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*Perica Hadži-Jovančić, PhD*  
Wolfson College, Cambridge  
pericahj@yahoo.com

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## **Ergänzungswirtschaft, Grosswirtschaftsraum and Yugoslavia's responses to German economic theories and plans for the Balkans in the 1930s**

**Abstract:** *This article focuses on German economic theory and plans for South-Eastern Europe in the 1930s and Yugoslavia's responses to it. By highlighting the opposition of Yugoslav economic experts, business leaders, press and officials towards the concepts of Grosswirtschaftsraum and Ergänzungswirtschaft, the article emphasises conflicting directions of economic development between the two countries; this would sooner or later lead to the confrontation, despite the level of political cooperation between the two countries.*

**Keywords:** Third Reich, Kingdom of Yugoslavia, interwar economy, Grosswirtschaftsraum, Ergänzungswirtschaft, economic penetration, New European Order.

German economic development after 1933, its post-Depression recovery, war economy and economic theories and ideology in the 1930s have been well researched in current historiography; this also refers to its foreign-trade policies and relations with smaller states in Northern, Eastern and South-Eastern Europe. However, the perspective of these countries towards Germany and its role in their economic development is less illuminated. This especially refers to the question of attitude toward and understanding of German economic theories and economic policies, as well as their reception among the economic elites of these countries, a topic surprisingly missing from the historiography in English or German language. Research and debates remained focused on the Third Reich, its economic structure and foreign-trade policies and some challenging historical problems – those of continuity with the Weimar Republic, the relationship between economy and politics in the Third Reich and the place of big business and traditional elites in the polycratic structure

of Hitler's executive.<sup>1</sup> The implication of this void in literature is a common perception that Germany successfully used the economy as a tool for its foreign-political goals, while the countries of European periphery are often viewed either as helpless victim of German economic penetration in the 1930s, or willing participants in mutual relationship which is mostly seen as being to their disadvantage.<sup>2</sup> In the 1970s, Hans-Jürgen Schröder enforced such views and referring to Germany's relationship with South-Eastern Europe, coined the term 'informal empire'.<sup>3</sup> As a more recent example, in 2015 Stephen Gross published *Export Empire: German Soft Power in Southeastern Europe, 1890-1945*, an excellent study of the deployment of German soft-power in South-Eastern Europe, research conducted mostly by using German material on Romania and Yugoslavia. The author established a connection between the network made up of unofficial personal contacts by German traders and corporations in the south-east, with the official economic policies of Weimar Germany and the Third Reich. However, although an important contribution to our understanding of the methods Germany used for economic penetration in the region, this book overstates the success of German soft-power, at least in Yugoslavia, while the reader is denied the reactions of Yugoslav and Romanian elites. Similarly, Grenzebach's *Germany's Informal Empire in East-Central Europe*, otherwise a very useful analysis of Germany's trade policies towards Yugoslavia and Romania between 1933 and 1939, is sadly undermined by a complete absence of material from Romanian and Yugoslav archives, which also leaves one side of a bilateral relationship out of the reader's perspective.

In recent times an opposite view has emerged, the one warning that this was a two-sided relationship and that the mere size of Germany as a trading partner to the smaller countries in the European north, east and south-east did not necessarily imply their willing subordination to German will and wishes; it also pointed to a much

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<sup>1</sup> Some of famous debates include Tim Mason's 1972 paper 'The Primacy of Politics – Politics and Economics in National Socialist Germany' and replies from a number of DDR historians, but also Hans-Erich Volkmann; also, Bernd-Jürgen Wendt's reply to Alan Milward's claim that Eastern-European countries were Germany's economic partners rather than the exploited side; Wolfgang Schumann was very influential in insisting that German leading businessmen decisively influenced the course of the Nazi policy in the European south-east, while Richard Overly and Ian Kershaw in the 1980s reaffirmed the authority of politics over economy.

<sup>2</sup> After 1945, first Albert Hirschman in his book *National Power and the Structure of Foreign Trade* (1945) and then Frank Child in *The Theory and Practice of Exchange Control in Germany: A Study of Monopolistic Exploitation in International Markets* (1958) claimed that Germany had been using its monopoly position in trade with South-Eastern Europe through bilateral clearing agreements to subordinate it in a political and an economic sense. They decisively influenced historical opinion on this issue in the next couple of decades.

<sup>3</sup> In 1988, William Grenzebach Jr. pointed to a greater agency of German economic partners in the south-east than it was usually assumed, in his *Germany's Informal Empire in East-Central Europe*, but did not deviate from the idea of Germany's informal empire.

greater agency in negotiating the terms of trade by the smaller partners than usually presumed. Albrecht Ritschl emphasised that economic dominance in mutual trade alone was not sufficient to establish massive exploitation of a smaller country.<sup>4</sup> Markus Wien analysed German-Bulgarian relations in his book *Markt und Modernisierung: Deutsch-bulgarische Wirtschaftsbeziehungen, 1918-1944*, published in 2007. By meticulously researching Bulgarian primary and secondary sources, Wien focused on Bulgarian interests and questioned the notion of Bulgaria's passive role in trade with Germany; he also pointed to Bulgarian discomfort with the dominant share of the German market in their foreign trade in the later stages of the period studied, despite both countries being revisionist, thus seemingly on the same side politically. Peter Hedberg and Elias Hakansson questioned the conventional wisdom which emphasised the alleged overexploitation by a stronger partner in using a monopoly position and the disproportionate importance of the German market for its smaller trading partner. Analysing the example of Sweden, they pointed to the neutralizing effect which the clearing mechanism had on an asymmetrical power relationship.<sup>5</sup> In the past, Alice Teichova and György Ranky challenged claims that the states of South-Eastern Europe had no other choice than to rely on the German market in the post-Crisis period and pointed out that such a policy was not always unbeneficial for them and ultimately favourable for Germany; both Ranki and Teichova mainly used the examples of Hungary, Romania and Bulgaria. It is therefore safe to say that to the reader, Yugoslavia's economy, its internal development and economic policies towards other countries and especially the Third Reich, still remain something of an unknown territory.

This article will briefly remind the reader of German economic theory, ideology and activities in the Balkans in the 1930s and then illuminate Yugoslavia's reactions to it. It will not go into the detail of the German-Yugoslav trade relationship, as such a task would exceed the space of a journal article and besides, has been covered by this author in his doctoral thesis, submitted in Cambridge in 2017. Instead, the article aims to present two contrasting understandings of what economy is and its role in the life of a nation-state, leading slowly to a friction between the two countries with different economic ideologies. Despite the fact that after 1936 a dominant share of Yugoslav foreign trade chart belonged to Germany, there was a gulf which separated the two sides in almost every aspect of economic theory, including that of different expectations of aims, directions and scope of Yugoslavia's industrialisation. The article

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<sup>4</sup> Ritschl, A. O., 'Nazi Economic Imperialism and the Exploitation of the Small: Evidence from Germany's Secret Foreign Exchange Balances, 1938-1940,' *The Economic History Review*, New Series, Vol. 54, No. 2 (2001), pp. 324-345.

<sup>5</sup> Hedberg, Peter & Hakansson, Elias, 'Did Germany Exploit Its Small Trading Partners? The Nature of the German Interwar and Wartime Trade Policies Revisited from the Swedish Experience,' *Scandinavian Economic History Review*, Vol. 56, No. 3 (2008), pp. 246-270.

therefore argues that Yugoslavia's resistance to adhere to German economic demands would have eventually forced Germany to intervene militarily and politically in order to secure its interests, despite the level of political cooperation between them.

### Terminology

German economic theories of the 1930s were grounded in earlier political and economic thinking and the ways in which the Germans perceived their place in Europe throughout the nineteenth century. Since the late eighteenth century, German history has been interpreted as a drive towards political and economic control of Central Europe. In the early nineteenth century, economist Friedrich List favoured the idea of a Central-European Economic Area, *Mitteleuropäische Wirtschaftszone*, where he combined Adam Smith's ideas of free trade and a liberal economy within a politically unified German nation-state, with the idea of a custom union between Germany and the rest of central Europe, modelled after the United States.<sup>6</sup> In List's time, this idea basically implied an Austro-German-Hungarian economic union and German expansion in the Balkans, strengthened through the resettlement of German farmers across the lower Danube area.<sup>7</sup> Bismarck was not interested in such theories, but after his dismissal Germany became embroiled in more aggressive and expansionist policies, a precondition for which was seen to be the setting up of a closed zone in Central Europe under German political and economic control. For Friedrich Naumann, who wrote his very influential book *Mitteleuropa* in 1915, Central-European Union was a tool for German survival in a world dominated by the British Empire and America in the west and the Russian colossus in the east.<sup>8</sup> In German strategical thinking, *Mitteleuropa* comprised a wide swathe of Central Europe, from the North and Baltic Seas, down to the Danube; however, it did not include the territory of the then Kingdom of Serbia.<sup>9</sup> At the time of Naumann's writing, the Balkans were seen more as a link between the *Mitteleuropa* and Asia Minor and the Eastern Mediterranean and there was much discussion as to whether countries such as Serbia or Bulgaria could be integrated into *Mitteleuropa* in a political sense.<sup>10</sup> The *Mitteleuropa* concept gained

<sup>6</sup> Strath, Bo, 'Mitteleuropa from List to Naumann', *European Journal of Social Theory*, Vol. 11, No. 2 (2008), 171–183, at pp. 172–174.

<sup>7</sup> *Ibid.*, pp. 177–178.

<sup>8</sup> Naumann, Friedrich, *Mitteleuropa*, Berlin: Verlag von Georg Reimer, 1916, pp. 167–170, 189–197.

<sup>9</sup> *Griff nach Südosteuropa: Neue Dokumente über dem deutschen Imperialismus und Militarismus gegenüber Südosteuropa im zweiten Weltkrieg*, ed. Wolfgang Schumann, Berlin: VEB Deutscher Verlag der Wissenschaften, 1973, p. 16. (henceforth: *Griff nach Südosteuropa...*)

<sup>10</sup> Mitrović, Andrej, 'Die Zentralmächte, Mitteleuropa und der Balkan', in Plaschka, R.G. et al. (eds.) *Mitteleuropa-Konzeptionen in der Ersten Hälfte des 20. Jahrhunderts*, Wien: Verlag der Österreichische Akademie der Wissenschaften, 1995, 39–62, at pp. 49–50, 56–57.

even greater importance after 1918 and served as a platform for undermining the new system of small nation-states in Central Europe.<sup>11</sup>

The theory of supplementary economy, *Ergänzungswirtschaft*, which emerged in this period, as the name suggests 'testifies to the practical intention of transforming the region of South-Eastern Europe [among others] into a complementary economic area of the Third Reich'.<sup>12</sup> This purely economic model covered a geographic space comprising of Germany as the core with a dependent economic periphery, of which South-Eastern Europe was part. Still, much of the theory of supplementary economies originated from the geo-political, rather than from pure economic considerations and much of the reasoning was based more on common logic than on empirical facts. To the conservative officials, economic experts and diplomats of Weimar Germany, *Ergänzungswirtschaft* was an economic counterpart to the political concept of *Mitteleuropa* and a tool for German economic domination over the European east and south-east. As such, it is linked to the envisaged economic bloc known as the *Grosswirtschaftsraum*, Greater Economic Area, a concept also popular in Germany at the end of the 1920s and in the Third Reich. Henry Cord Meyer defines it as 'a larger integrated economy, transcending national boundaries and motivated by considerations of economic exclusiveness and political advantage'.<sup>13</sup> The leading promoters of these ideas grew up in a time when Friedrich Ratzel first made public the definition of *Lebensraum*, (Germany's living space), while people like Ernst Jäckh and Karl Helffrich popularised the idea of a liberal *Weltpolitik* (world politics), an approach which favoured the creation of an economic bloc under German control, without formal annexation.<sup>14</sup> The period which followed, when they established themselves as Germany's political, intellectual and business leaders, was defined by the ideological crisis and economic chaos of the Weimar Republic and culturally by Social Darwinism and popular perceptions of Nietzsche's ideas, despite those ideas being brutally vulgarised to make them more acceptable to the conservative elements in interwar German society. At the same time, Karl Haushofer announced that the natural German living space was in *Mitteleuropa*.<sup>15</sup>

<sup>11</sup> Brechtefeld, Jörg, *Mitteleuropa and German Politics: 1848 to the Present*, London: Macmillan, 1996, p. 48. (henceforth: Brechtefeld, J., *Mitteleuropa...*)

<sup>12</sup> Mitrović, Andrej, 'Ergänzungswirtschaft: The Theory of an Integrated Economic Area of the Third Reich and the Southeast Europe (1933–1941)', in *The Third Reich and Yugoslavia, 1933–1945*, Belgrade: Institute for Contemporary History, 1977, 7–45, at p. 7. (henceforth: Mitrović, A., 'Ergänzungswirtschaft: The Theory...')

<sup>13</sup> Meyer, Henry Cord, *Mitteleuropa in German Thought and Action, 1815–1945*, The Hague: Martinus Nijhoff, 1955, p. 313.

<sup>14</sup> Gross, Stephen, *Export Empire: German soft power in Southeastern Europe, 1890–1945*, Cambridge University Press, 2015, pp. 33–39. (henceforth: Gross, S., *Export Empire...*)

<sup>15</sup> Whyte, Max, 'The Uses and Abuses of Nietzsche in the Third Reich: Alfred Baeumler's 'Heroic Realism'', *The Journal of Contemporary History*, Vol. 42, No. 2 (Apr. 2008), 171–194, at p. 176; Daitz, Werner, *Der Weg zum Volkswirtschaft, Grossraumwirtschaft und Grossraumpolitik*, Teil 2,

It was generally considered that the Balkans and lower Danube region belonged to the Greater Economic Area, *naturally* due to its geographic proximity. To contemporaries in interwar Germany, South-Eastern Europe was a geographic, political and economic space consisting of at least five countries (Yugoslavia, Romania, Bulgaria, Albania and Greece), three of which represented the core (Yugoslavia, Romania and Bulgaria) and with two additional peripheral countries (Hungary and Turkey).<sup>16</sup> Although not seen as part of German *Mittleuropa*,<sup>17</sup> it was the area which by the end of the 1930s began to bear, apart from the geographical, an ideological meaning, namely in replacing the derogatory term 'the Balkans'. As such, South-Eastern Europe deserved to be part of the new, reborn Europe; left on its own, outside new cultural, economic and political developments on the continent, it would simply remain the Balkans.<sup>18</sup> According to Franz Ahlgrimm in 1939, the main characteristic of this region was a high fertility rate, while 80 percent of the population lived and worked in rural settlements. Coupled with out-dated methods of land cultivation, the most important consequence of these circumstances was that only a small portion of agricultural products were surplus for export.<sup>19</sup> This was the perception of the Balkans, despite certain variations, of most German economic experts in the decade after the Great Depression, marked by the chronic shortage of foreign currency and the claustrophobic feeling of geographic and political isolation of a landlocked Central-European country. Supporting the economic development of the South-Eastern European countries to a level high enough to produce a surplus of foodstuff and raw materials for steady export to Germany, but not beyond the level which could instigate their industrial *take-off* – a domestic production of machinery and consumer goods which could deny Germany of its monopoly position as an exporter of these commodities to the region and increase average domestic consumption rates above the level which allowed any remaining surpluses for export to Germany – became the crux of German economic theories under the Nazis.<sup>20</sup> Ian Innerhofer recently stressed Germany's strong opposition to

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Dresden: Meinhold Verlagsgesellschaft, 1942, p. 15; Brechtefeld, J., *Mittleuropa...*, p. 54; Ristović, Milan, *Nemački novi poredak i jugoistočna Evropa, 1940/4–1944/45* [German „New Order” and South-Eastern Europe], Belgrade: Službeni glasnik, 2005, pp. 38–39. (henceforth: Ristović, M., *Nemački novi poredak...*)

<sup>16</sup> Wendt, 'England und der Deutsche „Drang nach Südosten”. Kapitalbeziehungen und Warenverkehr in Südosteuropa zwischen den Weltkriegen', Geiss, I. and Wendt, B. J. (eds.), *Deutschland in der Weltpolitik*, Düsseldorf: Bertelsmann Universitätsverlag, 1973, 483–512, at p. 483.

<sup>17</sup> Meyer, Henry Cord, 'Mittleuropa in German political Geography', *Annals of the Association of American Geographers*, Vol. 36, No. 3 (1946), 178–194, at p. 190.

<sup>18</sup> Ristović, M., *Nemački novi poredak...*, pp. 36–38, 41–43.

<sup>19</sup> Franz, Ahlgrimm, *Die Landwirtschaft des südosteuropäischen Raumes*, Lecture delivered on 21 February 1939, Vienna, 1939, pp. 17, 19.

<sup>20</sup> Hoffmann, Walter, *Südost-Europa: ein Querschnitt durch Politik, Kultur und Wirtschaft*, Leipzig: Wolfgang Richard Lindner Verlag, 1932, pp. 123–145; Hoffmann, Walter, *Grossdeutschland im Donauraum*, Berlin: Propaganda-Verlag Paul Hochmuth, 1939, p. 25; Erbsland, Kurt, *Die Umgestaltung der*

either the modernising tendencies of regional economies or their industrialisation, in an article about the German obsession with the term 'agrarian overpopulation' in this period.<sup>21</sup> The context was fear of shortfalls in foodstuffs and raw materials necessary for German economic recovery and rearmament under the Nazis, due to excessive consumption by the enlarged populations of exporting countries, which led directly to German economic planning for South-Eastern Europe. This planning, as already explained, meant the establishment of a united economic bloc of an agrarian periphery and the German industrial core, while industrialisation of the periphery was possible only if it suited German needs.<sup>22</sup> It points to the greatest pitfall in the theory of supplementary economies and Yugoslavia's place in it, namely the theory's dislocation from the reality of the region's own economic development.

### **German economic ideas in theory and practice under the Nazis**

These economic ideas were widely popularised in the German press, expert literature and by various official, semi-official and private institutions. The late 1920s and 1930s in Germany witnessed a proliferation of books, reviews, newspaper articles, and periodicals about the political, demographic, cultural, geographic and especially economic characteristics and problems of South-Eastern Europe. Andrej Mitrović pointed to a significant difference between the content of earlier and later publications in the 1930s, which was a consequence of important political developments in Europe; the tone, phraseology and the use of more aggressive statements after 1938.<sup>23</sup> These writings reveal the particular mind-frame captured in a historical moment. They all reiterated that Germany was a natural partner for the agricultural countries of South-Eastern Europe and reminded their readers of important political changes which occurred with the foundation of the Great German Reich; at the same time, they constantly emphasised the region's richness in mineral wealth and

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*deutschen Handelspolitik durch den „Neuen Plan“ und die Möglichkeit ihrer künftigen Ausgestaltung*, Speyer am Rhein: Pilger-Druckerei, 1937, pp. 61–65; Gross, Hermann, *Die Wirtschaftliche Bedeutung Südosteuropas für das Deutsche Reich*, Berlin and Stuttgart: Rohlhammer Verlag, 1938, pp. 9–14; Zeck, Hans, *Die Deutsche Wirtschaft und Südosteuropa*, Leipzig and Berlin: Teubner, 1939, pp. 25–26; Mayer, Thomas, 'Hermann Neubacher: Karriere einer Südosteuropa-Experten', in Sachse, C. (ed.), *„Mitteleuropa“ und „Südosteuropa“ als Planungsraum: Wirtschafts- und kulturpolitische Expertisen im Zeitalter der Weltkriege*, Göttingen: Wallstein Verlag, 2010, 241–261, at pp. 248–254.

<sup>21</sup> Innerhofer, Ian, 'The Role of the „agrarian overpopulation“ in German Spatial and Economic Planning for South East Europe before and during World War II', in *Perpetual Motion? Transformation and Transition in Central, Eastern Europe and Russia*, London: UCL School of Slavonic and East European Studies, 2010, 43–56, pp. 44–49.

<sup>22</sup> *Ibid.*, pp. 46–47.

<sup>23</sup> Mitrović, A., 'Ergänzungswirtschaft: The Theory...', pp. 27–28.

natural resources.<sup>24</sup> This fitted well into an extended argument that Germany needed to create an economic area under its control. While the official political and economic approaches, in the form of Hjalmar Schacht's New Plan up till the summer of 1936 and the Four-Year Plan after September 1936, provided the basis for what is usually regarded as *Drang nach Südosten*, (the drive to the south-east), it was the theory of complementary economies which offered an ideological justification for it. This was necessary in order to provide Germany with an ethically higher ground, one which excluded any German political intentions and insisted on purely economic cooperation for the benefit of all sides. Yugoslav and other regional countries' economic cooperation with any other great power was immediately stigmatised as political in nature; accordingly, other great powers with economic and political interests in the region were often referred to as the *raumfremden Mächte*, 'powers alien to the region'.<sup>25</sup>

At the same time, various research institutes for the study of economies and societies of South-Eastern European countries flourished. Such were the East-European Institute in Breslau, the Research Society for Central and South-Eastern Europe in Berlin, the Central European Institute in Dresden, the Institute for the Economic Research of Central and South-Eastern Europe in Leipzig, the Institute for South-Eastern European Studies in Munich and others.<sup>26</sup> Important tools for the increase in Germany's economic presence in South-Eastern Europe were various councils, trade chambers and economic societies, which starting from the late 1920s developed networks of private contacts among the political and economic elites in the region. The most active and influential of all was the *Mitteuropäische Wirtschaftstag* (henceforth MWT), 'Central-European Economic Council'.<sup>27</sup> Two things they all had in common was their denial of the *status quo* in post-1918 Europe, which was widespread across all levels of German society, and seeing the economy as a tool for the revival of Germany's status as the great power.<sup>28</sup>

In the same way, as the rhetoric of the German economic experts towards the European south-east was becoming more aggressive with every German political success in the later 1930s, the approaches of these institutions for the deployment of German soft power in the south-east were getting more zealous. This was partly

<sup>24</sup> The most influential experts on South-Eastern Europe in the 1930s were Walter Hoffmann, Hermann Gross, Fritz Valjavec, Kurt Erbsland, Hermann Neubacher, Hans Felix Zeck and others.

<sup>25</sup> Mitrović, A., 'Ergänzungswirtschaft: The Theory...', p. 36.

<sup>26</sup> Wien, Markus, *Markt und Modernisierung: deutsch-bulgarische Wirtschaftsbeziehungen 1918–1944 in ihren konzeptionellen Grundlagen*, Munich: Oldenbourg, 2007, p. 53; Barsche, Heinz, 'Der Mitteleuropäische Wirtschaftstag', *Deutsche Aussenpolitik*, Vol. 11, Berlin: Rütten und Loening, 1960, 1294–1302, at p. 1296.

<sup>27</sup> Despite the name, its tasks and scope were downgraded to South-Eastern Europe at the beginning of the 1930s.

<sup>28</sup> Drechsler, Karl; Dress Hans and Hass Gerhart, 'Europapläne des deutschen Imperialismus in zweiten Weltkrieg', in *Zeitschrift für Geschichtswissenschaft*, Heft 7, 1971, 916–931, at p. 916. (henceforth: Drechsler, K., Dress H., and Hass G., 'Europapläne des deutschen...')

a result of their leaders' ambiguous relationship with Nazi officials and the competition for influence with the rival organisations set up by the party. For example, *Südosteuropa Gesellschaft* (SOEG), 'The Society for South-Eastern Europe', was founded in Vienna at the beginning of 1940 under the auspices of the Economics Minister Walther Funk. Its presidency consisted of the leading Nazi and SS officials in Austria, while the person who appeared in public to represent the organisation was August Heinrichsbauer, Funk's personal contact with the leading Ruhr industrialists well before the Nazis took power in Germany. MWT soon realised that the SOEG was a rival organisation, set up by the party to conduct the Reich's policy in the south-east and the two organisations remained locked in a struggle for influence throughout the war.<sup>29</sup>

Forced to adapt to new circumstances, the bearers of German soft power hardened their positions after the outbreak of war. In a speech in Vienna in September 1940, Max Ilgner, one of the presidents of MWT, called for stronger German engagement in the development of South-Eastern European economies. He pointed out that in the past there had been some confusion regarding the term industrialisation in this area, and instead he suggested the phrase 'intensification of economy'; by this he meant the focus of each country on their *natural* production capacities. According to Ilgner, the concerns of German exporters would be justified if the intensification of the economies in question was unorganised, as strong industrial development was not a characteristic of those countries based in agriculture. Only great powers with large and wealthy populations were predestined to reach full industrialisation.<sup>30</sup> Ilgner almost accused industrially young states of disrupting the development of the industrialised ones. According to him, the future of the south-east lay in a parallel and mutually complementary development with Germany. Such economic collaboration implied also a political coordination and combined together, these two were the foundations of the *Lebensraum* which excluded any drive towards economic autarchy of individual countries belonging to the living space. One of the tasks of German policy was to increase the average purchasing power of their populations, so that they could buy more German products. As this was a long-term objective, it was first necessary to satisfy the most basic needs of these people by improving agricultural production. The main task in this sense was to increase the average yield per hectare with the use of fertilisers and modern agricultural machinery. The second stage required the construction of modern infrastructure, energy supply systems, and the improvements

<sup>29</sup> *Griff nach Südosteuropa...*, pp. 54–58; Ristović, M., *Nemački novi poredak...*, pp. 125–128; Gross, S., *Export Empire...*, p. 298. For more on SOEG see: Orlow, Dietrich, *The Nazis in the Balkans: A Case Study of Totalitarian Politics*, University of Pittsburgh Press, 1968. (henceforth: Orlow, D., *The Nazis in the Balkans...*)

<sup>30</sup> 'Wiener Tagung des Mitteleuropäischen Wirtschaftstag', Vienna, 2 September 1940, Kiel: Institut für Weltwirtschaft, pp. 20–22. (henceforth: 'Wiener Tagung des Mitteleuropäischen Wirtschaftstag'...)

in mining. The final stage would be the development of domestic consumer industries. As mechanised agricultural production increased, more peasant would become unemployed, meaning some would need to retrain to work in industry, while others could be used for the needs of the German economy. Parallel to this process, those workers who remained in agriculture would gradually improve their living standards and purchasing power. In due time, this process would increase the national income of South-Eastern European countries by a third. Finally, Ilgner expressed his strong belief that such a development represented the best guarantee of continuous progress in South-Eastern Europe.<sup>31</sup>

As an example, Ilgner mentioned the British Empire and the economic solutions reached at the Ottawa Conference in 1932. However, any parallel with the British Empire was ill-fitting, as Ilgner had obviously forgotten that the Ottawa Conference ended with agreement between Great Britain and eight autonomous governments, something he denied to other member-states of the German economic area in his speech: 'Guidelines for future German economic relations with the states of the south-east are wrapped up simply in the framework of the foreign policy of the Great German Reich and indeed within the position which Greater Germany holds today in the European economy ... This framework is clearly outlined and naturally comprises of both the intensification of agricultural production and acquisition of raw materials to a degree which covers German needs'.<sup>32</sup>

Strikingly similar remarks to Ilgner's were made barely four months later by Erich Neumann, the Nazi Secretary for the Four-Year Plan. On 25 January 1941, he drafted a memorandum entitled 'Towards the Question of Future Economic Policy in the South-East'. According to him, the penetration of German capital and industry was only natural. Although Germany overall had an interest in improving the living conditions of its neighbours, any increase in standard of living and purchasing power was not to be allowed in the future if it came at the expense of the surplus exports of the goods on which Germany relied. The only reason why those countries could provide an export surplus of the goods which Germany needed was their low average consumer spending, which in Yugoslavia, as he stressed, was seven times lower than in Germany. The average consumption of meat and bread in Yugoslavia was one third of that in Germany and according to Neumann it should stay that way. The German task was not to increase the living standard of the region, but to help with technical improvements which could increase production and yield. Any independent economic development of these countries was to be prevented from now on, they should be kept in the status of raw material and foodstuffs suppliers to the Reich and their surplus population used as migrant workers in Germany. Such a policy would 'keep us [the Germans] from danger ... that the consuming power of the people from

<sup>31</sup> Wiener Tagung des Mitteleuropäischen Wirtschaftstag' ..., pp. 33–40.

<sup>32</sup> Wiener Tagung des Mitteleuropäischen Wirtschaftstag' ..., p. 31.

the south-east grows faster than their production abilities, which would leave only smaller and more expensive leftovers for our import needs'.<sup>33</sup>

Clearly, one thing the conservative promoters of *Mitteleuropa* and *Ergänzungswirtschaft* from Berlin governmental institutions, Bavarian and Saxony's research institutes and the Ruhr business offices had in common with the Nazi economic experts was the concept of *Grosswirtschaftsraum*. In this regard, the leading men of MWT hardly differed much in the scope of their strategic thinking from the Nazi elite. The difference was in the method: Nazi *Lebensraum* implied hard-power and physical subjection of the conquered people, while the conservative approach implied soft-power tactics with the aim of dictating orders to dependent governments. But both approaches sought to control and denied free will to the objects of their policies. Of course, differences were also striking; despite the popularity of the continuity theory in historiography, Hitler's ascent to power in January 1933 did represent a setback for traditional elites and their economic ideas. Before 1933, Hitler considered the concept of rebuilding Germany's status as a great power through commercial means as the 'greatest nonsense ever raised to be a guiding principle in the policy of a state'.<sup>34</sup> And his preference for territorial expansion as an answer to German economic woes did not change after he became Chancellor. Central to Hitler's ideology were the terms of *Lebensraum* and *Volk*, not foreign trade, exports, or power politics.<sup>35</sup> For Hitler, the economic counterpart to *Lebensraum* was Germany's autarchy enabled through the *Grosswirtschaftsraum*, not some export-oriented economic powerhouse.<sup>36</sup> While the traditional elites viewed the *Grosswirtschaftsraum* as a German-dominated economic space for the sale of machinery and manufactured goods, the Nazis saw it only as a precondition for German rearmament and territorial expansion. Hitler did not need supplementary economies to consume German exports, but to supply his war machine with raw material and foodstuffs. It was a structural clash of two diametrically opposed views, one based in exports and another one focused on imports.

Of course, Hitler's one prevailed, but due to the structural inefficiencies of the German economy under the Nazis, a short time for the reorganisation of the European economy in line with the Nazi New Order and due to the war, which was unexpectedly prolonged, these theories in practice ended in violence and plain plunder. Milan Ristiović analysed the ideas of the Reich's leading experts about the changes in economic and social structures of South-Eastern European countries in the period after the outbreak of war and their adjustment to German economic needs. Even then,

<sup>33</sup> The document is published in: Drechsler, K., Dress H., and Hass G., 'Europapläne des deutschen...', 916–931, p. 924–925.

<sup>34</sup> Quoted in Volkman, Hans-Erich, 'Die NS-Wirtschaft in Vorbereitung des Krieges', in Diest, W. et al. (eds.) *Das Deutsche Reich und der Zweite Weltkrieg*, Vol. 1, *Ursachen und Voraussetzungen der deutschen Kriegspolitik*, Stuttgart: Deutsche Verlags-Anstalt, 1979, pp. 177–370, p. 191.

<sup>35</sup> Brechtefeld, J., *Mitteleuropa...*, pp. 53–55.

<sup>36</sup> Carr, William, *Arms, Autarky and Aggression*, London: Edward Arnold, 1972, p. 50.

the theory of supplementary economies continued to be the focal point of any such study, in pretty much the same manner as it was before September 1939. Ristović pointed to a discrepancy between the theoretical thinking and a lack of any practical approach towards the implementation of such ideas. And without a systematic plan in the context of European wartime day-to-day, big plans for harmonization between the German industrial core and its agricultural periphery turned into a straightforward plunder of the latter's natural resources and a brutal dismantling of already existing industries, of both allied and conquered nations.<sup>37</sup>

### Yugoslav reaction to German economic theories<sup>38</sup>

The influence of Berlin's propagandist efforts in deploying German soft power in Yugoslavia in the 1930s is exemplified by the conclusion presented in Ivan Crnić's 1940 book, *Die jugoslawische Eisenindustrie in Rahmen der jugoslawischen Volkswirtschaft*. In the final chapter, one about Yugoslavia's iron and steel industry, the author recommended a *rational* development of the Yugoslav metal industry, with focus on those sectors of industrial production which could best serve everyday needs in Yugoslavia, namely the consumer industry: 'The production of ... machinery is not worth it in Yugoslavia due to a small market; it does not make sense to build up an entire industry for the sake of barely a hundred machines'. In his opinion, Yugoslav industry should only produce products of mass consumption and not 'factory machines, products of high quality and above all refined and complicated products'.<sup>39</sup> Although the author did not take into consideration the possible export value of such products, this was a reasonable recommendation according to his understanding of the pre-war economy. This book was Crnić's converted PhD dissertation, submitted at the University of Cologne, for which he received a scholarship by MWT and the *Deutscher Akademischer Austauschdienst* (DAAD), 'German Academic Exchange

<sup>37</sup> For more see: Ristović, Milan, 'Rat, modernizacija i industrializacija Jugoistočne Evrope: Nemački stavovi o promenama društvene i privredne strukture 'dopunskog privrednog prostora', 1940–1943 [War, Modernisation and Industrialisation: German Attitude regarding the Changes of Social and Economic Structure of the 'Supplementary Economic Area']', in Perović, L., Obradović, M. and Stojanović, D. (eds.) *Srbija u modernizacijskim procesima XX veka*, Belgrade: Institute for Newer History of Serbia, 1994, 261–269. Also, Ristović, M., *Nemački novi poredak...*, p. 347.

<sup>38</sup> German-Yugoslav economic relations in the 1930s were marked by two significant events, the signing of the new trade agreement on 1 May 1934 and Yugoslavia's introduction of the import controls in the spring of 1936. Both events were mostly seen in older Yugoslav historiography as proofs of German manipulative ways in dealing with Yugoslavia. For more see Cvijetić, Leposava, 'The Ambitions and Plans of the Third Reich with regard to the Integration of Yugoslavia into the so-called Grosswirtschaftsraum' in *The Third Reich and Yugoslavia, 1933–1945* Belgrade: Institute for Contemporary History, 1977, 184–196.

<sup>39</sup> Crnić, Ivan, *Die jugoslawische Eisenindustrie im Rahmen der jugoslawischen Volkswirtschaft*, Cologne: Orthen, 1938, pp. 138–140.

Service' in 1936.<sup>40</sup> In a report on his progress, Crnić thanked MWT for the scholarship and his professors who 'made it easier [for Crnić] to understand various problems of German economic and cultural life'.<sup>41</sup>

Some Yugoslav scholars adopted the German position. While in the conclusions of Ivan Crnić we may recognise traces of ideological indoctrination during the course of his stay in Germany, other more established Yugoslav experts simply adjusted their views over time and possibly because they were impressed by German political and military achievements. In the summer of 1939, Zagreb-based economist Rudolf Bićanić was very critical of Yugoslavia's economic orientation towards Germany. He numbered four important reasons against it: the first two revolved around the fact that Germany was the much stronger partner in the mutual trade, therefore it would be easy for Berlin to sacrifice trade with Yugoslavia for the sake of greater political and economic aims. Then, German economy was centralised and organised, therefore it would be easy for Berlin to direct the development of Yugoslavia's economy towards German import needs. And lastly, as Yugoslavia's economy was not organised in the same way, at some point Yugoslavia would probably have to either follow the German model, or allow Germany to administer it to its own benefit.<sup>42</sup> However, a year later Bićanić changed his views and spoke in a more optimistic tone about the prospects for the Yugoslav economy when oriented towards Germany. In this argument, stronger cooperation with Germany would enhance Yugoslavia's agricultural production, likewise its industry. Leaning towards Germany would quadruple Yugoslav mining production which would ease the problem of agrarian overpopulation. In turn, this would increase the purchasing power of Yugoslavia's population, which would lead to increased sales of German products on the Yugoslav market. In order to achieve this, Bićanić agreed that Yugoslavia should not develop heavy industry, but focus on consumer goods and light processing industries, while Germany would supply all domestic needs for machinery and chemical products.<sup>43</sup> Dr Sava Ulmanski, professor at the Faculty of Agriculture in Zagreb and former Yugoslav senator, praised the Greater Economic Area as a reality and in January 1941 called for complete reorientation of the Yugoslav economy towards German economic needs, as Yugoslavia needed to

<sup>40</sup> 'Erste Geschäftsbericht der Deutschland-Stiftung des Mitteleuropäischen Wirtschaftstag, für das Studienjahr 1936/37', MWT Deutsche Gruppe – Deutscher Akademischer Austauschdienst, Kiel: Institut für Weltwirtschaft, p. 36.

<sup>41</sup> Ibid., p. 56.

<sup>42</sup> 'Rudolf Bićanić o problemu „velikog privrednog prostora” [Rudolf Bićanin about the Problem of the Greater Economic Area]', *Narodno blagostanje*, 19 August 1939, pp. 515–516.

<sup>43</sup> Ristović, Milan, 'Weder Souveränität noch Industrialisierung', in Carola, S. (ed.), *„Mitteleuropa” und „Südosteuropa” als Planungsraum: Wirtschafts- und kulturpolitische Expertisen im Zeitalter der Weltkriege*, Göttingen: Wallstein, 2010, 219–237, at pp. 221–222. (henceforth: Ristović, M., 'Weder Souveränität...')

coordinate with the centre of the New European Order.<sup>44</sup> Economist Otto Frangeš and Mirko Lammer, the editor of the Zagreb based monthly economic magazine *Ekonomist*, also favoured stronger economic connections with Germany.<sup>45</sup>

Somewhere in between was Vladimir Bajkić, professor of political economy at the Faculty of Law in Belgrade and the founder and editor of *Narodno blagostanje*.<sup>46</sup> In 1934, he had a polemical exchange with the German economist called Hasselbach. Bajkić opposed the latter's accusations, published in *Berliner Börsen Courier*, that the agricultural countries of Eastern Europe abused clearing agreements with Germany by not purchasing enough German goods. The two economic experts disagreed fundamentally on everything; the Yugoslav dismissed moving towards planned organisation of the Yugoslav economy based on the German model and insisted that mutual trade should be the domain of private deals, not that of state regulations. He also disagreed that increased Yugoslav imports of German goods regulated by the state would do any good, as the purchasing power of the average Yugoslav was low. Bajkić claimed that the only lasting solution for Yugoslavia's economy was a more equal distribution of national wealth across all sectors of Yugoslav society and not just increasing the purchasing power of the peasantry, as '[other social classes] were better consumers of the German goods ...'.<sup>47</sup> After September 1939, *Narodno blagostanje* became more receptive towards the prospect of increased trade with Germany. In June 1940, the magazine praised the conclusions of MWT's meeting in Vienna and spoke positively about the organisation's attempts to increase the technical skills of the people in the south-east through organised training in modern agricultural methods.<sup>48</sup> In later editions, the magazine often referred to the total dependence of the Yugoslav economy on the Third Reich caused by the war.<sup>49</sup>

A similar position could be found in the writings of Ljubomir St. Kosier. He spoke at length about mutually complementary economies; of Yugoslavia as a natural market for German industrial products and *vice versa*. The Anschluss was beneficial for Yugoslavia; it finally ended Vienna's mediatory role and the common border increased mutual trade as Yugoslavia 'did not have to deal with two customs areas

<sup>44</sup> Ibid., pp. 223–224.

<sup>45</sup> Kolar-Dimitrijević, Mira, 'Die wirtschaftlichen Möglichkeiten und die konkrete Integration Kroatiens in die Mitteleuropäischen Wirtschaftspläne 1918–1938', in Plaschka, R., et al. (eds.), *Mitteleuropa-Konzeptionen in der ersten Hälfte des 20. Jahrhunderts*, Wien: Österreichischen Akademie der Wissenschaften, 1995, 263–276, at p. 273. (henceforth: Kolar-Dimitrijević, M., 'Die wirtschaftlichen Möglichkeiten...')

<sup>46</sup> 'People's Welfare', a weekly economic magazine, published in Belgrade between 1929 and 1941.

<sup>47</sup> 'Jedno pitanje i jedan odgovor [A question and a Reply]', *Narodno Blagostanje*, No. 43, 20 October 1934.

<sup>48</sup> 'Nemačka inicijativa u privredi jugoistoka [German Initiative in the Economy of the South-east]', *Narodno blagostanje*, No. 24, 15 June 1940.

<sup>49</sup> Ristović, M., 'Weder Souveränität...', pp. 222–223.

anymore, but with only one'. But talking about the importance of South-Eastern Europe as only a supplementary space for the German economy, Kosier cautiously expressed doubts regarding awarding a similar role to Yugoslavia. He pointed out that the German success was a result of the inability of western powers to maintain their positions in the region. Kosier's conclusion was somewhat ambivalent: 'In these chaotic and stormy times, it is a requirement of each government to achieve the coordination of both its economic and its foreign policy in relations with other countries, in a way which does not contradict the requirements of national defence'.<sup>50</sup>

It is important to stress that although a proportionally larger number of Croatian economists and businessmen supported stronger economic cooperation with Germany than their Serbian counterparts, no particular ideological or political standpoint should be read from it. It was a simple fact that from the first days of Yugoslavia, industrially more developed western parts continued to nurture already existing economic ties with their Central-European partners. After the Anschluss and incorporation of Bohemia and Moravia into Germany, most of their business contacts and contracts were merged into the Reich. It was only natural that the Croatian business elite favoured the economic policy which would best protect their interests. At the same time, many holders of the highest national offices from Croatia were vehement opponents of closer Yugoslav integration within the *Grosswirtschaftsraum*. These included Ivo Belin, Vice-Governor of the Yugoslav National Bank who persistently championed Yugoslavia's orientation towards international markets, Edo Marković, the director of Prizad,<sup>51</sup> Milan Ćurčin, the editor of the Zagreb-based newspaper *Nova Evropa* and many others.<sup>52</sup>

On the other hand, members of the Serbian political and economic elites still remembered how easily Germany's hard power had trumped soft power and the liberal 'informal empire' approach during the First World War, for which pre-war Serbia paid a hefty price in material destruction, loss of human lives and economic plunder.<sup>53</sup> Berlin was seen as a fair and good business partner in times when German strength and influence was balanced; but as a hard master in times when it was politically and militarily unrestrained. Serbian elites were mostly opposed to economic and ideological concepts coming from Germany; this was not unusual as traditionally the Kingdom of Serbia, one of the founders of Yugoslavia, was a country which cultivated a liberal economic policy in foreign trade before 1914. In an article published in *Jugoslovenski ekonomist* in June 1936, economic expert Jovan Mihailović blasted the concept of economic autarchy and claimed that autarchic

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<sup>50</sup> Kosier, Ljubomir St., *Grossdeutschland und Jugoslawien: aus der Südslawischen Perspektive*, Berlin: Mitteleuropäischer Verlag, 1939, pp. 207–213.

<sup>51</sup> The Privileged Society for Export of Agricultural Products.

<sup>52</sup> Kolar-Dimitrijević, M., 'Die wirtschaftlichen Möglichkeiten...', 263–276, p. 274.

<sup>53</sup> Gross, S., *Export Empire...*, p. 48.

tendencies in the European economy only created a gulf between industrial and agrarian Europe. The Yugoslav saw the increase of the purchasing power in the Balkans as only the first step towards further industrialisation and emphasized the need for increased international trade. Mihailović accused the Germans of putting an equation sign between the terms 'free trade' and 'international trade' and considered the latter necessary for European economic recovery.<sup>54</sup> In September 1938, economist Vladimir Đorđević held a lecture in the Serbian Cultural Club in Belgrade, where he spoke about the historical and contemporary links and interaction between a nation-state and its economy. He favoured the so-called socio-economic model as he named it, which tended to cultivate individual rights of citizens, political liberalism and free economic initiative, but which at the same time allowed the state to interfere wherever and whenever it was necessary to provide fair and equal treatment for those individuals who were 'weaker in economic and social terms'. At the same time, he regretted that 'some countries recently left this teaching ... and wandered either into communism or autarchy, or fascism, thus extending state authority to economic life according to the principles of the so-called planned economy'.<sup>55</sup>

Two months later, the Serbian Cultural Club organised a lecture by Gojko Grđić, councillor in the Ministry of Trade and Industry and former journalist of *Narodno blagostanje*, whose PhD in economics was awarded in Berlin in 1936.<sup>56</sup> Grđić praised Germany for its strong contribution to the development of the Yugoslav economy for two reasons: offering Yugoslavia an independence from the unpredictable fluctuations in prices on the world market and the role which imports of German machinery and tools played in Yugoslavia's industrial development. But he then questioned what the German motive was. In his opinion, it was a stronger attachment of Eastern and South-Eastern European economies to Germany, which would eventually lead to a customs union. The ultimate motive was maintaining the existing character of economic relations, the one in which Yugoslavia and other similar countries were kept in the role of suppliers of food and raw materials to Germany. It was true, Grđić continued, that Yugoslav agriculture and mining would benefit from such a relationship, but he questioned its usefulness for the further development of Yugoslavia's industry. In the final outcome Yugoslavia would remain nothing more than an agricultural country renowned for its mineral wealth; its economy would be one-dimensional and vulnerable to the wishes of its customer. In his words, only strong industry, strengthened by a developed agriculture, was able to truly provide national independence. Finally, he suggested maintaining the existing economic partnership with Germany as it was

<sup>54</sup> 'Autarkija [Autarchy]', *Jugoslovenski ekonomist*, No. 5, 1936.

<sup>55</sup> 'Država i ekonomija [The State and Economy]', *Jugoslovenski ekonomist*, No. 8, October 1938.

<sup>56</sup> *Grđić dr Gojko, redovni profesor*, <http://www.gacko.net/vijesti/Grdjic%20Gojko.html>, last assessed on 15 March 2016.

still beneficial for Yugoslavia, for as long as Germany needed resources. But he also called for stronger economic relationships with Italy, Britain and France. Grđić concluded his lecture by calling for the creation of an economic bloc of all states of the Balkan and Danube regions, which would deny Berlin the advantage of negotiating independently with each of them.<sup>57</sup> In 1940, Sava Terzić, with a PhD in economics from Vienna, also opposed the concept of *Grosswirtschaftsraum* which he described as a union of industrial Germany with agricultural states to its east and south-east, by arguing that developments in the European economy during the 1920s clearly showed that the exchange of goods between highly industrialised states was greater and of higher value than between an industrialised and an agrarian state.<sup>58</sup>

It was not only the experts who favoured an industrialised economy based on the doctrines of liberalism and free trade. At the meeting at the Central Office of Industrial Union in Belgrade in February 1937, Trade and Industry Minister Milan Vrbanić and the National Bank's vice-governors Jovan Lovčević and Belin had to listen to harsh criticism from industrialists who accused the officials of 'abandoning the doctrine of free trade in sectors of production and goods exchange'<sup>59</sup> and [also accused them for] constantly strong state interference in economic life'.<sup>60</sup> *Industrijski pregled*, a journal which specialised in the problems of Yugoslavia's industry and a staunch advocate of industrialisation, was opposed to the official policy of import controls set up in April 1936 and demanded free export to and import from the free currency markets, particularly after September 1939, when it started to appear that Yugoslavia might have to choose between the two economic blocs.<sup>61</sup> The Yugoslav press was equally sceptical about German motives. An article in *Trgovačke novine* from Belgrade after Schacht's visit in June 1936, spoke sarcastically about the German agenda. The journalist accused Berlin of manipulating the clearing mechanism in order to force agricultural states of the south-east to buy as much German goods as Berlin needed to sell, without regard to their real needs. Writing about Schacht's warmongering during his state visit, the article spoke of Schacht's need to sell old German weaponry to the Balkan states, as new ones needed to be produced and wondered whether Yugoslavia would finance its own occupation in this way. The author concluded:

<sup>57</sup> 'Jugoslovensko-nemački privredni odnosi [The Yugoslav-German Economic Relations]', *Jugoslovenski ekonomist*, No. 9, November 1938.

<sup>58</sup> Terzić, Sava, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelsvertrages 1934*, Vienna: Hollinek, 1940, p. 63.

<sup>59</sup> They referred to the introduction of import controls in 1936.

<sup>60</sup> 'Zemaljska konferencija industrijalaca [The Conference of Yugoslavia's Industrialists]', *Jugoslovenski ekonomist*, Number 3, 1937.

<sup>61</sup> 'Problem sirovina i devizna politika Narodne banke [The Raw Materials Problem and the Foreign Currency Policy of the National Bank]', *Industrijski pregled*, June-July 1939; 'Uvoz-izvoz 1939. godine [Import-Export in 1939]', *Industrijski pregled*, January 1940.

One day, when these countries [of South-Eastern Europe] so nicely advised [by Schacht] adjust their production and foreign trade to the needs of the German market, the diplomacy of the Third Reich will come up with new demands: „Do it, they will say, otherwise we won't buy anything anymore”.<sup>62</sup>

### Conflicting directions

Holm Sundhaussen states that it was clear from the beginning of Hitler's rise to power that the countries of South-Eastern Europe were to be an important part of the Third Reich's economic preparation for war. In March 1939, a memorandum for internal use emphasised that Romanian, Yugoslav and Greek oil, iron, bauxite, copper and other ores should be secured for German use. As part of these plans, Berlin decided to tolerate independent industrial development in these countries, but only to the extent that it would not impede its own interests.<sup>63</sup> This seemingly fit well into the theory of Germany's informal empire.

However, a country's status as an empire implies having an ability to decisively influence political, cultural and economic development of a lesser power during peacetime; and Germany did not have such a leverage over Yugoslavia. Despite some measures, such as introducing the import controls in Belgrade in 1936, which decisively helped in turning the direction of Yugoslavia's foreign trade dominantly towards the German market, the official Yugoslav foreign-trade policy considered both trade through clearing accounts, as was done in exchange with Germany, and the import controls, as only a temporarily deviation from free trade until the world market recovered after the Great Depression. Yugoslavia nurtured free trade policy in the 1930s longer than most other European countries. Already in 1937, when Yugoslavia's economy and foreign-trade seemed to have recovered, the National Bank in Belgrade undertook action to terminate the existing clearing agreements wherever possible, or replace them with new payment system agreements.<sup>64</sup> The words of the National Banks's vice-governor Lovčević at the second meeting the national banks' governors of Balkan Entente countries in Ankara in November 1937 are testimony that Yugoslavia was serious in this approach: 'It is desirable to slowly desert the clearing system, or at least make it more flexible ...'. In the closing pro-

<sup>62</sup> 'Privredni planovi Nemačke na Balkanu [German Economic Plans in the Balkans], printed in *Industrijski pregled*, August 1936.

<sup>63</sup> Sundhaussen H., 'Südosteuropa in der Nationalsozialistischen Kriegswirtschaft am Beispiel des „Unabhängigen Staates Kroatien"', in *Südost-Forschungen*, 32 (1973), 233–266, pp. 235–237.

<sup>64</sup> With Poland, Czechoslovakia, Belgium, France and Switzerland. Monthly reports of the Yugoslav National Bank's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, May, June, July and December 1937 (Archive of the Serbian National Bank (henceforth ANB), Belgrade, Fund 1/II, Box 16).

TOCOL of the conference, other representatives expressed their regret that due to the unfavourable international situation Yugoslavia's Balkan partners were still not able to follow Belgrade's example, but recommended to their governments the easing of strict currency policies and more liberalism in foreign trade.<sup>65</sup> It is also important to stress the determination with which the Yugoslav experts from the National Bank, Ministries of Trade and Industry and Finances and the Economic Department of the Foreign Ministry, such as Belin, Lovčević, Milivoje Pilja, Milan Lazarević, Sava Obradović and many others, stood up for their country's best economic interest. Belin was especially notorious with the Germans, who considered him a tough and strongminded negotiator. As late as January 1940, he did not hesitate to warn Berlin that Yugoslavia's deliveries of raw materials such as copper, vitally important for German war economy, would stop unless these were balanced by German armaments deliveries, as it was agreed in Belgrade in October 1939<sup>66</sup>

In the sphere of economy therefore, Yugoslavia was far from being Berlin's pawn; Germany could direct Yugoslavia's economic development only if Berlin gained decisive political influence, which was not the case before the fall of France in June 1940. Furthermore, many implications of Yugoslavia's economic development during the second half of the 1930s were in stark opposition to the German agenda: Yugoslavia increased the industrial production's share of its national income, the number of new industrial enterprises grew steadily, the existing state-owned industrial and military complexes were enlarged and new ones built, metallurgy and metal industries experienced a hitherto unprecedented stream of investment and the structure of both Yugoslavia's exports and imports changed in favour of importing more semi-finished goods and raw materials, and exporting more finished goods and metals instead of ore.<sup>67</sup> Given these circumstances, the theory of supplementary economies would have been wasted on Yugoslavia in the long run if it was not for Germany's hard-power to implement it. Frequent referring to the Ottawa Conference, which was a common theme of the German press and various economic analyses of the 1930s, should have created the illusion of a bona fide agreement between Germany and its natural sphere of interest in the east and south-east. But the smooth talk of German economic experts, advocates of the Grosswirtschaftsraum and some business leaders was brutally unmasked once the Nazi leadership lost its patience, while the true nature of the New Order was exposed in the brutality of German occupation.

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<sup>65</sup> Monthly report of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, November 1937 (ANB, 1/II, Box 16).

<sup>66</sup> The so-called Landfried protocol, an agreement for exports of some Yugoslav raw materials in exchange for German weaponry. Cvijetić, Leposava, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju [The Sale of Armaments as a means of German pressure on Yugoslavia]', *Istorija XX veka*, 3 (1975), 171–253, at pp. 233–234.

<sup>67</sup> Hadži-Jovančić, Perica, „Economic Relations between the Third Reich and Yugoslavia, 1933–1941”, (unpublished PhD diss., University of Cambridge, 2017), pp. 150–152, 161–164, 165–169.

The problem of those pre-war Yugoslav economic experts who embraced Germany as Yugoslavia's ultimate and irreplaceable economic partner was that, just like their German counterparts, their sole argument rested on emphasising Germany's share of Yugoslavia's foreign trade. Such a one-dimensional approach restricted the Yugoslav economic prospects merely to the role of a supplier of agricultural products and raw materials to Germany. In essence, it was the role of a colony and fitted perfectly into the German theoretical models. These experts failed to recognise the direction of Yugoslavia's economic development, which was anything but complementary to German needs. Yugoslavia's future was thus seen only from the standpoint of a foreign trade relationship, frozen in a specific moment in time, and not from the standpoint of sustainable economic development.

As we have seen, the majority of Yugoslav economic experts, officials and businessmen were opposed to the economic models coming from Germany. The Yugoslavs in general sensed that German theories allowed only a limited space for future progress of Yugoslavia's industrialisation and in essence meant only economic development limited by German import and export needs. In March 1939, the Yugoslav authorities and public got first-hand knowledge of what European economic reality under the Nazis would look like, when Germany and Romania signed the so-called Wohlthat Agreement, which was to serve as a template for German relations with other countries of the south-east.<sup>68</sup> Unlike the older, more conservative agreements made by the German Foreign and Economics Ministries aimed at establishing a dominant trading position for Germany, the Wohlthat agreement defined the means by which Romania was forced to internally regulate its economic development in accordance with German wishes. It stated that Romania had to develop its agriculture and its wood processing industry according to German needs, while Germany was granted rights to research and exploit Romanian oil, copper, chrome and manganese. In turn, Berlin undertook the obligation to supply Bucharest with machinery and armaments.<sup>69</sup> The means were set up for Germany to control Romania's economic development along these agreed lines; the agreement literally turned Romania into an economic satellite of the Reich.<sup>70</sup>

Less than two months later, Berlin tried to model an agreement to provide credit for Yugoslavia's purchases of German-made aircraft, weaponry and ammunition in line with the Wohlthat agreement. On 4 May 1939, the German Minister in Belgrade Viktor von Heeren submitted the German proposal to the Yugoslav authorities; par-

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<sup>68</sup> 'Nemačko-rumunski trgovinski sporazum [German-Romanian Trading Agreement]', *Narodno blagostanje*, No. 13, 1 April 1939, p.199.

<sup>69</sup> Document printed in: Wüschel, Johann, *Jugoslawien und das Dritte Reich: eine dokumentierte Geschichte der deutsch-jugoslawischen Beziehungen von 1933 bis 1945*, Stuttgart: Seewald, 1969, pp. 286–288.

<sup>70</sup> Orlow, D., *The Nazis in the Balkans...*, p. 101.

ticularly problematic was the seventh article: 'The Yugoslav government agrees to explore new sources of raw materials suitable for exploitation, with the participation of German experts. German industry will be the first to exploit these new sources of raw materials. ...'. The article was phrased to sound as a sign of German goodwill and stated that the German government had decided not to demand a part of the credit repayments in foreign currency, contrary to its usual dealing with other countries.<sup>71</sup> The Finance Ministry immediately ruled it as unacceptable. At a meeting with Yugoslav Prime Minister Dragiša Cvetković on 11 May, Finance Minister Vojin Đuričić rejected this article by explaining that to accept such a demand 'would have harsh consequences on Yugoslavia's independent economic and industrial development, as well as on the political situation'.<sup>72</sup> There were other examples of the Yugoslav economic authorities remaining firm in opposition to excessive German economic demands in the course of the following twelve months.

Coupled with the well-known problems of German rearmament, production inefficiencies, the lack of foreign currency and raw materials supplies, a squeeze on the domestic consumption and the inability of the German economy to produce enough goods for export due to the excessive demands of the military after September 1939,<sup>73</sup> it is safe to conclude that all the ideological and structural differences between the German and Yugoslav economies would, sooner rather than later, have forced the Nazi leadership to intervene and forcibly restructure the Yugoslav economy, directing its development according to the needs of the German war economy; even if events had taken a different course and Yugoslavia had survived April 1941. Yugoslav supplies of metals, raw materials, foodstuff and fodder were so important for the Reich's war efforts, that to allow the independent economic development of such an important neutral country before the attack on the Soviet Union was not an option for the Germans. This was mentioned at the meeting of the German Trade Chamber for Yugoslavia in Berlin in December 1940, especially Yugoslavia's internal economic problems since the outbreak of war, such as rising prices of consumer goods and falling wages and purchasing power. These conditions hardly corresponded to the *Ergänzungswirtschaft* theory. On the contrary, it was exactly the situation which terrified the Germans – a country which, by pursuing an independent economic policy got into difficulties, thus restricting Germany's share of its food and raw materials. Questions were asked whether Yugoslavia was able to provide enough goods for export to Germany. The meeting ended with the conclusion that Yugoslavia required

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<sup>71</sup> The German Proposal of the Secret Protocol, Yugoslav Foreign Ministry to the Yugoslav Finance Ministry, 5 May 1939 (Archive of Yugoslavia (henceforth AJ), Fund 70, Finance Ministry, Folder 284).

<sup>72</sup> Đuričić (Finance Ministry) to Dragiša Cvetković, Belgrade, 19 May 1939 (AJ, 70, Finance Ministry, Folder 284).

<sup>73</sup> Tooze, Adam, *The Wages of Destruction: Making and Breaking of the Nazi Economy*, London: Penguin, 2007, pp.326–333.

closer cooperation between its politics and its economy, modelled after the Wohlthat agreement, to secure German interests in Yugoslavia's mining industry.<sup>74</sup>

Therefore, two diametrically opposed economic ideologies which drove developments in the Third Reich and the Kingdom of Yugoslavia in opposite directions throughout the 1930s, significantly contributed to the friction between the two countries. Even had Yugoslavia avoided the German invasion in 1941, an alternative economic history of the Second World War for Yugoslavia would have meant either the official restructuring of mutual economic relations with Germany in line with the agreement signed with Romania in March 1939 at best, or in the worst-case scenario the occupation of the country followed by the German management of Yugoslavia's economy, as happened to Hungary in March 1944.<sup>75</sup> In any scenario, Yugoslavia was destined to become German economic prey the moment the Nazis took the reins of power in Berlin in 1933, either in the form of a satellite or a colony. The fact that the Yugoslavs had other ideas, only complicated the situation for the Third Reich.

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## Резиме

Др Перица Хаџи-Јованчић

### ***Ergänzungswirtschaft, Grosswirtschaftsraum* и југословенски одговор на немачке економске теорије и планове за Балкан током 1930их**

Овај рад тежи да допуни постојећу празнину у историографији о реакцијама елита држава југоисточне Европе, са којима је Трећи Рајх имао разгранату привредну сарадњу, на немачку економску пенетрацију у региону. Чланак анализира ставове југословенских званичника и економске јавности према немачким економским теоријама и обзнањеним плановима за југоисточну Европу током 1930их. Немачка економска теорија је почивала на политичком, друштвеном и економском развоју који је започео још пре немачког уједињења у 19. веку, а до доласка Нациста на власт 1933. већ је била дефинисана идејом великог економског простора и теоријом интегрисаних економија, са Немачком као индустријским центром и југоисточном Европом као делом њене аграрне периферије. Са сваким политичким и војним успехом Трећег Рајха током 1930их, немачки економски притисак на земље југоисточне Европе је бивао све већи, небитно да ли се радило о државама које су сматране идеолошки блиским или различитим. Овај чланак међутим указује на отпор који је немачки економски притисак изазивао у Југославији у деценији пред избијање Другог светског рата, а који је био последица различитих економских идеологија на којима је почивао привредни развој у обе државе. Имајући у виду значај Југославије за ратну привреду Трећег Рајха, аутор сматра да је самим доласком Нациста на власт у Немачкој судбина Југославија била одлучена, много пре априла 1941; једини реалан избор за југословенске лидере је био онај између позиције економског сателита и колоније. Сама чињеница да су се југословенске привредне елите опирале оваквој судбини и тежиле самосталном привредном развоју, сугерише да би у жеку ратног сукоба у Европи Немачка пре или касније била принуђена да стави југословенску привреду под своју директну контролу, на овај или онај начин и невезано за степен политичке сарадње између две државе.

**Кључне речи:** Трећи Рајх, Краљевина Југославија, међуратна економија, економско продирање, Grosswirtschaftsraum, Ergänzungswirtschaft, нови европски поредак