany was chal­
lenged somewhat at Bucharest, his third stop in the Balkans. Of all the Balkan
countries, Rumania provided the most ardent resistance to German economic
encroachment. Rumania held out a year longer than the other Balkan countries
in accepting exchange controls. 21 because she had a consistent export surplus
and an adequate supply of gold in the Rumanian National Bank. 22 The

18 Schacher, p. 172.

19 Edward S. Forster, A Short History of Modern Greece, 1821-1956

20 Bickham Sweet-Escott, Greece, A Political and Economic Survey,

21 Another term applied to the German economic policies concerning trade.
foremost task of the economic leaders in Rumania lay in the preservation of the value of the Lei. In the end, like her sister states, she succumbed to the insurmountable obstacles of foreign credit withdrawals, falling prices, and frozen debts in other countries. However, both internal and external political events affected economic policy.

Nicholas Titulescu's foreign policy was concerned with the maintenance of close connections with France and the Little Entente against Germany. His chief fear, the loss of land gained from the post-war settlements, called for a pro-French policy against any form of treaty revision. Economic ties between Rumania and France tightened. In February, France succeeded in gaining a commercial agreement with Rumania that stated that, in return for French armaments, the Rumanian government would grant France 750,000 tons of Rumanian oil per annum for a period of twelve years.

However, in July, 1936, Titulescu resigned his post. The departure of the pro-French Prime Minister greatly facilitated the Reich's efforts towards

---

23 Basch, p. 139.

24 Rumanian Prime Minister, Pro-French.


26 Survey of International Affairs, 1936, p. 532.

gainful negotiations. King Carol, the Rumanian Monarch-Dictator, openly favored Hitler. His entire policy was summed up by the following statement:

. . . The immense (sic) of Russia was always bearing upon her (Rumania) and she had to withstand it as best as she could. Russia was, so to speak, the hereditary enemy.28

In the place of Titulescue, Victor Antonescu29 became the new Prime Minister. One of his chief aims was to improve relations with Poland which had deteriorated because of Titulescu's pro-Russian attitude. This resulted in an improvement in the German-Rumanian relations.30

The ascendancy of Antonescu resulted in some commercial advantages for the Reich. At the close of 1936, Rumania signed contracts for German armaments. The two countries also agreed upon the construction of an 800-million lei ($64 million) steelworks plant, subsidized by the Reich.31 Throughout 1936, however, Rumania still remained financially independent of Germany because Rumania's chief export product, oil,32 sold readily on the world market.

In September of 1936, Germany and Rumania concluded an economic agreement concerning Germany's share of Rumanian petroleum exports. The meeting

28 Cited in Roberts, Rumania, p. 190.

29 Antonescu was, at the time of his appointment, the Minister of Finance.


31 Ibid.

32 In 1937, petroleum production accounted for 40 per cent of Rumanian exports. In respect to its effect on the national economy, oil, including drilling, processing and transporting, made up 15 per cent of the total national budget receipts. See: _S.E.E._, p. 128.
exemplified the independence of Rumania. The negotiations ended with the following agreement:

"With effect from October 1, 1936, German purchases of mineral oil and its derivatives are only to be paid for under the provisions of the Clearing Agreement as long as the amounts paid in each calendar quarter do not total more than 25 per cent of all amounts paid during the preceding calendar quarter."  

The main advantage that Germany had over Rumania lay in her ability to supply markets for Rumanian products that were difficult to sell elsewhere. In 1937, Germany purchased 61.2 per cent of Rumania's corn exports, over 5.7 per cent of her barley, 21 per cent of her rye and eight per cent of her wheat. This gave Germany an opportunity to advance her economic exploitation of Rumania. The Reich now began a slow infiltration into the Rumanian economy. At the end of 1936, a large German industrial network, I.G. Farben, built large soya bean and other fodder producing oleaginous plants in Rumania. The firms also concluded contracts with 70,000 - 100,000 peasants. The contracts provided for the sale of the peasants' soya crops to German purchasers at a pre-determined price. The total acreage of soya bean

---

33 S.E.E., p. 135.
35 Roberts, p. 216.
36 Basch, p. 192.
In return, I.G. Farben exported chemicals, dyes, and factory equipment to Rumania from their German plants. As 1938 approached, as far as the Third Reich was concerned, Rumania remained the Balkan area's most economically independent nation.

Schacht's fourth and final stop\(^\text{39}\) was in Sophia in mid-July. He met with much less resistance here than he had encountered in Rumania. Of all the Balkan States, Bulgaria represented the easiest target for economic exploitation by Germany. As early as 1934, German joint stock companies had organized such companies as Hansa, Trakia, and Nova Maledonia in Bulgaria. These Bulgarian companies were run by offices inside Germany.\(^\text{40}\) The sole purpose of these companies was to export Bulgarian agricultural and mining products to the Reich.

The political events within Bulgaria afforded great opportunities for the extension of the Nazi economy within Bulgaria. A coup d'état in November of 1935 within Bulgaria left Georgi Kiosseivanov\(^\text{41}\) as the Premier, and Boris

---

37 ha. is an abbreviation for hectare (2.47 acres).

38 Basch, p. 191.

39 When the term final stop is used, it concerns only the countries dealt with in this thesis. Actually, Bulgaria was his second to the last stop as he proceeded to Ankara, Turkey.


41 Long-time friend of King Boris, Chief of Court Chancellery.
now was in complete control of the Bulgarian government. The success of Boris was a decided economic advantage for Germany.

The emergence of a monarchist-fascist government in Bulgaria caused a considerable change in its foreign policy. This in turn caused a pronounced withdrawal of Western investments in Bulgaria (mainly French and Belgian).

Bulgaria’s export products supplemented Germany’s economy rather than competing with it. Cereals, fruits, eggs, hides, and tobacco were the main crops in Bulgarian agriculture. Bulgaria’s climate was also suitable for the cultivation of soya beans, a product that was needed by Germany. The soya bean crop acreage increased from 2500 ha. in 1934 to 17,000 ha. in 1937. From 1934 to 1937, Bulgaria’s cotton production trebled while her exports of finished goods to the Reich quadrupled.

Also a Revisionist State, Bulgaria’s growing dependence upon Nazi Germany did not bother her as it did some of the other Balkan countries.

\[\text{\footnotesize 42 In the interlude between Georgiev and Kiosseivanov, the government was run by the corrupt and inept administration of Andrei Toshev.}\]


\[\text{\footnotesize 44 Kossev, Hristov, Angelos, p. 361.}\]

\[\text{\footnotesize 45 Basch, p. 187.}\]

\[\text{\footnotesize 46 Great Britain, Department of Overseas Trade, p. 192.}\]

\[\text{\footnotesize 47 Survey of International Affairs, 1936, p. 531.}\]
June of 1936, Dr. Schacht talked of a Bulgarian economic isolation from the rest of the Balkan nations. In November of 1937, Walter Funk informed Prime Minister Kiossevianov of Germany's willingness to purchase as much as Bulgaria wished to sell. The Reich also agreed to increase Bulgaria's import quotas in raw materials, coffee, and tobacco for a period of up to twelve years.

In 1933, one-third of Bulgaria's exports went to Germany. By mid-1936, the corresponding figure approximated 63 per cent, while Bulgarian imports from the Reich reached a level of about 54 per cent of her total imports. Germany purchased 40 per cent of Bulgaria's greatest agricultural crop, tobacco, by 1936.

Dr. Schacht's tour of the four Balkan States succeeded in accomplishing two profitable advantages for Germany: favorable economic negotiations for Germany with each nation, and an increase in the dependency of the Balkan countries upon Germany.

Undoubtedly, the restrictive measures undertaken by the League of Nations made the Reich's economic endeavors infinitely simpler. The action

---

48 Evans, p. 173.

49 S.E.E., p. 175.

50 Ibid.

51 Ibid.
prompted immediate negotiations with Yugoslavia, heretofore an accepted
Italian sphere of interest.

"World events were soon to greater facilitate Germany's economic
drive into Southeastern Europe. Developments elsewhere in Europe, such as
the Anschluss and the aftermath of Munich, figured decisively in the immedi­
ate future of the Balkan States."
CHAPTER IV

THE EFFECT OF THE ANSCHLUSS AND THE OCCUPATION OF CZECHOSLOVAKIA ON THE BALKAN STATES

In 1938, the Balkan States as well as the rest of the world witnessed an abrupt change in the demeanor of the Third Reich. Outright annexation appeared to be Germany's newly adapted modus operandi. The German army crossed the Austrian border, under Hitler's orders, on March 12, 1938.  

The Anschluss, in addition to giving the Nazis economic gains, also gave the Germans a valuable advantage by improving both their geographical and political position vis-à-vis the Balkan countries. The Anschluss showed, too, a lack of either initiative or desire by the Western Powers to intervene in the affairs of Southeastern Europe. The Great Powers adopted a wait-and-see attitude upon hearing the news of the Anschluss. On March 12, Ambassador Dieckhoff wrote to Berlin that Mr. Hull:

... was obviously thoroughly impressed by the (Anschluss) proclamation. He thanked me for the information. From

---


2 A loose translation of Anschluss is the word Union: This was forbidden by the Treaty of St. Germain. It was designed in 1938 to stop Dr. Schuschnigg from holding a plebescite to determine Austria's direction.
the few questions that he asked, it was apparent that he thoroughly understands our action.\(^3\)

In Rome, Lord Perth\(^4\) concurred with Ciano's\(^5\) statement about the Anschluss. "There is nothing to do . . . we cannot force the people to be independent if they do not wish to be so."\(^6\) Mussolini was on a skiing vacation when he heard the news, and proclaimed that the acquisition of Austria by Germany was inevitable.\(^7\)

The European countries in the Southeast received the news of the Anschluss with mixed emotions. On March 11, the day before the Nazi coup, Stoyadinovitch discussed the situation with Arthur Bliss Lane.\(^8\) In his conversation with Lane, Stoyadinovitch spoke harshly against France and Great Britain's hesitancy to be involved in the whole affair.\(^9\) As far as retaliation

---


\(^4\) Lord Earl of Perth, Sir Eric Drummond, British Ambassador to Italy, formerly Secretary General to the League of Nations.

\(^5\) Italian Foreign Minister.


\(^7\) *S.E.E.*, p. 47.

\(^8\) United States Ambassador to Yugoslavia.

\(^9\) Stoyadinovitch believed that if Mr. Eden had accepted the Italian position in Ethiopia, and thereby gained Italy as an ally, Germany would not dare to move against Austria. See: Schacher, *Germany Pushes Southeast*, p. 214.
by Yugoslavia was concerned, he stated that: "There will be no troop move­ments in Yugoslavia . . . Yugoslavia remains with her arms folded." 10 The Stoyadinovitch government, however, did more than remain in a neutral posi­tion. The instructions issued to the border guards commanded them to cooperate with the German troops that were now being stationed across the line. A request sent to Berlin asked the Reich to guarantee the security of the frontier of Yugoslavia. 11 Hitler responded with the announcement that Germany had no aims beyond Austria, and made the statement that: "We (Germany) are lucky in having here such frontiers that we were relieved of the trouble of defending them militarily." 12 On March 14, Stoyadinovitch publicly declared that Yugoslavia was not concerned with Austrian events. 13

The general staff in Yugoslavia now began to consider its precarious position. Germany needed Yugoslav compliance if it was to succeed in its efforts toward domination of Southeastern Europe. The position of the Reich army on that country's northern border made it possible for Germany to increase her military and economic pressure on Yugoslavia. Another factor that Yugoslavia had to consider was the appeasement policy of Great Britain and France. 14

12I.M.T., (Doc. 2719, -PS).
13Lukacs, p. 120.
14Schacher, p. 218.
The Anschluss also was interpreted as an ominous warning by the remaining Balkan States. The presence of Germany, which now occupied the strategic position in the Danube Valley, sent the Balkan countries into a flurry of diplomatic discussions. With the possession of Austria, Nazi Germany now had military and economic control as well as ready access to Southeastern Europe by road, river transportation, and railways. The Balkan governments now sought the friendship of Bulgaria, and that of Hungary, if it could be achieved.

A Treaty of Friendship and Non-Aggression was signed between Bulgaria and members of the Little Entente on July 31, 1938. Under the terms of the treaty, the arms limitation imposed by the Treaty of Neuilly was abrogated. From this point on, however, the talks became distinctly reminiscent of the abortive Balkan Conferences. Bulgaria refused to discard its territorial grievances. The extent of the Bulgar concessions was an agreement towards settlement of disputes through arbitration. No decisions were reached concerning the settlement of the revisionist questions. The Bulgarian Government refused to enter the Balkan Entente without specific guarantees concerning the revision of her frontier.

15 S.E.E., p. 47.
16 Ibid.
17 Hoptner, 
18 See Chapter I., p.
19 S.E.E., p. 48, fn. 1.
Bulgaria went a step further against her sister States than she had in the early Thirties. She solicited the aid of the Reich. The Bulgarian Foreign Minister gave orders to his Minister in Berlin that he was to offer Germany his country's economic and political cooperation in return for recognition of Bulgarian territorial demands. Once again, revisionist disputes thwarted an attempt towards Balkan unity.

Germany's annexation of Austria aided the Reich economically. The reserves of gold and foreign assets in the Austrian National Bank amounted to approximately RM. 248 million. This was in addition to an unknown amount of private holdings of foreign assets. These funds were of great importance to the German Government. The Reich's total balance of gold and foreign exchange in the Reich Bank had dwindled to a mere RM. 77 million ($30.5 million).

The Austrian surplus of dairy products also helped to relieve Germany's shortage of these products and, in fact, increased the Reich's supply by 19 per cent. The incorporation of Austria by Germany resulted in a 54 per cent increase in Germany's timber supply. Up to this time, Germany had suffered from a shortage of manpower because of the increase in the size of the German Army. The Anschluss rectified this situation as well. The number of unemployed

21 Ibid.


persons in Austria fell from 351,000 in May of 1938 to a total of 59,000 in May of 1939. The reason for this great decrease in unemployment was the Austrian workers' access to immediate employment in German factories.

The annexation of Austria resulted in a great decrease in the German debt in the Balkan countries. Austria, unlike the Reich, had extensive credits in the Balkans. Germany's total indebtedness to the Balkans declined from RM. 567 million ($140 million) in March of 1935 to RM. 250 million ($62 million) in March of 1938. In addition to this, Austria also had investments in banks in Yugoslavia, Hungary, and Rumania. The value of these investments was approximately RM. 65 million ($12 million).

On September 29, 1938, the Four Powers, France, Great Britain, Italy and Germany, agreed to the dismemberment of Czechoslovakia at Munich. Czechoslovakia was not invited to the conference nor was she consulted on the decisions that were made there. The only part that Czechoslovakia played as

25 Ibid.
26 Basch, p. 205.
28 It must be pointed out that the relationship between banking and industry was far more direct in this part of the world as compared to the United States. Hence, control of a bank's securities meant much more than a country owning investments in American banks. European banks of the period were much more independent of their respective governments than were their American counterparts.
a result of this conference was her acceptance of her surrender at 2:15 a.m. on September 30. When the draft was presented to the Foreign Minister of Czechoslovakia, Kamil Krofta, he accepted it and made the following statement: "The president and the government submit to the conditions of the Munich Agreement which has come into being without Czechoslovakia and against her."²⁹

Less than six months later, on the night of March 14 and 15, 1939, German troops occupied Prague.

The occupation of Czechoslovakia was highly profitable for the Reich in terms of economics. At the end of 1938, the reserves of gold and foreign assets in the National Bank of Czechoslovakia approximated RM. 275 million. These funds did not include the private holdings and government securities that were being held in foreign banks.³⁰ In addition to this, Czechoslovakia held a 10 million ($49.6 million) credit against Great Britain.³¹ Because of the Munich Conference, Czechoslovakia also became a powerless, lifeless satellite of the Reich.

As a result of Germany's activity in Czechoslovakia, the Balkan countries were reluctant to do anything which might turn the Reich against them.

²⁹ The Economist, May 14, 1938, p. 355.
³² ibid.
This hesitancy had a great deal to do with the economic situation now facing Southeastern Europe. Nearly a third of the Balkan countries' export trade had been with Austria and Czechoslovakia before their annexation.

Czechoslovakia also had a large credit balance in various countries which totaled kc. 2.38 billion ($595,000,000)\(^{34}\) At least kc. 500 million ($125 million) of that amount were balances in the countries of Southeastern Europe. These balances immediately fell under the control of Germany.

In addition, Czechoslovakia had a great many investments in Southeastern Europe, such as the textile industries of Rumania, Yugoslavia and Hungary; Yugoslavia and Bulgaria's sugar industry; the Hungarian and Yugoslav glass industry; and investments in the Banks of Rumania, Yugoslavia and Bulgaria. Czechoslovakia's private and governmental capital in Yugoslavia approximated nearly 775 million dinars ($385 million), or about 18 per cent of the total foreign investments in Yugoslavia.\(^{36}\) The Reich also gained control of about 14 per cent of the foreign capital in Bulgaria.\(^{37}\)

\(^{33}\) Basch, p. 206.

\(^{34}\) Ibid.

\(^{35}\) Ibid., p. 209.

\(^{36}\) Great Britain and France followed with 14 and 17 per cent, respectively.

\(^{37}\) Basch, p. 208.
Following occupation of Prague, Germany continued to increase her trade with the Balkans. The Reich continued to pay higher prices for Balkan produce than the Balkan countries could obtain on the free world market. Germany's economic situation was also helped by her territorial gains. Bulgaria, which was now completely dependent upon Germany, proved to be no obstacle in Germany's aim for control of Southeastern Europe.

Shortly after attending the conference at Munich, Dr. Funk went to several of the Balkan capitals as Dr. Schacht had done in June of 1936. His first visit was to Belgrade. His first proposal stated that Germany was willing to buy one-half of Yugoslavia's goods in exchange for a Yugoslav promise to purchase a predetermined amount of German goods. Yugoslavia momentarily resisted this offer, but weakened when the Reich offered to buy 125,000 tons of Yugoslavian wheat at 155 dinars ($72) per ton as compared to Great Britain's price of 53 dinars ($27.50) per ton.

Rumania, always conscious of Hungary's revisionist aims concerning Transylvania, sought the favor of the Reich. For this reason, the Rumanian

---

38 League, W.E.S., 1938/1939, p. 204.

39 Schacher, p. 274.

40 Dr. Walter Funk was Schacht's successor as Minister of Economics in November, 1937 and was President of the Reichbank in January of 1939. Funk was later convicted at Nuremberg and sentenced to life imprisonment.

41 The Economist, November 5, 1938, p. 263.

Government hesitated to do anything that Germany might interpret as against its own interests.\(^{43}\) The German interest in Rumania centered on its need for oil.

Owing to Rumania's precarious position, the negotiations were quickly completed. In December, 1938, Germany and Rumania signed an agreement which provided for a 50 per cent increase in the oil trade between the two countries for the following year.\(^{44}\) The proviso also stipulated that the value of the commodities traded would be equal, preventing Germany from increasing its debit balance in Rumania.\(^{45}\) Germany also agreed to increase her petroleum purchases from Rumania by 20 to 25 per cent over 1938.\(^{46}\)

The commercial policy of Great Britain and France was an important reason for Germany's steady increase in trade with the countries in Southeastern Europe. In the fall of 1938, delegations from Rumania and Bulgaria had gone to London in an attempt to seek aid from Great Britain to rescue their countries from strangulation by the German trading practices.\(^{47}\) Prime Minister Chamberlain summed up Great Britain's policy towards Southeastern

\(^{43}\) S.E.E., p. 52.

\(^{44}\) Basch, p. 211.

\(^{45}\) Survey of International Affairs, 1938, Vol. VII., p. 56.

\(^{46}\) Basch, p. 211.

\(^{47}\) Schacher, p. 231.
Europe in a speech to the House of Commons at the beginning of November:

Great Britain was not attempting to prevent Germany's commercial expansion in this (sic) part of the world. Geographically, Germany must occupy a dominating position there... so far as this country is concerned, we have no wish to block Germany out from those countries or encircle her economically. 48

Britain's trade problem with the Danubian and Balkan States was one of quantity. The Balkan countries were able only to export annually 7 million (approximately $35 million) in goods to Great Britain 49 whereas 48 million ($240 million) 50 were needed for the Balkan exports to be of any value in Britain's economy. It was not feasible for Great Britain to increase Balkan purchases for several reasons. Such a policy would have upset a long established trade balance with her regular customers. 51

Another obstacle was Great Britain's hesitancy to buy goods in bulk quantities as Germany did. 52 Great Britain did agree, however, to buy 400,000 tons of wheat from Rumania in September, 1938. 53 The following month, Great Britain purchased 200,000 tons of wheat for storage. This fact illustrates

48 House of Commons. Parliamentary Debates, November 1, 1938, pp. 67-68.

49 Austria and Czechoslovakia are excluded since by this time they were under German control.

50 The Economist, November 5, 1938, p. 266.

51 Ibid., p. 267.

52 Basch, p. 212.

53 Ibid.
the inability of Great Britain to provide a permanent market for Balkan purchases. Sporadic purchasing could provide no alternative to the need for fixed markets on the part of the Balkan countries, regardless of the size of the transaction. The Balkan countries needed a steady and permanent customer, a customer who would buy regularly and who would provide competition for Germany's purchases. Also, the trade policy of Great Britain differed from Germany. While Germany bought as a single purchasing unit, the private enterprise system enjoyed in Great Britain prevented the government from interference in trade direction (except in cases of stock-pile purchases). A fourth and decisive factor was the price. The Balkans were still unable to produce as cheaply as the western countries.

Except for her purchase of oil from Rumania and her purchases of ore from Yugoslavia, France was at no time a large customer of the Balkan countries. In 1937, the French imports from the Balkans never exceeded four per cent of the total export trade of the two countries. France imported grains only when her own yields were inadequate.

In 1938, Germany no longer faced the problem of gaining ascendancy in the Balkans. That was already accomplished. Now the problem became how the Balkan area could best fulfill the demands of Germany. The

---

54 Schacher, p. 252.
55 Survey of International Affairs, 1938, Vol. II., p. 66.
56 Basch, p. 216.
Anschluss and occupation of Prague revealed the Reich's change in modus operandi. Germany began to switch from economic penetration in the Balkans and initiated outright territorial annexation of states neighboring the Balkan countries. The chief purpose of the economic involvement of Germany in the Balkans had been to form a German hinterland. By doing this, Germany could then make herself as self-sufficient as possible and no longer be dependent upon the rest of the world. At a Nuremberg Party Rally in 1938, Goring stated that the most important part of the Four Year Plan was to ensure that the German people would always have food, even if Germany were completely surrounded by enemies and engaged in a war which would last for thirty years.  

The occupation of Austria and Czechoslovakia now placed Germany in the position of being able to dictate commercial agreements rather than merely negotiate them. By reflecting upon the role of the Western Powers concerning Austria and Czechoslovakia, the Balkan countries could clearly see the political risks involved if they refrained from acquiescing to Nazi demands.

By the end of 1938, the Reich, having gained predominance over Central and Southeastern Europe, was able to secure a steady and reliable supply of agricultural products. The percentages of the world total of agricultural products available to the Reich are listed in the table on the following page:

\[ \text{Survey of International Affairs, 1938, Vol. II., p. 3.} \]
### Table 6

**Agricultural Production in Central and Southeastern Europe**

(In Percentage of World Production)

<table>
<thead>
<tr>
<th>Country</th>
<th>Wheat</th>
<th>Corn</th>
<th>Oats</th>
<th>Barley</th>
<th>Rye</th>
<th>Sugar beets</th>
<th>Tobacco</th>
<th>Wool</th>
<th>Flax</th>
<th>Hemp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.7</td>
<td>1.2</td>
<td>1.8</td>
<td>0.1</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>1.1</td>
<td>0.3</td>
<td>1.9</td>
<td>3.0</td>
<td>3.5</td>
<td>4.7</td>
<td>0.6</td>
<td>0.1</td>
<td>0.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.6</td>
<td>2.4</td>
<td>0.5</td>
<td>1.7</td>
<td>1.6</td>
<td>1.3</td>
<td>0.8</td>
<td>0.4</td>
<td>12.2</td>
<td></td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>1.8</td>
<td>4.5</td>
<td>0.5</td>
<td>1.0</td>
<td>0.5</td>
<td>0.8</td>
<td>0.9</td>
<td>0.8</td>
<td>1.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Rumania</td>
<td>2.9</td>
<td>4.0</td>
<td>0.7</td>
<td>1.9</td>
<td>1.1</td>
<td>1.4</td>
<td>0.4</td>
<td>1.7</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.3</td>
<td>0.7</td>
<td>0.1</td>
<td>0.8</td>
<td>0.4</td>
<td>0.2</td>
<td>0.7</td>
<td>0.5</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>0.6</td>
<td>0.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.1</td>
<td>2.8</td>
<td>0.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3.3</td>
<td>0.1</td>
<td>9.3</td>
<td>9.7</td>
<td>17.8</td>
<td>17.9</td>
<td>1.4</td>
<td>1.1</td>
<td>4.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>12.9</td>
<td>12.5</td>
<td>13.8</td>
<td>19.4</td>
<td>26.1</td>
<td>28.1</td>
<td>7.6</td>
<td>5.1</td>
<td>8.7</td>
<td>25.9</td>
</tr>
</tbody>
</table>

By April, 1939, economic policy and foreign policy in Southeastern Europe blended to form one and the same program. The immediate result of this program was the emergence of Danubia and the Balkans as German dependencies. There was no Great Power in Western Europe that was willing to assist the smaller and weaker countries in Southeastern Europe in their fight against the totalitarian aggression by Germany.

58 Basch, p. 230.
The smaller countries, although they did try to establish commercial
intercourse with the rest of the world, had little alternative but to turn to
Germany. Once trade with the totalitarian Reich occupied a large proportion
of their commerce, there was no possibility of maintaining free trade elsewhere.

59 Ibid., p. 225.
CHAPTER V

THE MILITARY OCCUPATION OF THE BALKANS

If the year 1938 proved to the Balkans (as well as to the rest of the world) to be an ominous warning as to Germany's future activities, the early events of 1939 did nothing to ease those apprehensions. Mid-March saw the Reich swallow the remainder of Czechoslovakia. Germany's sweeping diplomatic successes at Munich and its culmination in the occupation of Prague awakened the Balkans to the folly in their hope that the Western Democracies were likely to put a stop to Nazi aggression in Central and Southeastern Europe. In view of French and British reluctance to honor their guarantees while following a policy of appeasement, the Balkan States held little faith in the value of the Western European countries as guarantors of their own sovereignty. It was with this air of misgivings that Greece and Rumania received British and French guarantees on April 13, 1939.²


2. Stavrianos, p. 746. Given to Rumania and Greece by Great Britain and France, it was a unilateral guarantee of independence. It was also a move of retaliation to Mussolini's move into Albania one week earlier.
The most significant diplomatic development of the year, one that would directly concern not only Southeastern Europe but the rest of the world as well, occurred on August 23, 1939. Nazi Germany entered into a non-aggression treaty with the Soviet Union. That Hitler's diplomatic coup cast a foreboding cloud on the safety of the Balkan States was hinted at by the Fuehrer's address to his military leaders as Ribbentrop was about to sign the pact with Stalin:

"I have decided to go with Stalin ... Stalin and I are the only ones who see only the future. So I shall shake hands with Stalin in a few weeks on the common German-Russian border and undertake with him a new distribution of the world."

The Nazi-Soviet interpretation of "new distribution" was not long concealed from the rest of the world as the morbid drama of 1939 revealed itself. On September 1, 1939, the German Army crossed the Polish border to settle all disputes between the two countries. Within a month, Poland disappeared from the map of Europe.

---

3 Nazi Soviet Relations, 1939-41, pp. 72-75.

4 Lukacs, p. 245. By terms of a secret protocol, signed jointly with the published pact, the Reich agreed to remain uninvolved while Russia repossessed the Rumanian province of Bessarabia. For an account of the secret protocol, see also: Stavrianos, The Balkans, p. 747.

5 The length of time quoted here is subject to debate. While the offensive's success was apparent within a week's time, the government fled into Rumania on the 18th and the Warsaw Garrison surrendered on the 28th. Stronger contingents of the army held out until October 5. For an excellent account of the Polish campaign see: B.H. Liddell Hart, History of the Second World War (New York: G.P. Putnams Sons, 1970), p. 37.
Great Britain and France, even in breaking with their policy of appeasement with their declaration of war on Germany, were unable to prevent Poland's dismemberment. The world sat back, watched Poland overrun, and braced itself for whatever the uncertain future would bring. However, the following five months produced little activity as Germany and the two Western European powers were locked in a "phony war."  

On April 8, 1940, the five-month deceptive lull ended with the Nazi assault on Norway. The Fuehrer, not waiting until the official capitulation of Norway, began his sweep through the Low Countries and France on May 10. On May 15, the Dutch Army surrendered; the night of the 27th and 28th saw

---

6 With the situation in Poland under control, the Fuehrer had ordered an immediate attack begun on the Netherlands, Belgium and France to begin on November 12. However, the German generals convinced Hitler to postpone the attack. For an account of Hitler's successive postponements, see: Shirer, Rise and Fall of the Third Reich, pp. 643-652.

7 The purpose of the violation of the Norwegian neutrality was the vital necessity for the Reich to maintain a winter route (along the Norwegian coast) open for transportation of Swedish iron ore. See: Eugene Anderson, Modern Europe in World Perspective, 1914 to the Present (New York: Holt Rinehart and Winston, 1958), p. 530.

8 Allied forces were evacuated from Narvik on June 7, 1941. On that same date, the King and his government left for Great Britain. For an excellent account of the battle for control of Norway, see: Hart, The Second World War, pp. 51-63.

the Belgians capitulate. By June 4, British forces had fled the continent. The most shocking events were happening in France, however. The world reacted with disbelief at the ease with which the "mightiest nation on the European continent," France, disintegrated before the German onslaught. On June 10, the French Government left Paris, and on June 14, that city was occupied by the German Eighteenth Army. Indeed, at mid-1940, Europe was at the mercy of Adolf Hitler. The general feeling was that Hitler had won the war.

As the war progressed, even during the early stages, the importance of Southeastern Europe to the Reich took on even greater dimensions. As early as 1935, Nazi officials had realized the Balkan nations would be their best source of supplies. They also realized that the Balkan nations would be the easiest for Germany to defend in case of war.

\[10\] Anderson, p. 531.

\[11\] Ibid.

\[12\] Shirer, p. 738.

\[13\] Burton H. Klein, Germany's Economic Preparation for War (Cambridge: Harvard University Press, 1959), p. 59. The German drive into Poland was complemented by the drive of the Russians into the Baltic. The activity in the area removed all possibility of establishing a northern front by the Allies against Germany. The end of the Finnish War closed the northern part of Europe to Allied access.
Allied military preparations at the eastern end of the Mediterranean caused considerable concern among members of the Nazi High Command. In February, 1940, the British and French troops in the eastern Mediterranean numbered over 500,000. In view of this fact, British and French officials considered three alternatives that would be open to Hitler.

1. Hitler could attack in the West.

2. Hitler might go southeast into the Balkans.

3. Hitler might go east against Russia in order to obtain "Lebensraum," food and oil.

It was realized early that if one or more of the Balkan Nations, particularly Greece, could form an alliance with Turkey, a southeastern front might be opened up against Germany. The focal objective of Germany's Balkan interest was Rumania. Rumania's chief product, oil, was of vital importance to Germany's war production. Of all the Balkan countries, Rumania most successfully had maintained her self-determination against the German economic onslaught. As a result of this, Rumania was able to continue the


sale of her valuable products to the western countries. The competition for Rumanian oil intensified. In December of 1939, Germany and Rumania signed an agreement in which Rumania promised to deliver 130,000 tons of oil per month to the Reich. Of this amount, however, only 26,000 tons of oil actually was received by Germany because 80 per cent of Rumania's oil industry was owned by Great Britain and France. Early in the war, the Allies realized the importance of curtailing Germany's supply of Rumanian oil. Owing to this, early competition between the Reich and the West raised the price of Rumanian oil from $17 to $44 per ton.

The early success of the German Army in Europe gave the Reich an overwhelming advantage in her dealings with the Balkan States. The Nazi-Soviet Pact, together with the ease with which the German onslaught had overrun five successive European countries, left no doubt on the part of the Balkans as to the dangers of alienating the Fuehrer. With France's collapse and the British evacuation of the continent, Rumania was more affected than the rest of the Balkan States. Its guarantee by the West was useless.

17 Ibid.
18 Ibid.
19 Ibid., p. 207.
For the Balkans, (again particularly Rumania), another problem doubly jeopardized their position—the presence of the Soviet Union on their border. The Nazi successes were doing nothing to sate Stalin’s appetite to share in the spoils. Rumania, only too mindful of Russia’s Bessarabian aims, especially saw the gravity of the situation. As was dreaded, France’s collapse did not long precede Soviet movements to entrench themselves in Southeastern Europe.

On June 23, 1940, Molotov told Schulenberg that "... Rumania had done nothing to bring about a solution of the Bessarabian problem. Therefore, something would have to be done . . . . The Soviet government was still striving for a peaceful solution, but it was determined to use force, should the Rumanian government decline a peaceful agreement." 24

Three days later, on June 26, 1940, the Soviet Government issued an ultimatum to Rumania, demanding not only Bessarabia but parts of Bukovina within twenty-four hours. 25 Germany advised Rumania to accept the Russian demands. 26

22 Vyacheslav M. Molotov, Commissar for Foreign Affairs from 1939-1949.

23 Friedrich Werner (Count von der), German Ambassador to the Soviet Union, 1934-1941.

24 Nazi Soviet Relations, p. 155.


A diplomatic flurry followed the Fuehrer's advice and Hitler could scarcely contain both Hungary and Bulgaria from promptly invading the remainder of Rumania.

The Hungarians prepared themselves for armed aggression to regain their loss of 1919. On July 10, 1940, Hitler and Ciano received Teleki and Casky and gave them freedom of action in regard to the Rumanian question, but Hitler warned the Hungarians that they would receive no aid from either Germany or Italy in any action they might take. Hitler, seeing the opportunity presented to him, offered to send King Carol a demarche asking him to accept negotiations. Carol responded by offering Hitler an alliance between Germany and Rumania. It was at this point that it became clear that the whole Transylvanian question was nothing but a bait held out by Germany, taking advantage of their advantageous position, to entice both Rumania and

27 Russia encouraged the revisionist aims of Hungary in Transylvania

28 Count Pal Teleki, Hungarian Prime Minister, February, 1939 to April, 1941.

29 Count Istvan, Hungarian Foreign Minister, 1938 to 1941.


Hungary to seek help from Germany. 

Regardless of the outcome, Germany would emerge as the ultimate winner. On July 15, 1940, the Fuehrer rejected Carol's plea for an alliance, telegraphing Carol that Rumania must come to terms with Hungary. He also told the King that Germany was not going to interfere in any Hungarian plans concerning Rumania. Hitler also stated that Germany was not interested in helping Rumania, even if it meant that Germany would have to dispense with Rumanian oil. The Fuehrer's scheme succeeded. Carol submitted to Germany's demands and sent Manoilescu and Gigurtu to Hitler. Hitler's decision would guide Rumania as to what course of action she should take.

The Fuehrer next moved to settle Bulgaria's disputes with its neighbors, particularly Rumania. He approved of Bulgaria's land claims and stated that he believed that the three Balkan States should come to terms. Germany would act as the mediator between the newly formed bloc of States. The discussions took place in two separate locations: The Rumanians met with Ciano and Mussolini in Rome, while Hitler met with the Bulgarian leaders at Salzburg.

---

32 Horthy, p. 325.

33 Survey of International Affairs, Triumph of the Axis, p. 325.

34 Mihai Manoilescu, Gufenu's successor as Prime Minister a decided Germanophile.

35 Don Gigurtu, Rumanian Prime Minister.

36 Survey of International Affairs, Triumph, p. 325.

37 Ibid.
The outcome of the negotiations was the Second Vienna Award, signed on August 30, 1940. Under the terms of this treaty, Northern Transylvania was attached to Hungary. Hungary now received an area of 16,642 square miles with a population of 2,393,600. Southern Dobruja, which had an area of some 3,000 square miles, was taken by Bulgaria. The total amount of land which Rumania lost was about 20,000 square miles with a population of about 4,000,000. According to Ciano: "The Hungarians couldn't contain their joy when they saw the map. Then we heard a loud thud. It was Manoilescu, who fainted on the table."

In return for Germany's guaranty of the award, Hungary agreed to step up the delivery of foodstuffs to Germany. The Reich gained a great deal from the Vienna Award. For one thing, it succeeded in preventing a Balkan War. In addition, due to the manner in which Transylvania was partitioned, Germany succeeded in transferring the major railway line into the more compliant Hungarian hands. This railway line was vital to Germany as it enabled her to gain a direct route to the Rumanian oil fields. Lastly, the

---

38 Also known as the Second Belvedere Award.


40 This came to be known as the Treaty of Craiova.

41 Gibson, (Ciano), December 6, 1940, p. 319.


43 Survey of International Affairs, Triumph, p. 325.
Reich had succeeded in satisfying the greater part of Bulgaria's revisionist aims. By the award, Germany gained everything useful while making Hungary play the role of the wolf. Thus, Germany, in one stroke, gained a hold in all three capitals, Budapest, Bucharest and Sophia. The situation between the Award countries relaxed somewhat, as Hungary was resting on the laurels of new acquisitions, and Rumania was torn apart internally.

The loss of Transylvania drove King Carol from the throne in favor of his son, Michael. The real power behind the throne was General Antonescu, the newly appointed Prime Minister. As soon as Antonescu took office, he publicly proclaimed his intention of using his power to complete the transformation of Rumania into a fascist state to be firmly attached to Germany and Italy. The new Premier wasted no time in following through with his intentions. Antonescu immediately announced that, henceforth, the pro-totalitarian group, the Iron Guard, would be the only legal political group or party permitted in Rumania. In September of 1940, Nazi SS officials began their infiltration into Rumania under the pretense of assisting in the relocation of Germans leaving Bessarabia (in case of a Soviet invasion). In October, German troops openly

44 Ibid., p. 328.
45 In July of 1940, King Carol had him arrested twice, but appointed him Premier in the wake of political insurrection,

47 Lukacs, p. 313.
occupied Rumania, particularly around the oil fields of Ploesti. On October 9, von Ribbentrop sent off a message to Moscow to calm the anxiety there regarding German troop movements in Rumania:

... The Rumanian government some time ago made a request of us to make available to it, for the training of the Rumanian army, a military mission with certain instruction units from the German army. The purpose of the movement was the necessity of protecting those interests from Great Britain. General Antonescu asked the German Ministry in Rumania for... aerial defense of Ploesti (anti-aircraft artillery and pursuit planes). The General bases his request on the dangers to the oil fields which would be increasingly great as soon as the arrival of the advance party (instructional units) became known to England.

By June of 1940, German penetration into Southeastern Europe without outright military take-over reached its limits. From this point on, any German gains would come about only through military occupation.

The successes of the German Army in Western Europe, the Norwegian Campaign, and the troop movements in the Balkan countries during the first year

---

48 Survey of International Affairs, Triumph, p. 330.

49 Nazi-Soviet Relations, p. 206.

50 Ibid.

of the war, served to whet Mussolini's appetite for a share of the limelight. Italy's success in Albania did little to satisfy Mussolini's expansionist aims. The Duce had entered the war on June 10, 1940, but the declaration was too late for him to claim any responsibility for the capitulation of France. The situation facing Mussolini worsened, as he persistently heard rumors of peace overtures made to Great Britain by Germany.

On June 19, 1940, Hitler and Ribbentrop met with their Italian counterparts at Munich to discuss armistice terms to be imposed on France. Mussolini's fears of "being caught in the outbreak of peace" was increased by Ribbentrop's statement that peace feelers were operating through Swedish channels. Mussolini was fearful of the possibility of an early peace between Great Britain and Germany, because of intentions concerning France. As early as July, the German Ministers in the countries of Western Europe were sending dispatches to Berlin concerning the British attitude on the continuation of the war. On July 22, 1940, Ambassador Hempel wrote:

"Prospects for the continuation of the war are generally regarded with pessimism. While the middle and lower classes of people are depressed and longing for a speedy peace, the ruling class is still preponderately in favor of going on with the war."


53 Lukacs, p. 316.

54 Wiskemann, p. 216.

55 Edward Hempel, German Ambassador to Iceland, 1937-1945.

If such a peace were achieved, Italy’s North African claims against France might be ignored. Mussolini began to speak of action against either Greece or Yugoslavia as early as September.57

When German troops began occupying Rumania in defense of the Ploesti oil fields during the summer of 1940, the Duce was surprised and angered. It was at this point that Mussolini decided that Greece was to be his next sphere of activity. On October 12, he told Ciano:

"Hitler always faces me with a fait accompli. This time I am going to pay him back in his own coin. He will find out from the papers that I have occupied Greece. In this way, the equilibrium will be re-established."58

The Fuehrer and his Foreign Minister were leaving France on October 27, 194059 when they received word of the Italian plans concerning Greece to take place the following day. Hitler immediately ordered Ribbentrop to arrange a meeting between Mussolini and himself the following day.60 It was too late. As German officials emerged from the train the next day, Mussolini gleefully addressed Hitler: "Fuehrer, we are on the march! Victorious Italian troops

57 Wiskemann, p. 226.

58 Gibson, October 12, 1940, p. 300.

59 The two were returning from Montoire, where Petain had signed an agreement collaborating with Germany towards Great Britain’s fall. The meeting was the second stop in the journey. Hitler had earlier gone to Hendaye, Spain with hopes of absorbing Franco’s forces on the side of the Axis. See: Shirer, Rise and Fall, pp. 814-16.

crossed the Greco-Albanian frontier at dawn today." 61

Indeed they had. After a three-hour grace in which to answer an
ultimatum, the Greek Prime Minister, Metaxas, said that the ultimatum meant
war. 62

Mussolini's attack on Greece showed the world the most effective
manner in which not to execute a blitzkrieg. It was doomed from the start.
The time of the year was the poorest choice the Italians could have made. 63
Lack of planning on the part of the Italians was evident. Ciano relied on
cooperation from Bulgaria to render ineffective (against Italy) a large part of
the Greek Army stationed on the Bulgarian border. Mussolini previously had
had offered to King Boris of Bulgaria the possibility that Bulgaria might be able
to gain an outlet on the Aegean Sea. 64 The Duce also told his commander-in
chief of the operation, General Badoglio 65 that he had bribed the leading

61 Shirer, p. 816.

62 Survey of International Affairs, Triumph, p. 340. The pretext
of the ultimatum was the non-neutral conduct of the Greeks in allowing British
ships to be repaired and to dock in the Greek inlets and outlets.

63 Pietro Badoglio, Italy in the Second World War, Memories and

64 Luigi Villari, Italian Foreign Policy under Mussolini (New York:

65 Badoglio, p. 27. Marshall Pietro Badoglio, Italian Chief of
Staff, High Commissioner of East Africa and Governor General of Lybia.
Greek generals at a rather high price. Ciano also surmised, somewhat pre­maturely, that the Albanians would look at Epirus\textsuperscript{66} as a welcome addition to their domain and would be excellent fighting companions for Italy.

The Italian Foreign Minister proved to be mistaken on every point. For one thing, King Boris of Bulgaria did not want an Aegean seaport so badly that he was willing to wage a war for it. In the second place, the Greek generals had not been bought off, as the fierce fighting of the armies under their leadership illustrated. Finally, the Albanians' "co-operation" with the Italians took a form that made themselves more of a nuisance than an ally.

The comparatively small forces used for the operation, approximately 70,000, suggested that the Italians counted on a prompt Greek collapse\textsuperscript{67}. In the beginning, the Italian coastal drive proved to be moderately successful. Further inland, owing to poor road conditions, advance and supply became increasingly difficult.\textsuperscript{68}

The inability of the Italian forces to move their mechanized divisions on the muddy roads forced them to use the valleys, giving the Greeks free reign over the ridges along Italian invasion routes. Conditions such as this

\begin{itemize}
  \item \textsuperscript{66} A name given to the land immediately to the south of Albania. The large number of Albanians in the Greek controlled province made it a target for Albanian expansionist aims.
  \item \textsuperscript{67} Survey of International Affairs, Triumph, p. 341.
  \item \textsuperscript{68} McInnis, Vol. V., p. 71.
\end{itemize}
were responsible for the catastrophic defeat of the Italian Alpine Divisions on the Aoos (Viosa) River in early November. Not only did this battle stop the Italians cold but it served to give the Greek forces the initiative in the struggle. 69

Adolf Hitler termed the Italian invasion of Greece a "regrettable blunder." 70 It was more than that. It was the main reason for the forced military occupation of Southeastern Europe and the eventual Balkan participation in the war. 71 The O.K.W. 72 realized the effect of the thwarted invasion immediately. It meant that the Allies could not be permitted to open an offensive in the Southeast. Hitler, embarrassed and enraged by the presence of the British troops in Greece, was particularly concerned about the ease with which the Allies would be able to stage air raids over the Rumanian oil fields. 73

69 Ibid.

70 Shirer, p. 817.


72 O.K.W. - Ober comando der Wehrmacht or German High Command.

Germany now made immediate plans to send troops across Hungary and Bulgaria in order to provide reinforcements to the Italian troops. Mussolini's blunder in Greece also intensified the importance of the war in the Mediterranean. On November 12, 1940, Hitler issued his War Directive No. 18 in which he outlined his plans for the war in the Mediterranean. With the Italian venture obviously doomed to failure, the Fuehrer inserted orders concerning Greece, "... in the event of its becoming necessary to occupy that part of the Greek mainland north of the Aegean operating from Bulgaria." On December 6, 1940, Field Marshall Erhard Milch arrived in Rome to begin plans for an air offensive in the Mediterranean.

The Nazi thrust into the Mediterranean spelled the end to whatever degree of independence the Balkan States still maintained. Bulgaria was the next country to feel the German strangle-hold. The O.K.W. had been working on Operation Marita since November. This plan consisted of forcing

---

74 The advance through Yugoslavia would have been shorter but Hitler chose not to jeopardize that country's position as neutral.


76 Originally, its directives pertained to little else but Operation Felix, The German code name for the military conquest of Gibraltar, the Spanish Canary Islands, and the Portuguese Cape Verde Islands.


78 Gibson, (Ciano), December 6, 1940, p. 319.

79 German code name for the invasion of Greece.
Yugoslavia to join the Tripartite Pact and to transport troops across that country into Greece by March, 1941.  

In the first week of 1941, Milan Pilov, Bulgarian Prime Minister, visited Berlin for decisive discussions with Hitler. King Boris gave him instructions to consent to what Boris knew the German demands would be: an avenue for the German Army's march to the Aegean. Forty German staff officers, "tourists," and German businessmen had entered Bulgaria during the preceding month. Bulgarian public opinion was not against a German-Bulgarian agreement, since an advance on Salonica and Western Thrace would mean regaining the Aegean outlet lost in 1913. Bulgaria's preference of Germany to the Soviet Union was shown by her rejection of a Soviet proposal for a pact between the two countries, on the grounds that "accession to it would be abandonment of her neutrality."  

In a meeting on January 7, Hitler attempted to ease Bulgaria's cause for hesitation in entering the Tripartite Pact. He assured her that there was only a slim chance that either Turkey or Yugoslavia would attack Bulgaria over the matter. As for the danger of Russian intervention, Hitler

---

80 Wiskeman, p. 253.
81 Lukacs, p. 352.
82 Ibid., p. 358.
stated that such a pact would serve to ally Germany and Bulgaria. Hitler went on to say that as long as Stalin was alive, it was impossible that Russia would start anything with Germany. As a proof of this, Hitler used Rumania as an illustration.

The overtures succeeded, because four days later, on January 11, Richthoffen wrote the German Foreign Ministry that:

... the first conversation which (he) had after (his) return with the Foreign Minister and the Minister President today showed that the Bulgarian Government is at heart prepared to sign the Tripartite Pact quickly, although apprehensions about military consequences that might befall between signing of the draft pact and the first German aid (still exist).

The outcome of the talks with Parvan Dragonov were of little importance. Two days earlier, on January 9, the Fuehrer approved von Brauchitsch's proposal to "get in touch with Bulgaria in order to prepare quarters for troops south of the Danube for troops crossing first... expected before the end of January."

85 Herbert Freiherr von Richthoffen, German Ambassador to Bulgaria.
87 Parvan Dragnov, Bulgarian Ambassador to Germany.
88 Field Marshal Walther von Brauchitsch, Commander-in-Chief of the German Army.
On January 28, 1941, Jodl telegraphed Hitler that:

announcement of Bulgaria's accession to the Tripartite Pact is no longer urgent . . . the extent of the (troop) entry cannot yet be predicted at this time, but will most probably not take place before February, 20.91

An agreement was signed between the two countries on February 8, 1941, between Field Marshall List and the Bulgarian General Staff. It agreed to the passage of troops into Bulgaria. On February 28, the Bulgarian Government formally joined the Tripartite Pact, after German troops crossed the Danube from Rumania the evening before. By the end of February, only one country separated the German Army from the Aegean Sea.

The similar fate of Yugoslavia came about much differently. Great care had to be exercised in case the Italians might interpret any move made against Yugoslavia as a direct interference with their own interests. Yugoslavia was the only Balkan country able to supply Italy with the raw

90 General Alfred Jodl, Chief of the Wehrmacht Operations Staff of the O.K.W.
92 Wilhelm List, Commander of the Twelfth Army, at this time was stationed in Rumania.
94 Bullock, p. 583.
materials that she desperately needed, such as copper, lead, and bauxite. If Yugoslavia were to come under Nazi control, Italy's dependence on the Reich would be increased. The German victories in Western Europe, Mussolini feared, might result in drawing Ante Pavelier's support to the Nazi camp.

The Italian failures in Greece served to multiply Yugoslavia's anxieties. Heretofore, Yugoslavia was important to Germany for only political and economical reasons. But now, Germany's relationship with Yugoslavia began to have military tones. The Yugoslav position was in double jeopardy. Without official sanction, the Yugoslav armaments producer, Nikola Stankova, arranged shipments to the Greek army via a Turkish businessman in Istanbul. From there, the armaments were shipped to Greece. In addition to this, the Greeks received permission from Prince Paul to operate and maintain a supply depot in Yugoslav territory.

95 Hoptner, p. 173.
96 Ante Pavelier, pro-fascist Croatian leader. Supported largely by funds from Mussolini.
97 Gibson, (Ciano), May 10, 1940, p. 247.
98 Primarily since Yugoslavia had asked Germany to make sure that Italian troops stayed out of Salonika. See: Hoptner, p. 190.
99 Former Minister of Finance, pro-Greek and a close friend of Prince Paul.
100 Hoptner, p. 191.
101 Ibid.
In February, Prince Paul told Arthur Lane that Yugoslavia's position was desperate. With the date of Operation Marita approaching, Hitler became increasingly aggressive in his overtures to Yugoslavia.

On February 15, Hitler conversed with Cvetkovic and Cincar-Markovic at Berghof. The talk centered about the danger of Bolshevist penetration into the Balkans. The fuehrer also hinted at Yugoslavia's entrance into the Tripartite Pact and offered Salonika as a bribe. Yugoslavia rejected the proposal on the grounds that such a pact would involve both political and military collaboration.

In the meantime, the Italians were equally ambitious in their efforts to regain as much influence in Yugoslavia as possible. On February 4, the Duce also offered Salonika as a bait. Paul flatly

102 United States Ambassador to Yugoslavia.


104 Dragisha Cvetkovic, Yugoslav Prime Minister, February, 1939 to March, 1941.

105 Aleksandar Cinear-Markovic, Yugoslavian Foreign Minister, February, 1939 to March, 1941.


108 In Mussolini's view, an agreement with Yugoslavia would hasten Greece's fall, and at the same time, would stop German intervention which would severely wound Italian pride.
told Mussolini that he would make no agreement with Italy while Italy continued to wage its war on Greece. On February 25, Prince Paul informed the Italian Charge d'Affaires that he was willing to negotiate an agreement with Italy, provided that Italian actions did not alienate public opinion in Yugoslavia against the government. The Germans, however, interfered in the talks between the two countries on February 22 when the Foreign Ministry ordered:

... we would like to suggest that the Italian government, in case the Yugoslavs should approach it once more, should not go more deeply into the subject in the conversations for the time being and certainly should not consider any sort of agreement until the result of our negotiations now pending was certain.

On March 4, Prince Paul paid a secret visit to Hitler at the Berghof in order to discuss further the possibilities of a German-Yugoslav Agreement. At the meeting, Hitler granted Paul control of Salonika. Such an acquisition would have given Yugoslavia an access to the Aegean. The Fuehrer also vowed that Yugoslavia would not be asked to permit German troops and supplies to cross its border during the coming Greek

109 Hoptner, p. 207.
111 Ibid., No. 97, p. 180.
112 Bullock, p. 583.
hostilities. On March 24, 1941, the Yugoslav Prime Minister, Cvetokovic, accompanied by Foreign Minister Cincar-Markovic slipped out of Belgrade and went to Vienna. In the presence of Hitler and Ribbentrop, the pact was signed the following morning. Hitler closed the meeting with a reassurance of his earlier pledges. (Even he did not realize, however, that of all his broken pledges, changing circumstances destined this to be the shortest lived.)

It looked as if Yugoslavia, like Rumania, Bulgaria, Czechoslovakia and Austria, were now under the iron hand of Nazism. The supposition was brief. During the night of March 26 and 27, a group of Yugoslav officers, fearing their country’s participation in the Pact, staged a coup d’etat. There had been an atmosphere of unrest in Yugoslavia as early as 1937 but it was not until January of 1941 that General Dusan Simovic considered an overthrow warranted. It provided the only alternative to making complete capitulation of Yugoslavia to Nazi Germany necessary.

113 D. Ger. F. P., "D", XII., No. 130, p. 231.

114 There existed a fear of kidnap by hostile anti-Nazi demonstrators so their exit was held in strictest secrecy.

115 Bullock, p. 583.

116 Ibid., p. 584.

117 Commander of the Yugoslav Air Force.

118 Ristic, p. 84.
The actual planning of the Yugoslav coup d'état was done by Simonic's assistant, General Broivja Mirkovic. After the overthrow, Cvetkovic and his Foreign Minister, Cincar-Markovic, were arrested by the revolutionaries. The following night, Prince Paul and his family left for Greece. In his place, King Peter ascended the throne on March 28, 1941. General Simovic then took over as Prime Minister.

The coup d'état threw Hitler into one of his wildest rages. A war council was called at the Chancellery on March 27. The trouble in Belgrade endangered both Operations Marita and Barbarossa. The Fuehrer told the conference that he had no intention of standing for that: now he would smash Yugoslavia once and for all. Never mind what the

119 Hoptner, p. 252.


121 Hoptner, p. 266.

122 According to the constitution, it was illegal for him to take the throne before his eighteenth birthday (September 6, 1941). See: Ristic, p. 187.

123 It had been suggested, to no avail, that Cincar-Markovic be retained as Prime Minister, primarily as a move to gain Germany's trust, at least until the shock of the coup d'état had time to settle in Berlin. See: Hoptner, p. 265.
new government might tell him, he had been disgracefully betrayed and a
declaration of loyalty would only be a feint, to play to win time.124

In his rage, Hitler issued War Directive No. 25 concerning the
fate of Yugoslavia:

No diplomatic enquiries will be made nor ultimatums
presented . . . the blow against Yugoslavia shall be
pitilessly struck and her military destruction (will) be
carried out with lightning speed . . . . The war
should be very popular in Italy, Hungary, and Bulgaria
since their states might hope to make territorial gains;
for Italy, the Adriatic Coast, the Banat for Hungary,
and Macedonia for Bulgaria.125

The attack was scheduled to begin on April 6. The day before the attack
Hitler telegraphed to Mussolini and expressed his desire for the postponement
of any Italian military clashes with the Greeks. Hitler also demanded that
the Italian forces wait for German strategic orders.126 The plan to destroy
Yugoslavia also relied on Hungarian cooperation. On March 28, Hitler dis-
patched General Sztojay127 to Budapest to convey to Horthy his desire for mili-
tary assistance and to promise Hungary that she had a chance to fulfill her
revisionist aims. This placed the Hungarians in a predicament.

124Keitel, p. 138.


126Wiskemann, p. 256.

127Dome Sztojay, Hungarian Foreign Minister to Germany.

Hungary had allowed passage of German troops through her country while enroute to Rumania. Now Germany was not only asking Hungary's permission for transit rights, but was pressuring her to take an active part in the attack on Yugoslavia, fully realizing that Hungary had just concluded a pact of friendship with Yugoslavia four weeks before. The Hungarian Prime Minister, Pal Teleski, could not bring himself to support such a move. As the only way out of his dilemma, he committed suicide on April 3, 1941. In a letter to Hitler on that same date, Horthy expressed his desire to cooperate with the Germans and listed the military measures which had already been adopted by the country. The Regent was, however, of the opinion that mobilization would not be completed until April 15 but that operations could be carried out as early as the 12th.

Operation Punishment began with a ruthless bombing of Belgrade on April 6. The New York Times reported that bombing missions at roof-top heights (for Belgrade had no anti-aircraft guns) killed 17,000 civilians in three

---

129 Horthy, Memoirs, p. 183.
132 Hitler's special code name for the Yugoslav invasion.
days. The Yugoslav Army did not have time to mobilize but gathered hastily to defend its country against the onslaught of German troops. Poorly equipped, deployed, and organized, it offered little resistance to the Wehrmacht. Yugoslavia, divided by Croatian and Yerbian factions, also lacked political unity. This thwarted any attempt towards military unity and hastened the collapse of the Army. On its drive to Belgrade, the German Army captured 15,000 soldiers, including 22 generals. By the end of the twelfth day of the Yugoslav campaign, approximately 254,000 Yugoslav soldiers fell into German hands. On April 17, Cincar-Markovic signed the unconditional surrender.

The armistice was really a document that provided the blueprint for the termination of Yugoslavia's political existence as a monarchy. Germany received the Slovine territories of Maribor and Celje. She also maintained full authority over the Banat, which was intended later to serve as the core of a

---

133 New York Times, April 7, 1941.

134 Hoptner, p. 287.

135 Ibid.

136 Cincar-Markovic signed the armistice because no responsible head of the Yugoslav Revolutionary Government still remained in the country. See: Hoptner, pp. 288-92.

136 This included the territory that Yugoslavia received from Austria in 1919.
German Sudgau. The Reich also maintained full control over Serbia which was put under the control of the Serbian Fascist General Lyotic.

Italy's claims to the dismembered country were treated on the same level as the rest of the satellite countries. She received the southern part of Slovenia and part of the Dalmatian seacoast from Split to the Albanian border, and was appointed as the protector of Montenegro. The Yugoslavian kingdom had lasted less than two decades. By mid-April, 1941, it ceased to exist as a political entity.

The military occupation of Yugoslavia was not an isolated incident. Germany began its Operation Marita at the same time as it began its Operation Punishment. Operation Marita began on April 6 when German troops crossed into Greece from Bulgaria.

The plans for the invasion of Greece were not made with the same wrath as the plans for the invasion of Yugoslavia had been. Kietel wrote that Hitler:

was basically minded to give the Greeks an honourable settlement in recognition of their brave struggle and

---

138 Sudgau was the term used for a proposed German colony on the lower Danube made up of German-inhabited districts of Tolna in Hungary and the Backa, together with the Banat.

139 Bullock, p. 586.

140 Survey of International Affairs, Triumph, p. 361.
of their blamelessness for this war; after all, the Italians had started it. 141

Hitler was later to say that the campaign in Greece was not directed against the Greeks per se; nor was it directed toward the purpose of rescuing his Italian Allies, but it was undertaken solely as a precaution against a British attempt to entrench themselves in the Balkans. 142 The immediate task, however, was the expulsion of British troops from Greece.

On March 4, Sir Anthony Eden 143 and General Dill 144 arranged with Prime Minister Korizis 145 that British aid should be sent to Greece. This aid consisted of the British First Armoured Brigade, the New Zealand Division, and the Sixth Australian Division. The Polish Brigade and the Seventh Australian Division were to follow by the end of the month. 146

On April 5, the German Foreign Ministry telegraphed its intentions to the legation in Athens. The cablegram also included Germany’s justification

---

141 Keitel, p. 141.

142 Bullock, p. 585.

143 British Secretary of State for Foreign Affairs.

144 Chief of the Imperial British General Staff.

145 Alexander Korizis, Greek Prime Minister from January 29 to April 18, 1941, replacing Metaxas who did in early January, 1941. He was decidedly more Germanophile than Metaxas.

for the occupation. The Reich, in possession of "documentary evidence" charged that:

... These documents point out that the Greek Government . . . , concerning whose unneutral conduct since the beginning of the war . . . by permitting strong English forces to enter the country has itself brought on a situation towards which Germany can no longer remain inactive. The Reich government has therefore now ordered its troops to expel the British forces from Greek soil. Any resistance offered to the Wehrmacht will be ruthlessly crushed ... it is emphasized that the German troops do not come as enemies of the Greek people and that the German people have no intention of fighting or destroying the Greek people as such. Rather the blow which Germany is compelled to strike on Greek territory is aimed at England.147

On April 6, Field Marshall List, Commander of the German Twelfth Army which consisted of fifteen divisions (four of them armoured) crossed into Greece. The Greeks, exhausted after six months of fighting with the Italians, offered only a token resistance. Prime Minister Korizis committed suicide and the nation's leadership fell into the hands of the Army.148 On April 20, the Greek generals in Epirus and Macedonia offered capitulation to the advancing Germans. General Tsolakoglou, commander of the Epirus army, made a deal with the Germans behind the backs of the Italians in order to save Epirus from Mussolini.

148 Survey of International Affairs, Triumph, p.
149 Lukacs, p. 384.
On April 21, the Greeks informed the British that continued struggle against the Germans was pointless. General Papagos told General Wilson that in order to prevent the devastation of Greece, British troops should re-embark.

On the 23rd of April, the Greek Government temporarily evacuated to Crete, and four days later the German Army entered Athens. It was another example, as Churchill wrote, of "One at a Time" of Germany's policy towards the Balkans.

The Greeks, as in the case of Yugoslavia, stood helplessly by and watched the division of their country. General Tsolakogulu was placed in charge of forming a government to accept the German terms.

As a result of the Greek occupation, Bulgaria recovered Western Thrace, Eastern Macedonia and the regions of Florine and Kastoria, lost to

150 Survey of International Affairs, Triumph, p. 362.

151 Commander-in-Chief of the Greek Army.

152 Field Marshal Sir Henry Maitland, Supreme Commander of the Mediterranean.


154 Survey of International Affairs, Triumph, p. 362.


156 Gibson, Ciano, April 27, 1941, p. 343.
Germany maintained direct control over Salonika. The Fuehrer brushed Mussolini's claims of Salonika aside by saying that Bulgaria had requested it earlier and had received German approval. In doing so, the Reich preserved the area for military intentions. Thus, the last country in Southeastern Europe had joined the vast Nazi hinterland.

157 Lukacs, p. 384.

158 The area was entrusted to General Lehr's administration. It was to be used as a military center for Eastern operations.

159 Survey of International Affairs, Triumph, p. 362.
CHAPTER VI

CONCLUSIONS

Operations Punishment and Marita began simultaneously on April 6, 1941. The occupation of the two countries, Yugoslavia and Greece, resulted in the complete loss of independence by the Balkan States. In actuality, that had occurred as early as 1938. Practically speaking, it began soon after Hitler ascended to power in 1933.

This paper has dealt with the gradual encirclement of Southeastern Europe by Nazi Germany. There are numerous reasons why the Reich was unimpeded in its Balkan penetration. The first, and most important of these reasons must lie with the Western democracies' inability (or unwillingness) to offer economic assistance to Southeastern Europe. This forced the individual Balkan nations to rely more and more on the Third Reich.

As the depression slowly came to an end, the nations of the world adopted a fiercely nationalistic and protective attitude to stimulate their domestic economies. The standard policy called for as little importation as possible. Here again was a factor that aided Germany in its early stages of penetration. The Reich was a heavy importer of foodstuffs and exporter of finished goods. The Balkan countries relied almost solely on exportation of goodstuffs and had to import nearly all their finished goods. Hence, from the
beginning, a mutual attraction developed. With the closing of the world
markets to the Southeastern European countries, they willingly accepted the
generous proposals offered by the Reich.

The rearmament policy in Germany and the hesitancy of the Western
democracies to enforce the provisions of the Versailles Treaty enticed the
Balkans into the German camp. The weaknesses shown by France, Great
Britain and the United States served to induce the countries of Southeastern
Europe to lean to the Reich. The growing strength of Nazi Germany was at
first used as a bargaining power in Southeastern Europe. It soon revealed itself
as a threat to the Balkans' very independence. As the fascist regime grew
bolder in its defiance towards the West, the lack of the latter's response
illustrated the futility of the Balkans expecting assistance from Western Europe
and the United States. Southeastern Europe also began to see its own immedi­
ate danger were it to fall in disfavor with Hitler.

The German modus operandi concerning the Balkans, although
involving a complicated system of economic devices, was simple: gain a
ready access to easy credit and accumulate large debts. In this way, the only
manner by which the creditor nations could hope to realize a return would be
to accept any and all products the Reich exported to them. Germany, in turn,
found a source of steady supply for its foodstuff requirements and, also, had an
outlet for products that had little demand on the world market.

The vast industrialization of Germany resulted in an acute shortage
of oil in the Reich. From 1936 onward, the Ploesti oil fields of Rumania
affected Germany's entire policy toward Southeastern Europe. Aside from economic value, the Balkans began to have a strategic importance to the Nazi hierarchy. Guaranty of the priceless commodity became the primary factor in the Reich's involvement with Southeastern Europe. It is here that the fate of Southeastern Europe was sealed.

The Anschluss and the occupation of Czechoslovakia placed the Reich in direct proximity to the Balkans. By that time, Southeastern Europe was almost wholly dependent economically on Nazi Germany. Utilizing Western hesitancy as a trump card, Reich diplomats pressed for troop movements throughout the Balkan area.

With the outbreak of the war, it became necessary for Germany to consolidate Southeastern Europe; not only to insure the safety of its oil and other supplies, but to protect itself from the possibility of the Allies opening up a Southeastern front. In doing this, the Nazi diplomats played on the very weakness of the Balkan States themselves: the bitterness among the States caused by the post World War I peace settlements. Courting the individual revisionist appetites of these States, the Reich succeeded in bringing the countries under her direct control.

Germany also used the inherent Balkan fear of the Soviet Union to its own advantage. The proximity of the Russian menace to Southeastern Europe (especially to Rumania) facilitated Nazi intervention in Balkan affairs. After the Nazi-Soviet Pact in 1939, Balkan diplomats openly sought the Reich's guarantee of their independence in the event of Russian aggression.
Two events resulted in the outright military occupation of South-eastern Europe. The first was an erratic attempt by Italy to realize her own expansionist aims in Greece. The second was a military coup d'etat in Yugoslavia. These, added to the presence of Allied troops in Greece, resulted in an overt military campaign into the Balkans.

Though the gradual, total subjugation of the Balkans encompassed eight years, the result was the same. As of June, 1941, Rumania, Bulgaria, Greece, and Yugoslavia were added to an impressive list that included Austria, Czechoslovakia, Poland, Norway, Denmark, Belgium, and France as satellites of the Third Reich.
BIBLIOGRAPHY

1. Documentary Material


Great Britain. Documents on British Foreign Policy, 1919-1939. 2nd ser.


Among the documentary materials that were used during the preparation of this paper, those which were the most frequently used and which proved to be the most important were the annual publications of the League of Nations. These statistical volumes provide an analysis of every aspect of international financial transactions on a yearly basis. The most important of these publications and those volumes which are the most frequently quoted are: Review of World Trade and World Economic Survey. These two volumes helped the researcher a great deal in his quest for economic facts, figures and other statistical data.

Other documents which were of great value in the research on the economic portion of this thesis was Great Britain's Department of Overseas Trade's
publication, Economic Conditions in Germany to March, 1938, and the U.S.
Tariff Commission’s, Compilation of Data on United States Trade with Germany.
The former, obtained from Duke University, Durham, North Carolina through
inter-library loan, provided an abundance of data and an excellent insight
into economic events inside the Third Reich.

No paper concerning Nazi Germany, whether or not it deals with the
subject of economics, can be attempted without that veritable wealth of infor­
mation which is. found in the United States Department of State's Documents
on German Foreign Policy, 1918-1945. The researcher of this paper relied
heavily on both series "C" and "D" of this publication. Other documents of
considerable value were the volumes of: Nazi Conspiracy and Aggression and
Trial of the Major War Criminals, Nuremberg, Nov. 14, 1945 - October 1,
1946. These documents are both very similar but Nazi Conspiracy and
Aggression is much better organized, both in the categorial and chronological
sense. For this reason, Nazi Conspiracy and Aggression is the most fre­
quently used of the two volumes.

The State Department's publications, Nazi-Soviet Relations, 1949-41,
was very useful in analyzing the Soviet Union's increasing interest and activity
in the affairs of Southeastern Europe. The Foreign Relations of the United
States, 1933-39 was also used but not as much as Nazi-Soviet Relations,
1939-41.
Although the Board of Governors of the Federal Reserve System's Federal Reserve Bulletin is listed in the bibliography, it is not cited in the text. Volume XXII was used as a handbook in an attempt to keep abreast with the ever fluctuating currency values.

2. Memoirs


The study of the memoirs and papers of the individuals concerned with the topic of this paper was a constant source of disappointment. Almost without exception, the books were filled with excuses, explanations, cover-ups or personal glorification for the actions of the individuals concerned during this period in time. Also, to my personal chagrin, the various authors did
not see much importance to the events taking place in the Balkans and, conse­quently, the Reich's movements in Southeastern Europe were handled very lightly.

The notable exception was Winston Churchill's book, The Gathering Storm. Early in this book, Winston Churchill stressed the value of the Balkans to the economy and political balance of the world outside the Reich. His brilliant six-volume treatise provides an excellent background for the study of the events leading up to and during the war years.

Several other memoirs are worth mentioning, either for their usefulness or worthlessness. The Ciano Diaries were frequently consulted, and proved to be of some use in the section on the Italian invasion of Greece in the thesis. The Memoirs of Field Marshal Keitel (understanding the author's need for haste rather than accuracy) were of little use. As the General rarely spoke of his own accord while alive, little can be expected of his revelations to posterity.

Several memoirs, such as Badoglio's Italy in the Second World War, The Ironside Diaries, 1937-1940, and The Memoirs of General Lord Ismay, were somewhat useful in the research on the military aspects which are mentioned in the latter part of the thesis.

Franz von Papen in his Memoirs presents a fair insight on the German push to the Southeast, although the information is much too general.
Unquestionably, the most disappointing source of the entire bibliography was Dr. Schacht's Confessions of "The Old Wizard." Schacht gives no account and rarely mentions his plans concerning Southeastern Europe. Instead, and this is true of all too many of the memoirs, Schacht uses his reminiscences as a whitewash for his role in Nazi government affairs.

3. Historical Works


The era of Nazi power in Germany is one of the most written about periods in history. Because of this, there is no problem in accumulating a large number of secondary sources containing information on the Third Reich. It was also fortunate that several excellent books have been published which concentrate on the manner and methods which the Nazi hierarchy used to finance their rise to military greatness. Some of these books are: Sweezy's *The Structure of the Nazi Economy*, Vaso Trivanovitch's *Economic Development of Germany under National Socialism*, Gustaf Stalper's *The German
Economy, 1870 to the Present, and Burton H. Klein's Germany's Economic Preparation for War. Of these books, Maxine Sweezy's must rate as the best, not only for its thoroughness but also because of its extensive bibliography and references. Another secondary source vital to the research for this paper is S.E. Harris's Exchange Depreciation. This is a complicated book but is extremely valuable if one is to understand the problems raised by currency fluctuation and exchange controls.

For general background information on data concerning the Third Reich, two books are indispensable. These books are: Hitler, A Study in Tyranny by Alan Bullock and its offspring, The Rise and Fall of the Third Reich by William Shirer. These books give the reader an extensive insight into the era and present an excellent springboard for further research.

Survey of International Affairs also gives one a never ending supply of information. These volumes, published by the Royal Institute of International Affairs acquaint the researcher with every aspect of European events of the era.

The most valuable books dealing with the Balkan States were L.S. Stavrianos' The Balkans Since 1453, and Kerner and Howard's The Balkan Entente 1930-35. These sources offered a tremendous amount of extensive, detailed and well researched information.

There were several books that proved to be very useful in providing information on Germany's economic encroachment into Southeastern Europe. Antonin Basch's work, The Danube Basin and the German Economic Sphere
is very thorough in its coverage of the Reich's advance into the Balkans. Basch's work, combined with Schacher's *Germany Pushes Southeast* provided the general outline for this paper. These books were filled with statistics, tables and bibliographical aids, and proved to be indispensable to the paper's research.

For a very brilliant and involved analysis of Dr. Schacht's manner of penetration into the Balkans, Amos E. Simpson's treatise, *Hjalmar Schacht in Perspective*, is excellent. This book was not only informative and useful in itself but its documentation provided a sound basis for further research.

As the research began to involve itself more and more around the military aspect, several secondary sources became extremely useful, in addition to the ones already cited. Elizabeth Wiskemann's *The Rome-Berlin Axis* was useful in the research on the problems concerning Yugoslavia. J.B. Hoptner's highly documented *Yugoslavia in Crisis, 1934-41* was indispensable in that area. James E. McSherry in his *Stalin, Hitler and Europe, 1933-39* strengthened the arguments for Russia's growing interest in the Balkans.

*The Great Powers and Eastern Europe* by John A. Lukacs was one of the best sources dealing with inter-Balkan conflicts and their problems with the Great Powers. Highly documented, Mr. Lukacs' work presented perhaps the most extensive and all inclusive secondary source of the bibliography.
4. Periodicals

"Collective Regulation of Working Conditions in Germany." The Ministry of Labor Gazette, XLII, No. 6 (June, 1933), p. 58.

"Industrial Activity in Germany." The Ministry of Labor Gazette, XLII, No. 6, June, 1933, p. 65.

"Regulation of Labor in Germany." The Ministry of Labor Gazette, XLII, No. 2 (February, 1934), p. 17.

"Unemployment Relief in Germany." The Ministry of Labor Gazette, XLII, No. 10 (October, 1933), p. 27.

The above periodicals, though quoted seldom in the text, contain a considerable amount of information concerning Nazi labor practices during the early years of the regime.

"Germany and Southeastern Europe." The Economist, CXXXVII, No. 133 (November 5, 1938), p. 265.

"Germany - Austria's Foreign Debts." The Economist, CXXXII, No. 131 (June 4, 1938), p. 534.


"Germany's Trade Offensive; German Methods of Foreign Trade." The Economist, CXXXVII, No. 133 (November 5, 1938), p. 262.


The bound volumes of The Economist obtained from the University of Nebraska are the most valuable periodicals referred to in the research of this paper. The articles, while not only concurring with the intentions of this
thesis, also gave the researcher a never ending supply of statistics, tables and other valuable data.

5. Newspapers

The Times (London). April 1-8, 1941.


The value of a newspaper in research to an author is highly questionable except for providing general background information. Too often editors seem to distort, exaggerate or otherwise "tamper" with information to make it more attractive to this subscribers.