

# STRATEGY, ECONOMIC RELATIONS, AND THE DEFINITION OF NATIONAL INTERESTS

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THIS ARTICLE addresses the ways that economic incentives shape national interests and foreign policies, applying arguments that are derived from Albert Hirschman's *National Power and the Structure of Foreign Trade*.<sup>1</sup> Hirschman's focus was on the political consequences of asymmetric economic relationships, and he illustrated these with a study of German trade strategy in the interwar period. *National Power* also illustrated how the pattern of economic relations can profoundly affect international politics by shaping the way governments define their interests. Although states must always provide for their own security, different domestic political actors typically have competing visions of their country's best interests. Basic foreign policy choices often result from domestic political struggles, and the foreign economic policies of other states affect the outcomes of those internal political contests.

*National Power*, unfailingly cited as a classic, has not generated a substantial body of applied literature.<sup>2</sup> We argue that this is a serious omission by international relations scholars and that an understanding of "Hirschmanesque effects" is likely to be even more important in the coming years.<sup>3</sup> This paper therefore accomplishes two goals: first, we revisit *National Power* and offer a

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1. Albert O. Hirschman *National Power and the Structure of Foreign Trade* (1945; Berkeley: University of California Press, 1980).

2. For an application of Hirschman to international monetary relations, see Jonathan Kirshner, *Currency and Coercion: The Political Economy of International Monetary Power* (Princeton: Princeton University Press, 1995), chapter 4. Several studies have looked at the same case as *National Power*. See Robert Mark Spaulding, *Osthandel and Ostpolitik: German Foreign Trade Policies in Eastern Europe from Bismarck to Adenauer* (Providence: Berghahn Books, 1997); Antonin Basch, *The Danube Basin and the German Economic Sphere* (New York: Columbia University Press, 1943); Allan G. B. Fisher, "The German Trade Drive in South-Eastern Europe," *International Affairs* 18, no. 2 (March 1939): 143-70.

3. Jonathan Kirshner, "Political Economy in Security Studies After the Cold War," *Review of International Political Economy* 5, no. 1 (spring 1998): 64-91.

richer interpretation of its conceptual contributions; and, second, we provide three illustrations of the empirical relevance of our interpretation.

There are three principal reasons why *National Power* has not inspired a more practical legacy, and these relate to the way its argument has been interpreted. First, IR scholarship has incorporated only some of the political effects that the book addresses. Hirschman clearly illustrates how asymmetric trade relations accrue political benefits to the larger state. If large country A trades with small country B, commerce between them might account for only two or three percent of country A's exports and imports, but might well represent over half of country B's. Such a relationship gives the larger country coercive power over the smaller, because an interruption of the relationship would cause much greater distress in B than in A. Threats of interruption, then, both explicit and implicit, give A power. This coercive aspect of Hirschman's theory has attracted the most attention of international relations scholars, and is central to its most celebrated theoretical application.<sup>4</sup>

There is, however, much more to Hirschman's story than coercion; there is also an argument about influence.<sup>5</sup> While Hirschman develops more fully and systematically the mechanics of the former, he also illustrates the important role of the latter,<sup>6</sup> and we argue that this is the more profound of the two. Simply put, *National Power* shows that the pattern of international economic relations affects domestic politics, which in turn shapes national interests. This is always true but is most vivid in asymmetric relations, where the effects are typically large, visible, and almost wholly found within the smaller economy. Consider, for example, a free trade agreement between a large and a small state. The likely result is a change in the smaller state's perception of its own interest: it will converge toward that of the larger. Why? Because the simple act of participation in the arrangement strengthens those who benefit from it relative to those who do not (by definition). This strength should translate into political power.<sup>7</sup> Further, because firms and sectors engage in patterns of activity based on economic incentives, and since this constellation of incentives

will be transformed by the trade agreement, the subsequent reshuffling of behavior will lead to new interests and the formation of political coalitions to advance those interests.<sup>8</sup> Most importantly, decisions based on these new incentives give firms a stake in their country's continued participation, and they will direct their political energies to that end. In Hirschman's words, "...these regions or industries will exert a powerful influence in favor of a 'friendly' attitude toward the state to the imports of which they owe their interests."<sup>9</sup> Finally, the central government can find its own interests reshaped, above and beyond that which results from domestic political pressures.<sup>10</sup>

In practice, Hirschmanesque effects are more profoundly felt with regard to influence than coercion. They are about the fact that, to paraphrase one report, "a salesman of [country A's] exports in his own market" becomes "a spokesman of [country A's] interests with his own government."<sup>11</sup> Resulting changes in international political behavior do not occur because of pressure, but because new incentives alter perceptions of interest. This is akin to what Joseph S. Nye has called "soft power." Rather than forcing others to do what you want them to do, soft power, or influence, is about "getting others to want what you want."<sup>12</sup>

The second reason that *National Power's* framework has been underapplied is that the emphasis on the coercive part of the story has given the illusion that few states have employed Hirschmanesque strategies. In fact, the opposite is true. There are indeed very few instances of large states' cutting off intimate relations with small states. Tellingly, when this occurs, it is most often as a

8. Charles P. Kindleberger, "Group Behavior and International Trade," *Journal of Political Economy* 59, no. 1 (February 1959): 30-47; Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986); Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge: Cambridge University Press, 1996). Kindleberger emphasizes sectors, Gourevitch coalitions, Frieden and Rogowski factors and price incentives. Hirschman demonstrates the consequences for power politics of economic incentives and group conflict.

9. Hirschman, *National Power*, 29.

10. This can result from concerns regarding the overall balance of trade, revenue from tariffs, or trade undertaken or controlled by the government. In monetary relations central governments are particularly likely to be affected, given their role in supervising monetary stability, and the likely composition of their own reserves. See Kirshner, *Currency and Coercion*, chap. 4. Trade and financial flows can have a direct effect on elites' foreign policy preferences, as illustrated in Valerie Bunce, "The Empire Strikes Back: The Evolution of the Eastern Bloc from a Soviet Asset to a Soviet Liability," *International Organization* 39, no. 1 (winter 1985): 1-46.

11. "The Aski Mark," *Economist*, 12 August 1939, 322 (referring to Latin American importers of German products).

12. Joseph S. Nye Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990), 188. Nye argues that "trends today are making...soft power resources more important" (see also 189-201).

4. Stephen Krasner, "State Power and the Structure of International Trade," *World Politics* 28, no. 3 (April 1976): 320.

5. Those familiar with Hirschman's terminology will note a slightly different usage here. Hirschman referred to "supply" and "influence" effects from trade (14-16). "Supply effects" (of secondary importance to Hirschman and not addressed here) refer to the ways that gains from trade "enhance the potential military force" of a country. Hirschman considers "influence effects" to include both power that accrues to one state from asymmetric costs of exit and changes in domestic politics that result from international economic relations. We call the former "coercion" and the latter "influence." In other words, coercion refers to changes in policy, influence refers to changes in the definition of interests.

6. See Hirschman, *National Power*, 18, 28, 29, 34, 37.

7. Gary S. Becker, "A Theory of Competition Among Pressure Groups for Political Influence," *Quarterly Journal of Economics* 98, no. 3 (August 1983): 373-400.

measure of last resort, more a punishment designed to hurt a state with which relations have been irreparably breached, than an instrument of diplomacy designed to change the behavior of the target. States are loath to exercise Hirschmanesque coercion because it means that they are forgoing more valuable Hirschmanesque influence. The dearth of examples of such coercion underscores the fact that large states are routinely and continuously attempting to cultivate influence with others.

Finally, *National Power* has not been more broadly utilized because of some confusion (exacerbated by Hirschman in the preface to the second edition<sup>13</sup>) about the concept of "dependence." Fostering dependence, as used by Hirschman and in this paper, is undertaken by states using economic means to advance political goals. This is distinct, and in essence the converse of "dependency," in which large states use their political power to enforce economic extraction. From the dependency perspective, then, power is a means to achieve an economic end. In Hirschman's story of dependence, wealth is used to advance a political goal. Small states in this version typically gain in an economic sense, often handsomely.

In the cases that follow, we contribute to what we hope will become an expanding data base designed to study the political economy of influence. These cases do not test a theory; they are chosen to demonstrate the broad applicability of the concept of influence and to illustrate distinct and variable aspects of Hirschmanesque statecraft. The first case, of relations between the United States and Kingdom of Hawaii, offers a classic Hirschmanesque story of asymmetric relations and interest transformation. The latter two cases, which focus on interwar Austria and Czechoslovakia and post-cold war Ukraine and Russia, also illustrate states pursuing Hirschmanesque strategies. These cases, however, extend the analysis further. They demonstrate how the pattern of economic activity can have significant political effects long after the power that shaped them has faded from view. These cases also address the broader and most profound point raised by *National Power*, that there are a range of plausible directions "National Interests" can take. The pattern of economic relations, especially during periods of political transition when national interests are most malleable, will have a formative influence on their trajectories.<sup>14</sup>

13. *National Power*, v-xii, esp. vi, where Hirschman claims to be a "founding grandfather" of dependency theory.

14. We therefore engage the international relations literature that describes the influence of domestic political and economic bargaining on foreign policies. See, for example, Jack Snyder, *Myths of Empire* (Ithaca: Cornell University Press, 1991); and Helen Milner, *Resisting Protectionism* (Princeton: Princeton University Press, 1988). For elaborations of the influence of the economic preferences of domestic actors on security policies, see also Paul A. Papayanou, "Interdependence, Institutions, and the Balance of Power," *International Security*

#### THE UNITED STATES AND THE HAWAIIAN KINGDOM

THE CASE of the United States and the Hawaiian Kingdom in the second half of the nineteenth century offers an excellent illustration of Hirschmanesque forces at work.<sup>15</sup> Trade relations between the two states, and in particular the establishment of a reciprocity treaty in 1875 and its political consequences, can only be understood in this context. At all times, the United States was motivated by political goals in its economic relations with Hawaii, and, from an economic standpoint, was almost certainly worse off as a consequence of reciprocity. Hawaii, on the other hand, reaped great economic benefits from greater access to the American market. At the same time, however, its domestic politics were transformed by the agreement, which led to greater political concessions when the treaty was renewed and contributed to the revolution of 1893.

#### THE ROAD TO RECIPROCITY

The treaty of trade reciprocity with the United States that Hawaii ultimately secured represented the culmination of over twenty-five years of diplomatic efforts during which the Kingdom repeatedly sought such a treaty with the United States but was continually rebuffed. Hawaii's desire to expand its agricultural exports to the United States resulted from the decline of the whaling industry, which was the mainstay of the Hawaiian economy during the first half of the nineteenth century. Whaling had brought good times to Hawaii, with Honolulu serving as the hub for the majority of the world's whaling fleet. Whale oil was at one time a profoundly important source of energy, especially for artificial light, but a growing scarcity of the mammals, the emergence of alternative fuel sources, and the diversion of ships during the American Civil War signaled the industry's secular decline.<sup>16</sup> At the same time, increased de-

20, no. 4 (spring 1996): 42-76; and Brian Pollins, "Conflict, Cooperation, and Commerce," *American Journal of Political Science* 33, no. 3 (August 1989): 737-61.

15. Two recent articles brought this case to our attention: Sumner J. La Croix and Christopher Grandy, "The Political Instability of Reciprocal Trade and the Overthrow of the Hawaiian Kingdom," *Journal of Economic History* 57, no. 1 (March 1997): 161-89; and John McClaren, "Size, Sunk Costs, and Judge Bowker's Objection to Free Trade," *American Economic Review* 87, no. 3 (June 1997): 400-420. La Croix and Grandy offer an excellent analysis of the transformation of Hawaii's domestic political economy. McClaren makes a more general argument regarding how "sunk costs" (new investments following a trade agreement that alter the structure of the domestic economy) can place small states at a bargaining disadvantage vis-à-vis large states. On U.S. policy, see United States Department of State, *Foreign Relations of the United States: 1894*, app. 2, *Affairs in Hawaii* (Washington: Government Printing Office, 1895), hereafter FRUS.

16. Ralph S. Kuykendall and A. Grove Day, *Hawaii: A History* (Englewood Cliffs: Prentice Hall, 1961), 89-90.

mand in California for agricultural products, stimulated by its acquisition by the United States and by the gold rush, presented new economic opportunities. Hawaii's sugar industry in particular, which had just started organized production in 1837 but was already exporting by 1841, was in a position to expand its sales to the U.S. market. American tariffs and foreign competitors, however, placed limits on the ability of Hawaii to fully exploit the opportunities offered by the American market.<sup>17</sup>

A treaty of trade reciprocity would solve both of these problems, allowing Hawaiian sugar into the United States duty free and giving it a price advantage over competitors. The Monarchy first proposed such a pact in 1848 and did so again in 1852. An agreement was actually reached in 1855, but it could not secure ratification in the U.S. Senate, where a coalition led by domestic sugar and wool producers successfully derailed its progress.<sup>18</sup> Even without the treaty, however, Hawaii was able to increase both its sugar production and its sugar exports to the United States. The U.S. tariff act of 1857 included a twenty percent reduction on the sugar tariff, and the American Civil War resulted in a huge increase in the demand of the North for imported sugar. The price of sugar rose from just under seven cents per pound in the 1850s to over seventeen cents in 1864. It was at this time that sugar emerged as a force in the Hawaiian economy. The island, which had exported just over half-a-million pounds in 1856, exported five times that amount in 1861. Exports surged throughout the 1860s, reaching ten million pounds in 1864 and over seventeen million in 1866.<sup>19</sup>

The end of the American Civil War was associated with an expansion in the global supply of sugar and a reduction in its price, contributing to a serious economic downturn in Hawaii. Once again the Kingdom attempted to secure a reciprocity treaty with the United States, and an agreement was reached in May 1867, but for a second time it failed to secure passage in the U.S. Senate, in this case after three years of intermittent debate.<sup>20</sup>

Although it rejected successive treaties of reciprocity, the United States maintained a keen interest in the affairs of Hawaii. As early as 1842, Daniel

17. Sylvester K. Stevens, *American Expansion in Hawaii: 1842-1898* (Harrisburg: Archives Publishing, 1945), 34; Merze Tate, *Hawaii: Reciprocity or Annexation* (East Lansing: Michigan State University Press: 1968), 26.

18. Ralph S. Kuykendall, *The Hawaiian Kingdom 1854-1874: Twenty Critical Years* (Honolulu: University of Hawaii Press, 1953), 45; Tate, *Reciprocity or Annexation*, 26, 28, 35-39.

19. Tate, *Reciprocity or Annexation*, 39-41; Kuykendall, *Hawaiian Kingdom*, 141 (export figures), 143; Noel J. Kent, *Hawaii: Islands Under the Influence* (New York: Monthly Review Press, 1983), 38 (sugar prices).

20. Tate, *Annexation or Reciprocity*, 41-42, 47, 53, 67; Kuykendall, *Hawaiian Kingdom*, 209, 212, 218. In this instance, unrelated domestic political issues associated with the impeachment of President Johnson played an important role in distracting attention from the issue.

Webster, then secretary of state in the Tyler administration, pronounced what was in essence a "Monroe Doctrine" for Hawaii. Webster asserted that the United States was "more interested in the fate of the islands, and their Government, than any other nation can be." Not only did the United States oppose the colonization of the islands by any foreign power, but it also insisted that "no power ought to seek for any undue control over the existing Government."<sup>21</sup> While Hawaii's interest in the United States was principally economic, America's interest in the Pacific Islands was almost solely political. There was continuous concern that the Kingdom might be conquered by Britain or France, or possibly even by Germany or Japan. Concerns regarding British dominance were particularly acute in the first half of the nineteenth century. The great Hawaiian King Kamehameha I, who unified the islands under his rule, had essentially placed the islands under British protection, and his son continued that policy when he ascended the throne in 1819. British influence in Hawaii waned steadily over the years, but there was considerable concern in the United States over a perceived pro-British tilt in Hawaiian foreign policy in the 1850s.<sup>22</sup>

The executive branch of the United States government continuously sought to achieve a reciprocity treaty with Hawaii in order to assure U.S. political dominance, but it was consistently resisted by narrow domestic economic interests. Presidents Franklin Pierce, Andrew Johnson, and Ulysses S. Grant all supported reciprocity, even though they recognized that there would be little, if any, economic benefit to the United States and that the treaty would hurt the interests of the U.S. sugar producers. Johnson's treasury secretary Hugh McCulloch stated explicitly that the treaty did not have much economic value, "but political considerations...appear to be of such importance as to entirely overwhelm the comparatively trifling interests involved in the commerce of these islands." Nevertheless, national security arguments could not carry the day in the face of the organized opposition of economic interests, at least in the middle third of the century.<sup>23</sup>

21. FRUS, 40. See also Webster's related comments, 60-62, and President Tyler's message to congress, 39-41.

22. Kuykendall and Day, *Hawaii*, 47; Merze Tate, *The United States and the Hawaiian Kingdom: A Political History* (New Haven: Yale University Press, 1965), 20; Kuykendall, *Hawaiian Kingdom*, 35-36, 196-97. For examples of U.S. concerns regarding France, Britain, and Japan, see FRUS, 97-102, 134, 142.

23. John Patterson, "The United States and Hawaiian Reciprocity, 1867-1870," *Pacific Historical Review* 7, no. 1 (March 1938): 17; Stevens, *American Expansion in Hawaii*, 78.

## RECIPROCITY ACHIEVED

The demise of the 1867 treaty, which lingered in congressional purgatory until 1870, did not put an end to the desire of actors both in the United States and on Hawaii to reach a reciprocal trade agreement. A fall in the price of sugar in the early 1870s again threw the Hawaiian economy into depression and political distress and raised new demands for a trade agreement. Having failed repeatedly in the past, proreciprocity forces within Hawaii searched for a way to sweeten the pot. On 8 February 1873, the *Pacific Commercial Advertiser* urged the government to offer the U.S. "a position of harbor and coaling station"; namely, Pearl Harbor. Four days later the Hawaiian Chamber of Commerce also called for the government consider whether "any measure can be devised to induce the Government of the United States to enter into a Treaty of Reciprocity." King Lunalilo, who had only recently succeeded the last holder of the Kamehameha line, followed the advice of his cabinet and reluctantly authorized his representatives to make such an offer to the United States. When the offer became known to the Hawaiian public, however, there was overwhelming popular and political opposition, and the King was forced to withdraw the proposal.<sup>24</sup>

Still, pressure to do something remained, and the withdrawal of the Pearl harbor offer did not affect Hawaii's broader policy goals. With the ascension to the throne of the relatively pro-American David Kalakaua in February 1874 (following the death of King Lunalilo), efforts to secure a reciprocity treaty intensified even further. In November Hawaiian representatives arrived in the United States and were quickly able to achieve a reciprocity agreement, even though it did not include the cession of Pearl Harbor. President Grant submitted the treaty to the U.S. Senate on 1 February 1875.<sup>25</sup> In the Senate the third time was the charm. Despite opposition from the same economic interests that had opposed previous reciprocity agreements, the treaty passed the U.S. Senate on 18 March by a vote of 51-12.

Why were the United States and Hawaii able to implement a reciprocity treaty in 1875 when they had repeatedly failed to do so in the past? Hawaii consistently favored such a treaty; it is U.S. policy that demands an explanation. Simply put, U.S. policy changed because its broad international political concerns dominated narrow economic interests. In the last quarter of the nineteenth century, the fading politics of sectionalism, increasing U.S. power, and,

importantly, heightened concern within the U.S. about foreign political influence in Hawaii, caused the shift in policy.

After the failure of the 1867 treaty Hawaii began to explore the possibility that other export markets might substitute for the United States. In 1873, the kingdom had achieved some success in seeking out other markets. While the United States was still its largest customer, taking 14.8 million pounds of Hawaiian sugar, Australia and New Zealand took 7 million pounds, and British Columbia purchased an additional 1.2 million. This raised fears of resurgent British influence in the islands. At the same time the United States harbored increasing suspicions about the interests of France, Germany, Japan, and even Russia in the Hawaiian Islands, states the United States recognized as potential rivals in the Pacific.<sup>26</sup>

U.S. concerns escalated with reports that the Hawaiian sugar producers were desperate to improve their economic situation. Reports that New Zealand was to offer Hawaii a loan did little to allay fears that Britain was hoping to increase its influence there. The U.S. minister in Hawaii reported to Secretary of State Hamilton Fish that in the absence of a reciprocity treaty with the United States, Hawaii would increasingly turn to Canada and the British colonies in the Pacific. He reported that the entire 1876-77 sugar crop might be sold to British possessions.<sup>27</sup>

It was these heightened international political concerns that caused the change in U.S. policy.<sup>28</sup> In the words of one of the leading historians of Hawaii, if trade patterns did shift, "Hawaii might soon drift into the British sphere. To forestall such a turn of events off its pacific shores, the United States was willing to try reciprocity." The political motives of the treaty from the U.S. per-

26. Jean Ingram Brooks, *International Rivalry in the Pacific Islands 1800-1875* (Berkeley: University of California Press, 1941), 345, 359, 361; Tate, *Reciprocity or Annexation*, 100.

27. Tate, *Reciprocity or Annexation*, 101. Tate argues that these concerns were overstated, and that a significant permanent shift in the pattern of Hawaii's trade relations was unlikely. He also concedes, however, that "the spectre of an economic swing by the Hawaiian Kingdom toward the British Empire, with its resultant political consequences, was frequently and effectively raised in Honolulu to excite fears and to produce action in Washington" (104). Indeed, James Garfield, at that time a representative from Ohio, argued on the House floor that if the U.S. failed to act, Hawaii would seek an alliance with Great Britain or France (115). See also Merze Tate, "Canada's Interest in the Trade and the Sovereignty of Hawaii," *The Canadian Historical Review* 44, no. 1 (March 1963): 20-42; and Tate, "Australasian Interest in the Commerce and the Sovereignty of Hawaii," *Historical Studies Australia and New Zealand* 11, no. 44 (April 1965): 499-512.

28. Walter LaFeber, who would stress the importance of economic interests (Hawaii as a bridge to Asia) in influencing the U.S. decision for annexation in 1898, wrote of the 1875 agreement: "Both Fish and Congress said nothing about direct commercial benefits, because none existed" (*The New Empire: An Interpretation of American Expansion, 1860-1898* [Ithaca: Cornell University Press, 1963], 35). Also, personal communication with authors, 4 August 1998.

24. Kuykendall, *The Hawaiian Kingdom*, 247, 250 (quotes), 251-57; Michael Dougherty, *To Steal a Kingdom: Probing Hawaiian History* (Waimanalo, Hawaii: Island Style Press, 1992), 127-28.

25. Stevens, *American Expansion in Hawaii*, 93, 118, 120.

spective are clearly seen with the Senate's amendment to Article IV. This revision of the treaty, a novel extension not addressed by its drafters, prevented Hawaii from reaching similar reciprocity treaties with other states. Further, regarding its ports, harbors, and territory in general, Hawaii was prohibited from granting "any special privilege or rights or use therein, to any other power, state, or government." Secretary of State James G. Blaine would later instruct U.S. representatives on the island to emphasize the fact that "the government of the United States considers this stipulation as the very essence of the treaty." Without this clause, one leading scholar has argued, "the treaty probably would have been rejected." Newspapers at the time reported what a Senate Foreign Relations Committee report of 1894 concluded, "the treaty was negotiated for the purpose of securing political control of those islands," and "preventing any other great power from acquiring a foothold there."<sup>29</sup>

#### THE CONSEQUENCES OF RECIPROCITY

The positive economic effects of reciprocity in Hawaii exceeded even the most optimistic forecasts. Sluggish economic activity in 1875 was followed by an unprecedented expansion that lasted seven years. Sugar led the way, but few aspects of the island economy were left untouched, especially activities that were associated with the sugar economy, such as construction, merchandising, banking, and transportation. Sugar production doubled within four years from 26 million pounds in 1876 to 63.5 million in 1880. Within five years production tripled again, reaching 171 million pounds—ten times the level associated with the civil war boom. The crop's value increased over this period from \$1.27 million to \$8.35 million.<sup>30</sup>

The reciprocity bonanza brought with it fundamental changes in Hawaii's domestic political economy and its international relations. On the home front, the sugar industry, and especially "big sugar," came to dominate all economic activity on the islands. Land under sugar cultivation increased from 8,500 acres in 1870 to 26,019 in 1880 to 87,016 in 1890, while capital investments in the sugar industry increased from \$1.4 million to \$4.5 million to \$14.7 million over the same period. The increasing cost of land and greater use of expensive machinery privileged large operations and contributed to the concentration of

29. Kuykendall and Day, *Hawaii*, 151–52 (first quote); Stevens, *American Expansion*, 125 (quotes from Article 4), 130 (New York Times commentary); *FRUS*, 1153 (Blaine instructions); Tate, *The United States and the Hawaiian Kingdom*, 41 (quote, San Francisco Morning Call commentary); Patterson, "The United States and Hawaiian Reciprocity," 14 (quotes from senate report).

30. Stevens, *American Expansion*, 141; Tate, *Reciprocity or Annexation*, 118.

production.<sup>31</sup> Internationally, the Hawaiian economy became fundamentally intertwined with that of the United States. Almost all of the new sugar grown was exported to the United States. In 1885 trade with America accounted for 92 per cent of Hawaii's total trade; trade with Britain had fallen to only 3.75 percent. Magnifying the political consequence of these effects was the fact that the United States took an even greater proportion of Hawaiian exports than it provided Hawaiian imports, and this also yielded for the Kingdom a surplus on its American trade account. Continued Hawaiian prosperity, and the interests of the dominant commercial interests there, depended on sustained privileged access to the U.S. market.<sup>32</sup>

The United States, on the other hand, received no economic benefits from the reciprocity treaty. Because Hawaii's exports of sugar accounted for a relatively small proportion of total U.S. consumption (and because other foreign suppliers still faced U.S. protectionism) the price of sugar paid by U.S. consumers did not fall. Hawaiian producers thus gained the full benefits of the treaty, at the expense of the U.S. government, which lost tariff revenue.<sup>33</sup>

The lack of tangible economic benefits at home contrasted sharply with the visible economic and export boom in Hawaii. Rutherford B. Hayes administration treasury secretary John Sherman stated plainly in 1878 that "the advantages thus far have not been reciprocal...and it is probable that the benefits in favor of Hawaii will increase largely." Not surprisingly, opponents of reciprocity in the United States, principally sugar interests (southern producers and eastern refiners) redoubled their efforts. The attempt initiated by Louisiana congressmen to secure a vote to abrogate the treaty failed. Once again, treaty proponents stressed the political benefits of the treaty. The House Committee on Foreign Affairs, for example, opposed abrogation because "the effect of the treaty has already been to give to this government the benefit of a satisfactory political influence with the Government of the Hawaiian Islands."<sup>34</sup>

Opposition to the treaty, however, became more consequential as the date when it was terminable, 9 September 1883, approached. The United States

31. La Croix and Grandy, "The Political Instability of Reciprocal Trade," 172; Stevens, *American Expansion*, 142. The increased production of sugar also required the increased use of foreign labor, mostly from China and Japan, and this affected racial politics. While not emphasized here, the tensions between Asians, natives, and whites (mostly Americans and American-Hawaiians) were a central aspect of Hawaiian domestic politics.

32. Tate, *Reciprocity or Annexation*, 118–19, 130; Dougherty, *Stolen Kingdom*, 130–31; Kent, *Islands Under the Influence*, 46–67, 58.

33. See J. Laurence Laughlin and H. Parker Willis, *Reciprocity* (New York: Baker and Taylor, 1903), 78–80; F. W. Taussig, *The Tariff History of the United States* (6th ed.) (New York: Putnam, 1914), 279. This result is illustrated more formally in La Croix and Grandy, "The Political Instability of Reciprocal Trade," 170–71.

34. Donald Marquand Dozer, "The Opposition to Hawaiian Reciprocity, 1876–1888," *Pacific Historical Review* 14, no. 2 (June 1945), 158, 169.

executive branch continued to support reciprocity regardless of who was in power: Presidents Grant, Hayes, James A. Garfield, and Chester A. Arthur all supported reciprocity and its extension. President Grover Cleveland's support of the Hawaiian treaty, explicitly for reasons of national security and as an exception to his general opposition to reciprocal trade treaties, supports the view that the treaty was seen as serving the broad national interest.<sup>35</sup>

Parochial interests did not simply disappear, however. While efforts by Louisiana Senators J. B. Eustis and Randall L. Gibson to formally terminate the agreement failed, neither was the treaty extended. In fact, if anything, momentum was building against the seven-year extension of the treaty desperately sought by Hawaii and supported by President Arthur in 1883. Opponents of the treaty pointed out that it had cost the United States \$22,808,085 in tariff revenue, while during the same period total U.S. exports to Hawaii amounted to \$22,872,371. Why not, critics sarcastically suggested, just restore sugar duty and send all of our exports to Hawaii free of charge? At the same time, the bulging profits and monopolistic practices of newly emergent west-coast sugar refiners lent credibility to the complaints of southern and eastern sugar interests that the treaty was unfairly hurting them. Citing the west-coast monopolists, the *San Francisco Chronicle* began a campaign against the treaty.<sup>36</sup>

With no prompt and definitive resolution, the task of selling an extension of the treaty fell to the Cleveland administration, and Secretary of State Thomas Bayard. Opponents of the treaty, like Illinois Senator William Morrison, continued to stress its apparent one-sidedness, arguing that "much is given and nothing received." Bayard responded that "I trust that you will not allow a commercial question to outweigh political considerations so important as I believe the control of these contiguous Islands...to be," but supporters of the treaty realized that they had to show a more tangible benefit for the United States.<sup>37</sup>

The cessation of Pearl Harbor to the United States could fill that role. The Senate Foreign Relations Committee, searching for a salient political counterweight, proposed that the treaty be amended to grant the United States exclusive rights to create "a coaling and repair station" at Pearl River.<sup>38</sup> The United States was clearly interested in the port, and it had been discussed during the original reciprocity negotiations. As early as 1872 the secretary of war ordered an on-site investigation and a confidential report to evaluate the potential

military utility of Hawaiian ports. Pearl Harbor was found to be the only location that "can be made to satisfy all the conditions necessary for a harbor of refuge in time of war."<sup>39</sup>

More than just a selling point, senators on the Committee recognized that acquiring Pearl Harbor would end once and for all the question of political influence in Hawaii: keeping the Americans in and the Europeans out, thus achieving a long-standing U.S. policy goal. Opposition in Hawaii to any cessation of sovereign territory remained high, however, and this was the position of both King Kalakaua and Premier Walter M. Gibson. The European powers would also strongly protest such a move. Given these foreign complications, Bayard was initially opposed to the amendment, and hoped to secure an extension of the treaty without it.<sup>40</sup> International concerns, however, would change his mind. The specter of British influence resurfaced, as rumors of a British loan to Hawaii coincided with the completion of the Canadian-Pacific Railroad, and a report published in the *London Times* that, should the U.S. treaty fail to be extended, Great Britain, through the colonial office, would pursue a reciprocity treaty between Hawaii and Canada. Even more alarming to Bayard was the erratic behavior of Hawaiian foreign policy. The secretary was especially concerned that Hawaiian pretensions to form a confederation with Samoa would bring the Island Kingdom into conflict with Germany. Bayard thus decided that rapid ratification of the treaty (with the Pearl Harbor clause) was the best course of action. With the amendment in place, a seven year extension of the trade reciprocity treaty was passed by the U.S. Senate on 20 January 1887.<sup>41</sup>

The treaty still needed to be ratified in Hawaii, where there remained strong opposition to the Pearl Harbor clause. Debate was ended, however, by the "bloodless revolution" in June 1887. Members of the Hawaiian League, a secret organization of the captains of industry in sugar and related support sectors such as banking, commerce, and transportation, were able to capitalize on general dissatisfaction with the behavior of the Royal government. Their challenge resulted in the removal of Premier Gibson and the introduction of a new constitution that significantly circumscribed the power of the monarchy. The Hawaiian League was strongly in favor of the reciprocity treaty, even with the cessation of Pearl Harbor, and although the King remained personally op-

35. On Cleveland, Laughlin and Willis, *Reciprocity*, 94-95.

36. Dozer, "Opposition to Hawaiian Reciprocity," 160, 173-74.

37. Charles Tansill, *The Foreign Policy of Thomas F. Bayard* (New York: Fordham University Press, 1940), 373-74.

38. Dozer, "Opposition to Hawaiian Reciprocity," 176.

39. "Confidential report of General John Schofield and Lieutenant Colonel Burton Alexander, May 8, 1873," reprinted in *American Historical Review* 30, no. 4 (July 1925): 561-65, quote on 562.

40. Tansill, *Foreign Policy of Bayard*, 377, 381; Tate, *Reciprocity or Annexation*, 188-89.

41. Tansill, *Foreign Policy of Bayard*, 386-87; Kuykendall and Day, *Hawaii*, 168-69; Tate, *Reciprocity or Annexation*, 184; Dozer, "Opposition to Hawaiian Reciprocity," 178-79.

posed, he recognized the new political realities on the Island and acceded to the treaty.<sup>42</sup>

It would be an oversimplification to assert that the revolutionaries were motivated solely to assure ratification of the new reciprocity treaty. Although the Hawaiian League itself was only formed early in 1887, the June uprising was the result of long-smoldering tensions between different interest groups on the islands regarding broad questions of finance and governance. At the same time, however, it is impossible to understand the uprising, and the resulting changes in Hawaiian foreign policy, without reference to the economic causes that shifted the underlying balance of political power away from the monarchy and toward those who wanted closer relations with the United States. The cessation of Pearl Harbor, politically unacceptable in Hawaii less than fifteen years earlier, offers an illustration of Hirschmanesque effects: the transformation of domestic politics brought about by the pattern of international economic relations.

#### RECIPROCITY, REVOLUTION, AND ANNEXATION

The forces set in motion by reciprocity: the dramatic expansion of the sugar industry and related sectors, and their conditioning on the American market, continued to dominate the trajectory of Hawaiian politics after the bloodless revolution. This was made abundantly clear by the consequences of the McKinley Tariff of 1890, which eliminated all U.S. duties on sugar and gave a two cent per pound bounty to domestic producers. While not a violation of the reciprocity treaty, the measure with one stroke gutted its import, and hit the island like a tidal wave, throwing Hawaii into depression. The price of sugar in Honolulu fell by forty percent, and property values also declined precipitously. This agitated the still-simmering political tensions on the Islands. Things came to a head when Queen Liliuokalani, who had succeeded King Kalakaua upon his death in 1891, introduced a new constitution in an effort to reverse the political losses suffered by the Monarchy in 1887. This led to the overthrow of the Queen by the same elements that had formed the Hawaiian League and now favored the annexation of Hawaii by the United States. While

42. For an article-by-article comparison of the old and new constitutions, see *FRUS*, 804–17. The most important changes were to Articles 41 and 62. The revised Article 41 increased the power of the cabinet and made its members more accountable to the legislature. Changes to Article 62 expanded voting rights to include long-term residents. These changes reflected shifts in the balance of economic power on the island. Before these changes, residents who paid the vast majority of the island's taxes were not eligible to vote. See also Kuykendall and Day, *Hawaii*, 170; Stevens, *American Expansion*, 151–53; Tate, *Reciprocity or Annexation*, 198–200.

the United States appeared to support the revolutionaries, it did not agree to annex Hawaii until 1898.<sup>43</sup>

Some scholars have suggested (and it was the popular view at the time) that the annexationists were motivated by a desire to receive the U.S. sugar bounty, and that the McKinley tariff thus caused the Hawaiian revolution.<sup>44</sup> This interpretation is not supported by the facts, and it fails to capture the broader range of issues at stake in Hawaiian politics.<sup>45</sup> Once again, however, as with 1887, even though the simple “sugar story” is too narrow, one cannot explain the 1893 revolution without an understanding of the political consequences of the changes in the domestic economy brought about by the pattern of Hawaii's external economic relations. In that sense, the rise of the sugar and attendant industries increased the power of those who saw Hawaii's destiny resting with some form of special relationship with the United States

#### AUSTRIA, CZECHOSLOVAKIA, AND THE ANSCHLUS PROBLEM IN INTERWAR EUROPE, 1918–32

AUSTRIA WAS the focal point for two of the central security problems of interwar Europe. The first was the German problem, the second the collapse of the Habsburg Empire and central Europe's ensuing instability. The vast majority of Austrians and, at least later in the decade, Germans, favored the *Anschluss*, the political unification of the two states. *Anschluss* movements in Austria gained power throughout the 1920s, and German governments, which had been lukewarm in 1919, came also to champion the idea of union.

43. Stevens, *American Expansion*, 188, 192, 215–17. For the U.S., strategic concerns remained paramount throughout the 1890s as well. See, for example, Thomas A. Bailey, “The United States and Hawaii During the Spanish-American War,” *American Historical Review* 36, no. 3 (April 1931): especially 560. Even passionate opponents of U.S. Hawaii policy and annexation recognized the strategic significance of the Islands. See, for example William H. Springer, “The Hawaiian Situation: Our Present Duty,” *North American Review* 157, no. 445 (December 1893): 752.

44. Charles A. Beard and Mary R. Beard, *The Rise of American Civilization*, volume 2 (New York: Macmillan, 1927), 359–60; Scott Nearing and Joseph Freeman, *Dollar Diplomacy: A Study in American Imperialism* (New York: Viking, 1925), 75–76.

45. The revolutionaries did not expect to receive the sugar bounty, and many sugar producers opposed annexation because they feared becoming subject to U.S. labor exclusion laws. Political conflict in Hawaii centered around issues of general stability, property rights, taxation, domestic governance, and race relations. Most of these issues pertained to the functioning of the sugar and commercial economy, supporting the broad structural interpretation of the revolution. See Julius W. Pratt, “The Hawaiian Revolution: A Re-Interpretation,” *Pacific Historical Review* 1, no. 3 (September 1932): especially 278, 284, 286–87; William A. Russ Jr., “The Role of Sugar in Hawaiian Annexation,” *Pacific Historical Review* 12, no. 4 (December 1943): 340, 350; Richard D. Weigle, “Sugar and the Hawaiian Revolution,” *Pacific Historical Review* 16, no. 1 (February 1947): esp. 47, 53, 56–68.



Austria's socialists and pan-German nationalists, who together comprised approximately two-thirds of the parties and electorate, disagreed on almost every issue of policy except the *Anschluss*, which they sought with equal vigor, but for conflicting purposes.

Yet the unification of Austria and Germany did not occur in the 1920s for two reasons. The first was the opposition of France and Czechoslovakia, which, through their decisive roles in continental international relations between the two wars, did everything possible to prevent Austrian-German unification. The other and more complicated reason was the structure of Austrian domestic politics. The Christian Social Party was the only Austrian political party that did not favor unification with Germany, and yet it remained in power throughout the 1920s, "apparently deaf to all the agitation" for *Anschluss* and the demands of the two other major political groups, the socialists and the pan-German nationalists.<sup>46</sup> This section shows how the two reasons that Austrian-German unification did not occur became interconnected.

French and Czechoslovak opposition to *Anschluss* and the Christian Socials' consolidation of power in 1920s Austria, in a process that allowed them decisive influence on foreign policy making, were intimately connected through international finance. Czechoslovakia, with the help of France, persuaded the League of Nations to offer Austria a very large loan for economic reconstruction and stabilization. This loan and its terms, outlined in the Geneva Protocols of 1922, conclusively affected the balance of economic and political power in 1920s Austria. As a result of the politics and economics of the Geneva loan the Christian Socials and the social bases of their support, particularly the agricultural sector, consolidated their dominant position in the Austrian political economy.<sup>47</sup> Those states in opposition to *Anschluss* therefore, partially by altering the fortunes of economic groups that supported Austrian political parties, influenced the Austrian internal debate about its national interest with the timing and economic and political conditionality of financial flows. The strategy worked brilliantly, probably even more effectively than France and Czechoslovakia had hoped. The Austrian government, led by the Christian Socials, was able to oppose the groundswell of prounification sentiment in the 1920s in both Austria, where it was articulated by the socialists and nationalists, and Germany. The unification of Germany and Austria, as a result, had to wait until 1938, when it was accomplished by force.

46. M. Margaret Ball, *Post-war German-Austrian Relations: The Anschluss Movement, 1918-1936* (Stanford: Stanford University Press, 1937), 8-9.

47. These links are explicated clearly in Peter J. Katzenstein, *Disjoined Partners: Austria and Germany Since 1815* (Berkeley: University of California Press, 1976), chapter 6, esp. 159-61.

#### DEBATING THE NATIONAL INTEREST IN AUSTRIA: REMNANTS OF EMPIRE AND GERMAN CULTURE

Austria immediately became one of Europe's most pressing security issues when the Provisional Assembly of Austria, in November 1918, adopted a resolution that explained to Europe, "German-Austria is a constituent part of the German republic."<sup>48</sup> The victors of war, especially France, vetoed this political move.<sup>49</sup> The peace treaties then codified the separation of Germany and Austria. The Treaty of Versailles included an article specifying Germany's promise not to incorporate Austria into its state. The Treaty of St. Germain's Article 88 outlined Austria's commitment not to give up its own sovereignty: "The independence of Austria is inalienable otherwise than with the consent of the Council of the League of Nations." The Austrian government, prevented by France from joining Germany, engaged independent statehood in 1919 unwillingly.

The Austria that emerged from, or rather was defined by, the ruins of the Habsburg Empire was obsessed with the idea that it was not a viable political or economic unit. The loss of a huge internal market and the dislocation of interregional economic ties convinced Austrians that Austria could succeed economically only as part of a larger economic unit, either in the form of a unified German-Austrian state or a renewed confederation of the successor states of the empire. Therefore, the idea of economic nonviability was tied to the politics of the *Anschluss*.<sup>50</sup> Two aspects of Austria's interwar economy came to affect its foreign policy consequentially. Austria, first of all, was short of capital for investment and imports of food. The republic's new economy, second, was highly industrialized and, without a large internal market, needed to export.<sup>51</sup>

In this period of rapid transition, however, Austria's future foreign economic interests, including the most important destination for Austrian exports, were not clearly defined. In fact, the national interest was subject to intense

48. Quoted in Ball, *Post-war German-Austrian Relations*, 8-9.

49. Immediately after the war Britain and the United States were not particularly concerned about the Austrian *Anschluss*, but France was vehemently opposed.

50. Stefan Karner, "From Empire to Republic: Economic Problems in a Period of Collapse, Reorientation, and Reconstruction," in *Economic Development in the Habsburg Monarchy and the Successor States*, ed. John Komlos (New York: Columbia University Press, 1990), 251-69. See also Edward P. Keleher, "Austria's Lebensfähigkeit and the Anschluss Question, 1918-1922," *East European Quarterly* 23, no. 1 (March 1989): 71-83.

51. See W. T. Layton and Charles Rist, *The Economic Situation of Austria: A Report Presented to the Council of the League of Nations* (Geneva: League of Nations, 1925); Kurt W. Rothschild, *Austria's Economic Development Between the Two Wars* (London: Frederick Muller, 1947), especially chapter 2; and Rothschild, "Size and Viability: The Lesson of Austria," in *Economic Consequences of the Size of Nations*, ed. E. A. G. Robinson (London: Macmillan, 1963), 168-81.

debate, and Austria's three main political groups expressed very different preferences for what were defined as the two alternatives, unification with Germany or with the successor states of Austria-Hungary.<sup>52</sup> The German alternative was much more popular. Both the socialists and the pan-German nationalists were strongly in favor of the *Anschluss*. The socialists consisted primarily of the industrial workers of Vienna and the several industrial centers in the provinces, and they viewed unification with Germany as a means for a rapid transition to socialism. After a brief coalition government with the Christian Socials from 1918–20, during which they were the dominant partners, the socialists remained outside of Austria's government. Significantly, however, the socialists were able to maintain the support of workers by highlighting social reforms enacted in those first years of the republic.<sup>53</sup> The working class and the socialists remained committed to unification with Germany throughout the period, and they consistently plead the economic case for the *Anschluss*, complaining that Austrian industry's narrow economic interests in the successor states should not outweigh the Austria's broad economic interest in a pan-German future.<sup>54</sup> The support of pan-German nationalists for unification was unwavering, as was, however, their opposition to socialists and their substantive ideology, apart from *Anschluss*.

The Christian Socials did not support the *Anschluss*, and throughout the 1920s, while they were the dominant party in all governing coalitions, they pursued the goal of political autonomy from Germany. The party, Catholic and conservative, drew its support from farmers<sup>55</sup> and financial and industrial

52. Party designations in interwar Austria can be confusing. The three main groups were the socialists (represented by the Social Democratic party), the conservative Christian Social party, and the pan-German nationalists (represented by several parties, including the Great-German party). Here we will refer to the socialists, the Christian Socials, and the pan-German nationalists. In general, the Christian Socials and pan-German nationalists remained in broad alignment against the socialists, whose fundamental political goals they both feared. Thus, the nationalists' opposition to socialism prevented their cooperation with the socialists.

53. The social reforms, which included wage increases and generous unemployment benefits, pushed the socialist government to run up huge budget deficits that lead, ultimately, to hyperinflation. The socialists, under Karl Renner, therefore also damaged the new state's credit reputation among the Allies, a process that further exacerbated Austria's persistent capital shortage during the interwar years. See Elisabeth Barker, *Austria, 1918–1972* (Coral Gables: University of Miami Press, 1973), 14, and chap. 2 more generally; and Katzenstein, *Disjoined Partners*, 157–58.

54. A memorandum from the Austrian Chamber for Workers and Employees to the League of Nations explained that a Danubian confederation of the Habsburg successor states, impossible because of politics, should be given up as a goal in favor of unification with Germany. "In some branches of industry," they complained, there are close personal and material associations with the Succession States, which somewhat obscure specifically Austrian interests." This memorandum was included in the report of Layton and Rist, *Economic Situation of Austria*, 201–13, quote at 213.

55. Agriculture, already a traditional mainstay of the party, was further supported by protective tariffs and generous subsidies designed to encourage the development of Austrian

leaders. Finance and industry supported the party's stance against the socialists after 1920 and, as will be shown later, its support for Danubian economic cooperation as an alternative to unification with Germany. The Christian Socials, who never won a parliamentary majority in Austria's deadlocked and fragmented political system during the 1920s, managed effectively to rule throughout the 1920s. This effectiveness was based on the support of key sectors of the economy and, in the end, the decisive influence of Czechoslovak and French financial diplomacy.

The absence of influential economic pressure groups within the *Anschluss* movement demonstrates that, although many Austrian socialists viewed German unification as the solution to Austria's economic problems, the impetus toward Berlin was primarily political and cultural, not material.<sup>56</sup> This was because Austrian business and financial interests were concentrated not in Germany, but rather still in the Danube basin, even as post-Habsburg economic cooperation failed and close political ties to Germany were developed.<sup>57</sup> In 1919 the Habsburg successor states accounted for over 50 percent of Austrian imports, while German imports amounted to 34 percent of the total. By 1929 imports from Germany had fallen to 21 percent of the total, until they fell finally to less than 19 percent in 1933. Imports from the successor states, in contrast, remained steady at between 45 and 50 percent of total imports throughout the 1920s. Austrian exports told the same story. While Germany was the destination for 22 percent of Austrian exports in 1919, by 1933 Germany absorbed only 15 percent. The successor states accepted approximately 35 percent of Austrian exports throughout the interwar period.<sup>58</sup> German capital, moreover, held a negligible and declining place in the Austrian

agriculture after imports from agricultural regions of the former empire, including Hungary and Yugoslavia, declined dramatically after 1918. See Katzenstein, *Disjoined Partners*, 158. Also see Karl Bachinger, "Mittelstand und Bauernorganisationen als neue politische Kräfte in Österreich nach dem Ersten Weltkrieg," in *Die Auflösung des Habsburgreiches: Zusammenbruch und Neuorientierung im Donaauraum*, ed. Richard G. Plaschka and Karlheinz Mack (Vienna: Verlag für Geschichte und Politik, 1970), 462–67; and Frederick Hertz, *The Economic Problem of the Danubian States: A Study in Economic Nationalism* (London: Victor Gollancz, 1947), 118–23.

56. Katzenstein, *Disjoined Partners*, 146–48. See also Stanley Suval, *The Anschluss Question in the Weimar Era: A Study of Nationalism in Germany and Austria, 1918–1932* (Baltimore: Johns Hopkins University Press, 1974), 190–200.

57. For this conclusion, see Georges de Ménéil and Mathilde Maurel, "Breaking Up a Customs Union: The Case of the Austro-Hungarian Empire in 1919," *Weltwirtschaftliches Archiv* 130, no. 3 (1994): 553–75; Herbert Matis, "Disintegration and Multinational Enterprises in Central Europe During the Post-war Years, 1918–1923," in *International Business and Central Europe, 1918–1939*, ed. Alice Teichova and P. L. Cottrell (New York: St. Martin's, 1983), 73–96; and Jürgen Nautz, "Between Political Disintegration and Economic Reintegration: Austrian Trade Relations with the Successor States After World War I," in *Economic Transformations in East Central Europe: Legacies from the Past and Policies for the Future*, ed. David F. Good (London and New York: Routledge, 1994).

58. Nautz, "Between Political Disintegration and Economic Reintegration," 265.

economy during the 1920s and 1930s. Although, to be sure, the problems of economic cooperation between the successor states had depressed the overall level of trade dramatically, the regional orientation of the Austrian economy remained Danubian and most certainly not German.<sup>59</sup>

Austrian industry therefore remained opposed to the *Anschluss* and various customs union schemes throughout the 1920s, although by the early 1930s the continuing problems of cooperation between the successor states had pushed Austrian industrial interests further toward Germany.<sup>60</sup> Business interests, which failed to find a permanent home in the three Austrian political groups but settled on the Christian Socials, remained in favor of an economic rapprochement among the successor states instead. Leadership of the struggle against the socialists, Alfred Diamant argues, “fell into the hands of Viennese industrialists, who also provided the funds to carry on the fight. As a result, the industrialists gained control of the Christian Social party and forced on the party an economic and social program favorable to big business.”<sup>61</sup> In addition, Austrian industry was skeptical of proposals for German customs union, since they feared the prospects of competition with Germans in a unified market. By 1928 the difficulties of customs union negotiations caused their suspension, and in 1931 Austria’s chambers of commerce disapproved of the creation of a unified Austrian-German market by a margin of four to one.<sup>62</sup>

Manufacturers’ skepticism of a reorientation of the Austrian economy toward Germany was matched by the plain opposition of Austrian finance

throughout the 1920s and 1930s.<sup>63</sup> Austria’s first finance minister, Joseph Schumpeter, opposed the *Anschluss* and insisted that Vienna should and would remain the financial center of the successor states. At a press conference in 1919 Schumpeter argued that despite the nationalism of Czechoslovakia and the other successor states, Danubian economic unity would continue. “In this new organism,” Schumpeter argued, “Vienna will have to continue as the financial center and the political separation will affect only marginally the purely economic relations.” He followed these public comments with an address at the general meeting of the Vienna Industrial and Trade Association, where he explained that free trade and monetary union were in the interests of Austria and Viennese finance, because the “states of the Danube basin are undoubtedly dependent on close economic cooperation, whether they like it or not.”<sup>64</sup> Such sentiments would not be enshrined in foreign policy until after 1920, however, when the Christian Socials emerged as the dominant party.

#### CZECHOSLOVAK FINANCIAL INFLUENCE ON AUSTRIAN POLITICS

The Christian Socials, without a parliamentary majority and despite strong public support for unification with Germany, maintained political power throughout 1920s in Austria, which they kept away from *Anschluss*. This is indeed a puzzle, the resolution of which is found in the financial diplomacy of Czechoslovakia and France. This financial diplomacy altered the economic and political balances of power in 1920s Austria in ways that allowed the Christian Socials and their constituents to consolidate their positions of dominance. All the political and economic background outlined above, including the persistent capital shortages, the material and social bases of the various parties, and the fragmentation of the political system, came into play. The Christian Socials were therefore able to turn their Danubian vision of Austria’s national interests into political reality.

After the 1920 elections, when the socialists left the government and the Christian Socials formed a coalition with the pan-German nationalists as the minor partner, conservatives representing business interests came to power. In

59. See especially Nautz, “Between Political Disintegration and Economic Reintegration,” 271; and de Ménil and Maurel, “Breaking Up a Customs Union.” On the difficulties of cooperation there is a huge literature. See Leo Pasvolksy, *Economic Nationalism of the Danubian States* (New York: Macmillan, 1928); Ivan Berend and György Ránki, “Economic Problems of the Danube Region After the Break-up of the Austro-Hungarian Monarchy,” *Journal of Contemporary History* 4, no. 3 (July 1969): 169–85; and Jürgen Nautz, *Die österreichische Handelspolitik der Nachkriegszeit, 1918 bis 1923* (Vienna: Böhlau, 1994). According to the League of Nations report, trade between the successor states had fallen to approximately 50 percent of the economic patterns before the war. See Layton and Rist, *Economic Situation of Austria*, 25–29.

60. On the orientation of Austrian industry, see Jürgen Nautz, “Die österreichische Wirtschaft und der Anschluss,” in *Tirol und der Anschluss*, ed. Thomas Albrich, Klaus Eisterer, and Rolf Steininger (Innsbruck: Haymon, 1988), 385–402. On the late 1920s and 1930s when both industry and agriculture became more divided on the question of the *Anschluss*, see Suval, *Anschluss Question*, 187–89; Ball, *Post-war German-Austrian Relations*, 53, 137–41; and Hertz, *Economic Problem of the Danubian States*, 64, where he argues that every failure of Danubian cooperation encouraged the *Anschluss* movement.

61. Alfred Diamant, *Austrian Catholics and the First Republic: Democracy, Capitalism, and the Social Order, 1918–1934* (Princeton: Princeton University Press, 1960), 92.

62. Katzenstein, *Disjoined Partners*, 151; Rothschild, *Austria’s Economic Development*, 72. More generally see Karl H. Werner, “Österreichs Industrie- und Aussenhandelspolitik, 1848 bis 1948,” in *Hundert Jahre Österreichischer Wirtschaftsentwicklung, 1848–1948*, ed. Hans Meyer (Vienna: Springer, 1949), 359–471.

63. See F. L. Carsten, *The First Austrian Republic, 1918–1938* (Aldershot and Brookfield, VT: Gower, 1986), 160. On the orientation of Austrian finance toward the successor states see Hans Kernbauer and Fritz Weber, “Multinational Banking in the Danube Basin: The Business Strategy of the Viennese Banks After the Collapse of the Habsburg Monarchy,” in *Multinational Enterprise in Historical Perspective*, ed. Alice Teichova, Maurice Lévy-Leboyer, and Helga Nussbaum (Cambridge: Cambridge University Press; Paris: Éditions de la Maison des Sciences de l’Homme, 1986).

64. Quoted in Eduard März, *Austrian Banking and Financial Policy: Creditanstalt at a Turning Point, 1913–1923*, translated by Charles Kessler (New York: St. Martin’s, 1984), 330–31.

May 1922 Ignaz Seipel became chancellor for the Christian Socials, dominating Austrian politics for the rest of the 1920s. Seipel, lamenting the sorry state of the Austrian economy, began to play on European fears of *Anschluss* in order to receive financial help from abroad. Although his coalition with the nationalists forced him to pay lip service to the long-term prospects of unification with Germany, Seipel remained opposed to *Anschluss* throughout the 1920s.<sup>65</sup> In order to emphasize the consequences for Europe of a failed Christian Social government, Austria circulated a memorandum that suggested that without foreign aid "the Austrian Government can no longer assure the functioning of the state."<sup>66</sup>

Czechoslovakia, the state in Europe with the most at stake in the Austrian question, responded.<sup>67</sup> The spread of the *Anschluss* movement in Austria alarmed the Czechoslovak government and its two dominant statesmen, President Thomas Masaryk and foreign minister, and later prime minister, Eduard Benes. Prague's newly dominant position in the central European economy gave its leaders some hubris, and Czechoslovak leaders very quickly after the war planned to influence Austrian domestic politics and prevent unification with Germany. In 1918 Masaryk sent a letter to Benes, in Paris at the time, and explained, "Vienna is in the hands of incapable people. The Viennese begin to realize this. Our influence will be considerable; we can bring it about that they will not desire to join Germany."<sup>68</sup>

In 1921 Benes, finally surmounting anti-Austrian public opinion in Czechoslovakia, concluded the Treaty of Lana with Austria, which soon received assurances of trade cooperation and a credit of 500 million crowns with which to purchase Czechoslovak coal and sugar.<sup>69</sup> When Chancellor Seipel arrived from Austria in August 1922, Masaryk and Benes assured him that Czechoslovakia would attempt to make the Austrian case for international financial help at the League of Nations meetings in September, although Czechoslovakia would,

65. Klemens von Klemperer, *Ignaz Seipel, Christian Statesman in a Time of Crisis* (Princeton: Princeton University Press, 1972). Seipel's eventual accommodation to ideas about unification in the early 1930s were a response to the repeated failures of his Central European initiatives, with the *Anschluss* remaining a last resort.

66. See the discussion of the memorandum in März, *Austrian Banking and Financial Policy*, 489–90.

67. Czechoslovakia would have been surrounded on three sides by a unified German-Austrian state, not to mention Prague's concerns regarding an increasingly dissatisfied and irridentist Hungary. See Felix John Vondracek, *The Foreign Policy of Czechoslovakia, 1918–1935* (New York: Columbia University Press, 1937), esp. 148, 173–81.

68. Quoted in Zygmunt J. Gasiorowski, "Czechoslovakia and the Austrian Question, 1918–1928," *Südost-Forschungen* 16, no. 1 (1957): 87–122, at 90.

69. See M. L. Flaningam, "A Survey of Czechoslovak-Austrian Tariff and Commercial Treaty Relations, 1919–1937," *Journal of Central European Affairs* 6, no. 1 (April 1946): 30–42. The Czech nationalists were opposed to the treaty.

they explained, have to insist on a thorough reorganization of Austrian finances and, possibly, financial control by the League itself.<sup>70</sup>

"Dr. Benes's unconcealed policy," the American minister in Prague relayed, "is to make Vienna increasingly dependent on Prague." The Czechoslovak government "counts on French assistance to further any designs to prevent Vienna from turning to Berlin." Jaroslav Preiss, the leading Czechoslovak financier, head of the Commercial Bank of Prague, and advisor to Masaryk and Benes, explained to the government that Prague should act decisively now. With the correct use of financial incentives, "a possibility offers itself to us of gaining influence, perhaps a decisive one, over Austria in the future." Czechoslovakia could "hook an anchor fast both in her economy and in her financial institutions."<sup>71</sup> At the least Czechoslovakia counted on using financial diplomacy to influence Austrian politics; at most Benes and Masaryk considered the possibility of their own union with Austria and perhaps the rest of the successor states, sponsored by France and under Prague's economic hegemony this time.<sup>72</sup>

France and Czechoslovakia ensured that the League's meetings on the Austrian situation in September 1922 would result in a loan package for Austria.<sup>73</sup> Somewhat surprisingly, Seipel arrived in Geneva for the meetings more conciliatory than he need have been, and he explained that the Austrian government would willingly submit to League supervision of any loan that was made.<sup>74</sup> The Geneva Protocols were quickly negotiated and signed in October 1922, and the League agreed to provide a loan of 650 million gold crowns, guaranteed in equal parts by Britain, France, Italy, and Czechoslovakia.

The provisions of the Geneva Protocols were remarkable. Austria's promise to balance its budget by 1924 and pursue an austerity package was the least interesting of the agreements. A Commissioner-General, appointed by the League, was to be based in Vienna to oversee the Austrian government's reforms. Further, Austria was not allowed to spend any of the loan funds with-

70. See F. Gregory Campbell, *Confrontation in Central Europe* (Chicago and London: University of Chicago Press, 1975), 114; Vondracek, *Foreign Policy of Czechoslovakia*, 193; and März, *Austrian Banking and Financial Policy*, 492.

71. The American minister and Preiss are quoted in Gasiorowski, "Czechoslovakia and the Austrian Question," 106, 107.

72. The evidence on these somewhat surprising plans by Benes and Masaryk seems quite clear. See Gasiorowski, "Czechoslovakia and the Austrian Question," 109–11; Campbell, *Confrontation in Central Europe*, 115; and Piotr S. Wandycz, *France and Her Eastern Allies, 1919–1925: French-Czechoslovak-Polish Relations from the Paris Peace Conference to Locarno* (Minneapolis: University of Minnesota Press, 1962), 351.

73. For a discussion of how Benes influenced the League loan and its terms, see Vondracek, *Foreign Policy of Czechoslovakia*, 195–97.

74. März, *Austrian Banking and Financial Policy*, 493.

out his express permission, and the Austrian parliament was required to pass a bill empowering Austrian governments for a period of two years to do whatever was necessary to create a reformed and balanced budget by 1924, creating a budgetary process that bypassed the Austrian parliament. The reforms included the dismissal of one-third of all civil servants, approximately 100,000 members of the Austrian bureaucracy. Austria also agreed, "in accordance with the terms of Article 88 of the Treaty of St. Germain, not to alienate its independence; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence."<sup>75</sup>

The delegates in Geneva knew what the consequences of the loan would be. The strict austerity plan and resulting deflation would hurt the working class most, although the farmers not only avoided financial sacrifice but were promised an increase in agrarian tariffs.<sup>76</sup> Recalling that the narrow material interests of Austrian agriculture, finance, and industry were being represented by the Christian Socials, while the support of most of the population was divided between the socialists, supported by the working class, and the nationalists, supported by the professional class, helps clarify how the economic effects of the Geneva Protocols would soon translate into profound political effects as well. The Protocols thus "represented the culmination of Benes's policy of using Czechoslovak financial strength and Austrian weakness to erect more safeguards against an Anschluss."<sup>77</sup> The League's loan, in the words of E. H. Carr, was "a brilliant success" that "solved the Austrian problem for several years."<sup>78</sup>

#### CONSOLIDATING THE NATIONAL INTEREST, 1922-28: THE LOAN AND AFTER

From the perspectives of Czechoslovakia, France, and the Christian Socials in Austria, the details of the plan worked in their interests completely. The sectoral effects of the details of the Geneva Protocols decisively affected "the balance of power between the different *Lager* in Austrian politics."<sup>79</sup> The working class, the only organized economic group in favor of unification with

Germany and the social base for the socialist party, was hurt by the austerity policies and deflation, by the shift to more regressive taxation, and by the reversal of social services implemented by the socialists between 1918 to 1920. Not only did the financial policies therefore hurt the socialists' support, but the arrangements for budgetary policy making to bypass the parliament, the only place where the socialists continued to hold influence, also shifted power toward the Christian Socials. Chancellor Seipel's willingness to accept League supervision, in retrospect, seems also to have been part of his strategy of consolidating political power. In addition, the agreement to cut one-third of the bureaucracy directly harmed the social base of the pan-German nationalist parties, which were strong in the professional class and among state employees.<sup>80</sup>

The Christian Socials, however, managed to insulate their own social base, the farmers, from the effects of the financial austerity with the increase of agricultural tariffs, thus giving agricultural interests a better deal than they could have gotten through unification with Germany. The unemployment, resulting from deflation policies, that so affected the socialists and nationalists did not affect nearly as severely the Christian Socials. These effects were serious. At the beginning of 1922 there were 42,000 unemployed in Austria; by 1925 there were 176,000. These unemployed were not evenly distributed, with, for example, approximately 15,000 metal workers seeking unemployment relief, 12,600 from the machinery industries, and 32,000 from the building industry. Yet there were, at the same time, 126 unemployed agricultural workers, and only 4,200 from the foodstuffs sector.<sup>81</sup> Viennese finance, still allied with the Christian Socials, was relieved that the inflation had ended and that fiscal responsibility more austere than anywhere else in Europe reigned in Austria.

The political battle over ratification of the Geneva Protocols was intense. The socialists were fully aware of the political and economic implications of the loan, and, moreover, they explained them in detail to the Allies, who, as a result, were also informed of the consequences for Austrian domestic politics. The socialists accused the Christian Socials of "high treason," of "selling out" Austria.<sup>82</sup> The League sent a delegation to Vienna to gauge opposition to the loan, and, in interviewing Renner, a socialist leader, heard firsthand the reasons for the socialist opposition and, more importantly, a detailing of virtually all of

75. Quoted in Ball, *Post-war German-Austrian Relations*, 49.

76. See März, *Austrian Banking and Financial Policy*, 499.

77. Campbell, *Confrontation in Central Europe*, 116. See the discussion of Czechoslovak financial assistance both bilaterally and through the League in Robert A. Kann, "Czechoslovakia and Austria," in *Czechoslovakia, Past and Present*, Volume I, ed. Miloslav Rechcigl Jr. (The Hague and Paris: Mouton, 1968), 649-60.

78. E. H. Carr, *International Relations Between the Two World Wars, 1919-1939* (London: Macmillan, 1947), 64.

79. Katzenstein, *Disjoined Partners*, 159-60.

80. The political effects on the nationalists were no less profound. After the Christian Socials convinced the Great-German party to vote for ratification, "the Christian Socials managed to stigmatize that party as having voted against *Anschluss*, which permanently damaged its credibility in national politics." Katzenstein, *Disjoined Partners*, 160.

81. Layton and Rist, *Economic Situation of Austria*, 16, 52.

82. On the opposition of the socialists generally, see Barbara Jelavich, *Modern Austria: Empire and Republic, 1815-1986* (Cambridge: Cambridge University Press, 1987), 175-76.

the micro effects of the Geneva arrangements. Renner protested that Seipel "was making too much party capital out of the whole business." Renner then explained that the Geneva Protocols and their effects would harm the working class most, thereby reducing their political influence and economic prospects. This was in addition to the massive reductions in the bureaucracy and the party politics that would inevitably influence the implementation of the accords. The political effect of these changes, Renner made very clear, would be the reduction of the power of the socialists and the maintenance of the power of the Christian Socialists.<sup>83</sup> The socialists were painfully aware that the "Geneva Bondage Treaty," the "road to Geneva," meant not only the end of the *Anschluss* project in the short term, but a reduction of their own political influence in the medium term.

#### UKRAINE, RUSSIA, AND THE PROBLEM OF ECONOMIC AUTONOMY, 1991–93

SINCE LATE 1991, when an independent Ukraine emerged from a collapsed Soviet Union, there have been two competing visions of the Ukrainian national interest. The first, outlined by nationally conscious Ukrainians, sees Ukraine's future in a new Central Europe and defines Russia as the state's central security threat, with economic autonomy from Russia as a fundamental strategic objective. The second, a reaction to the political orientation of Ukraine's nationalists, emphasized the continuity between the Soviet past and the sovereign present, defining a Eurasian Ukraine that maintains close economic, political, and cultural relations with Russia. Ukrainians who favor close relations with Russia tend to be in eastern Ukraine, where the content of national identity is more contested and, significantly, Ukraine's most important economic sector, its heavy industry, is located. Ukraine's inaugural independent government, under Leonid Kravchuk, clearly and aggressively adopted the first definition of Ukraine's national interest. Kravchuk's government, identifying its security threats in the east, implemented policies designed to enhance economic autonomy, which was supposed to be accomplished by a rapid re-orientation of the economy toward the West. Influenced by the economic arguments of Ukrainian nationalists, the Ukrainian government assumed that Ukrainian economic independence would quickly follow its political independence, a transition that would ensure Ukraine a prosperous, stable future out-

83. For this quote and a discussion of the interview with Renner, see Carsten, *First Austrian Republic*, 52. For more on the socialists' arguments that the Christian Socialists were using the loan to reduce the influence of the working class, see März, *Austrian Banking and Financial Policy*, 496.

side a Russian sphere of influence and, most importantly, a "return" to Europe. Some observers in the West agreed. In 1990, as central authority in the Soviet Union seemed increasingly precarious, the Deutsche Bank ranked the 15 Soviet republics with regard to economic independence potential; Ukraine was ranked first.<sup>84</sup>

Less than two years later, however, officials in Kiev had redefined Ukraine's strategic interests and goals. This time organized interests in Ukraine's economy succeeded in influencing definitions of the Ukrainian national interest, as Ukrainian industrialists demanded that Ukraine not leave the economic space of the former Soviet Union. While in late 1991 economic cooperation with Russia had been defined as a security threat, in 1993 the Ukrainian government acknowledged that the lack of economic cooperation with Russia was a threat to an independent, secure existence. This redefinition of the Ukrainian national interest during 1992–93 resulted from the government's increasing awareness of Ukrainian industry's dependence on Russian energy resources and markets, and economic actors within Ukraine, in addition to actions by the Russian government, helped convince President Kravchuk and his advisors to change course. Patterns of Ukraine's foreign economic relations clarified the boundaries of the possible for postindependence Ukrainian foreign policy.<sup>85</sup> Although Ukrainian foreign policy has been oriented toward integration with the West, the costs of economic autonomy policies, determined to be unbearable in 1992–93, have been high enough to keep Ukraine's economic relations concentrated indisputably in the east.<sup>86</sup> The legacies of Soviet economic history, clarified by economic crisis, by assertive industrialists, and by a Russian government desperate to keep Ukraine close, decisively raised the short-term costs

84. Jürgen Corbet and Andreas Gimmich, *The Soviet Union at the Crossroads* (Frankfurt: Deutsche Bank, 1990). See also Gertrude Schroeder, "Economic Transformation in the Post-Soviet Republics," in *Economic Transition in Russia and the New States of Eurasia*, ed. Bartłomiej Kaminski (Armonk, N.Y.: M. E. Sharpe, 1996), 11–41; and "On the Economic Viability of New Nation-States," *Journal of International Affairs* 45, no. 2 (winter 1992): 549–74, at 564–66.

85. This paper thus covers one part of the Ukrainian story; namely, the material pull back toward Russia on Ukrainian foreign policy. This material pull results from regional divisions in the Ukrainian economy and national identity that keep eastern Ukraine oriented toward the Russian economy. For an explanation of why Ukrainian foreign economic policy was oriented away from Russia in the first place and how the politics of Ukrainian nationalism has prevented Ukraine from moving ever closer to Russia and has delegitimated certain forms of cooperation with Russia, despite the concentration of Ukrainian material interests in Russia and the former Soviet Union, see Rawi Abdelal, "Economic Nationalism After Empire" (Ph.D. Dissertation, Cornell University, 1999), chap. 5.

86. Serhiy Tolstov, "Ukraine's Foreign Policy: Course Correction or Change of Priorities?" *Ukrainian Review* 42, no. 1 (spring 1995): 3–12. Larrabee notes the tension between Ukraine's desire to "join all-European institutions on the one hand, and its close economic dependence on Russia on the other." F. Stephen Larrabee, "Ukraine's Balancing Act," *Survival* 38, no. 2 (summer 1996): 143–65.

of economic change. Ukraine's nationalists and its first government underestimated these costs.

#### ENERGY, AUTONOMY, AND THE LEGACIES OF HISTORY

Ukraine is intensely dependent on Russian energy supplies, especially at the below-market prices offered by Russia even after 1991. Ukraine's debts to Russia and Russian companies for these energy supplies have been mounting relentlessly since late 1991. Russia supplies approximately 90 percent of Ukraine's oil consumption. For natural gas, which is the most commonly used form of energy in Ukraine, Ukraine relies on imports from Russia, for approximately 60 percent, and Turkmenistan, for another 20 percent. This energy dependence is the country's most glaring economic and strategic weakness.<sup>87</sup>

Ukraine's energy dependence on Russia has some straightforward political consequences, since Russia can, in theory, use this asymmetry of interdependence to coerce Ukraine. Ukrainian officials have been keenly aware of the problem. Evhen Baramikov, chief of interrepublic trade in the Ministry of the Economy, explained that although Russia "can last a year without our food," it "can halt Ukrainian industry in a day." The effects of a continued radical autonomy policy would ravage the Ukrainian economy, leaving Ukrainians to "eat our sugar while freezing in the dark."<sup>88</sup> Russian attempts to coerce Ukraine economically, however, have not been successful. The success of Russian influence is another matter.

This more significant consequence of Ukraine's energy dependence, its influence on debates about the national interest, is determined by Soviet economic history, and specifically by the path-dependences created by Soviet development policy. After the breakup of the Soviet Union Russia still did not charge members of the Commonwealth of Independent States (CIS) world prices for oil and natural gas. Therefore, Ukrainian industry was subsidized by Russian energy throughout the 1990s, although Russia has attempted slowly to raise CIS energy prices to world levels. Ukraine's heavy industry sector, its most successful during the Soviet period, is extremely energy inefficient and there-

87. See Erik Whitlock, "Ukrainian-Russian Trade: The Economics of Dependency," RFE/RL *Research Report* 2, no. 43 (29 October 1993): 38-42; also Evgeni Yasin, "The Economic Space of the Former Soviet Union, Past and Present," and Alexander Granberg, "The Economic Interdependence of the Former Soviet Republics," both in *Economic Consequences of Soviet Disintegration*, ed. John Williamson (Washington, D.C.: Institute for International Economics, 1993), 13-37 and 47-77.

88. Quoted in Chrystia Freeland, "Kiev Gripped in Russian Stranglehold—Ukraine's Economy Will Pay a Heavy Price for Defying Moscow," *Financial Times*, 23 July 1992.

fore depends not only on Russian energy, but also on Russian markets, in which, despite its high production costs, it is still competitive.

Prior to the Soviet Union's most extensive drives toward industrialization, Ukraine had its own energy industry, but this was phased out in favor of lower-cost alternatives in Russia and central Asia. Particularly since the 1960s Soviet planners allocated oil and gas to Ukraine's energy-intensive heavy industry at prices well below those of the world market. Ukrainian industry earlier had relied on coal, in which Ukraine is abundantly rich, for energy resources. The transition to plentiful and low-cost Russian oil and gas therefore integrated Ukraine's economy into the Soviet economy at higher levels than other allocation methods would have achieved.<sup>89</sup> This tight regional economic integration, furthermore, was a specific policy objective of Soviet strategists, who sought to tie the constituent republics closely together. They succeeded ingeniously in Ukraine, where the heavy industrial sector, the pride of Soviet economic planners, remains addicted to low-cost Russian energy. As Deputy Prime Minister for CIS Affairs Valentin Landik explained, "world prices for oil is death for us."<sup>90</sup>

The Russian government, and Russian energy conglomerates closely tied to it, had clarified the problem for Ukraine in political disputes, and although the Russian government was not able to extract significant political concessions, repeated energy and energy-debt crises during 1992 and 1993 helped to convince the Ukrainian government that it could not survive without economic cooperation with Russia. In addition, these energy crises, which had brought eastern Ukraine's heavy industry virtually to a standstill, helped mobilize the industrialists themselves to demand that Ukraine restore economic links with the CIS. Because Russian energy has been priced below the world market and credit terms have been liberal, in "a strictly economic sense, the energy trade with Russia is highly beneficial to Ukraine."<sup>91</sup> Implicit oil and gas price subsidies as well as implicit credit subsidies have continued, a fact that helps the Ukrainian economy while at the same time complicating attempts to reform its

89. See the discussion in Helen Boss, "Ukraine's First Year of Economic Statehood," in *Economic Transformation in East-Central Europe and the Newly Independent States*, ed. Gabor Hunya (Boulder: Westview, 1994), 243-75. See also Leslie Dienes, "Energy, Minerals, and Economic Policy," in *The Ukrainian Economy: Achievements, Problems, Challenges*, ed. I. S. Koropecykj (Cambridge: Harvard Ukrainian Research Institute, Harvard University Press, 1992), 123-47; and Mariian Dolishnii, "Regional Aspects of Ukraine's Economic Development," in Koropecykj *The Ukrainian Economy*, 290-311.

90. Quoted in John Lloyd, "Weak Ukraine Plays Into Russia's Hands: Economic Union Means Giving Moscow Control of Many of the Levers of Power," *Financial Times*, 17 September 1993.

91. Paul D'Anieri, "Dilemmas of Interdependence: Autonomy, Prosperity, and Sovereignty in Ukraine's Russia Policy," *Problems of Post-Communism* 44, no. 1 (January/February 1997): 16-26, esp. 18.

most energy-dependent industrial sectors.<sup>92</sup> These incentives and policies shaped the patterns of industrialization in Soviet Ukraine, patterns that will be one of independent Ukraine's most enduring Soviet legacies.<sup>93</sup>

#### UKRAINE'S BID FOR ECONOMIC AUTONOMY

Thus the government of Ukraine began 1992 with a politically independent state that was profoundly dependent economically on Russia, a fact that was considered by Kiev and nationalist groups in western Ukraine to be Ukraine's central security problem. During 1990 and 1991 the idea that Ukrainian economic independence would be rapidly and costlessly, possibly even lucratively, attained was widespread among Ukrainians. This was particularly true when *Rukh*, the broad-based movement for perestroika that transformed itself into a moderate nationalist movement, was most active in defining Ukrainian political debates. After Ukraine escaped the Soviet economic system that exploited them, the argument went, it would quickly reorient its trade toward the West, leaving economic ties with the East behind. The "breadbasket of Europe," rich in Donbas coal, and the soul, if not the heart, of Soviet industry, Ukraine would achieve economic autonomy from Russia quickly and dissociate itself from the Russian sphere of influence.<sup>94</sup>

In March 1992 Kravchuk outlined a new economic program, which the administration presented to the Ukrainian parliament in a closed session. The central goal of the program was neither growth, nor reform, nor development, but, instead, economic autonomy from Russia. In the proposal, "Principles of a National Economic Policy for Ukraine," the government lamented Ukraine's economic dependence on Russia, threatening that "the country's very independence is jeopardized." The policy response was to be a thoroughgoing structural transformation, the creation of a new Ukrainian currency, and reductions of imports from ruble-zone countries, through "economizing" and "reorientation toward new markets."<sup>95</sup> When the Ukrainian government began

making specific plans for the creation of a new currency in the summer of 1992, Moscow responded that all states outside the ruble zone would be charged world prices for oil, while those inside the ruble zone would continue to receive oil at below world prices.<sup>96</sup> Ukraine continued with its plans, however, leading Kravchuk to aver, "a single ruble—the same for all states? That is not a ruble zone, but a ruble state."<sup>97</sup>

By the end of the year, however, Ukraine was mired in a profound economic crisis. The Ukrainian economy had collapsed, in large part a consequence of the rupturing of economic ties with Russia and the rest of the Soviet Union. Fuel shortages, the closure of foreign markets that had only a year earlier been part of a single, all-union market, and the weak demand for Ukrainian goods in the West all called Ukraine's autonomy policy into question. No one was more upset or vociferous than Ukraine's industrialists, who had protested at the government's economic reorientation toward the West as soon as it had begun. Ukrainian officials had themselves begun to reevaluate the autonomy policy, and Russian manipulation of Ukraine's energy supplies also helped to convince Ukraine of the medium-term permanence of its economic dependence.

Therefore, in the midst of economic crisis, convinced by Ukrainian industrialists and the Russian government, the Ukrainian government changed course. By late 1992 and early 1993, government officials in Kiev, "even the most anti-Russian," were forced to acknowledge that Russia, more than any Western state, was Ukraine's most important economic partner.<sup>98</sup> Without a cooperative economic relationship with Russia the Ukrainian state did not stand a chance at a stable, independent existence, and the realization by Kiev that it needed economic Russia as much as it needed independence from political Russia redefined the Ukrainian national interest.<sup>99</sup> Then prime minister Leonid Kuchma, asked how Ukraine's first year of economic independence had gone, noted the irony: "Strange as it may seem, the upshot has been an awareness of our economic dependence."<sup>100</sup> The Ukrainian government ended its radical

92. Gregory V. Krasnov and Josef C. Brada, "Implicit Subsidies in Russian-Ukrainian Energy Trade," *Europe-Asia Studies* 49, no. 5 (July 1997): 825–43.

93. See Helen Boss and Peter Havlik, "Slavic (Dis)union: Consequences for Russia, Belarus, and Ukraine," *Economics of Transition* 2, no. 2 (June 1994): 233–54.

94. Orest Subtelny, *Ukraine: A History*, 2nd ed. (Toronto: Canadian Institute of Ukrainian Studies; University of Toronto Press, 1994), 589–93. See also the discussion of these popular preindependence ideas in Ustina Markus, "Shoring Up Russian Relations," *Transition* 1, no. 6 (28 April 1995): 55–58, at 56.

95. The report was reprinted in "L. Kravchuk's Report Had the Effect of an Exploding Bomb," *Komsomolskaia pravda*, 26 March 1992, in *Current Digest of the Post-Soviet Press*, 44, no. 12 (22 April 1992): 15–16. See also Chrystia Freeland, "Ukraine Plans to Sever Russian Economic Links," *Financial Times*, 24 March 1992.

96. Chrystia Freeland, "Ukraine Threatens to Split CIS in Row With Russia," *Financial Times*, 19 June 1992. On Ukraine's political stance toward the ruble zone, see also S. M. Borisov, "Rublevaia zona bez nastoiashchego i budushchego?" (The ruble zone without a present and a future?), *Den'gi i kredit* no. 3 (March 1994): 12–18.

97. Quoted in the interview of Kravchuk by Stanslav Prokypchuk, *Trud*, 19 January 1994, in Foreign Broadcast Information Service-Central Eurasia (hereafter FBIS-SOV)-94-014, 21 January 1994, 41–44.

98. Markus, "Shoring Up Russian Relations," 56.

99. See Aleksandr Golds, "Russia, Ukraine, CIS..." *Krasnaia zvezda*, 19 June 1993, in FBIS-SOV-93-118, 22 June 1993, 3–4.

100. Interview in *Komsomolskaia pravda*, 5 January 1993, in FBIS-SOV-93-005, 8 January 1993, 19–21.



autonomy policies and cut import and export quotas in May and June 1993, eliminated the value-added tax on trade with Russia and other CIS members in August 1993, and began cautiously to cultivate a new economic relationship with Russia. As Paul D'Anieri argues, "the policy of cutting ties with Russia has now been reversed as the price of economic independence has proved too high."<sup>101</sup> In May 1993 Kravchuk even negotiated and signed a declaration of intent to create a CIS economic union.<sup>102</sup>

In March 1993 President Kravchuk addressed the second congress of the Ukrainian Union of Industrialists and Entrepreneurs, the appropriate forum in which to reassess Ukraine's economic relationship with Russia, since these same industrialists had been clamoring for the restoration of economic links with Russia. This umbrella organization of industrialists, a union composed of over 14,000 collective and individual members representing various forms of ownership, had become more and more influential in government circles during the economic crises of 1992 and 1993. Kravchuk admitted that the government had overestimated the possibilities for economic independence, and he thereby acknowledged the political meaning of dependence on Russia. He explained, "we obviously overestimated the potential of our economy. We overlooked the fact that it was structurally incomplete."<sup>103</sup> The Ukrainian industrialists, for their part, announced that they would do all they could do to restore economic links with Russia.<sup>104</sup>

Industrialists in Ukraine have lobbied for maintaining economic cooperation with Russia, particularly in the form of multilateral economic integration within the framework of the CIS. The economic interests of Ukrainian industry are concentrated in Russia and the CIS, where their traditional suppliers and markets remain. In addition, because they face such high production costs, resulting from the energy-inefficient development history of Soviet heavy industry, Ukrainian industrialists were keenly aware that they needed Russian markets to survive.

101. See D'Anieri, "Dilemmas of Interdependence," 21, where he describes the changes in foreign economic policy and assesses the reasons for them. It should be recognized, however, that Ukrainian nationalists continued to believe that autonomy was worth these costs.

102. Steven Erlanger, "Ex-Soviet Nations Agree to Form Economic Union," *New York Times*, 15 May 1993. Ukraine later that autumn refused to sign the common market treaty, opting instead to become an associate member.

103. Interfax, 6 March 1993, in FBIS-SOV-93-044, 9 March 1993, 36.

104. Vadim Bardin, "Russian-Ukrainian Thaw Will Be Shortlived," *Kommersant-Daily*, 9 March 1993, in FBIS-SOV-93-045, 10 March 1993, 49. Significantly for later developments, the author argued that the improvement in economic relations would not last, since it was the result only of Ukraine's recognition of its dependence, rather than the pursuit of mutually beneficial exchange.

Representatives of Ukrainian industrialist associations even began meeting with their Russian counterparts in order to discuss problems of Ukrainian-Russian cooperation and ways to maintain a single economic space in the former Soviet Union. Ukrainian industrialists and entrepreneurs, in the statement adopted to summarize such a conference in 1992, argued that it was "impermissible" for Ukraine to leave the CIS and its economic cooperation mechanisms.<sup>105</sup> At the same time that Ukrainian nationalists were demanding that Ukraine reorient toward the West and withdraw from the CIS completely, political parties with economic ties to labor and heavy industry in eastern Ukraine responded with equally vociferous calls to protect the CIS and historical economic relationships.<sup>106</sup> Particularly injured had been machine-building industries and the military-industrial complex in eastern Ukraine, where "industry simply cannot survive without the traditional economic links," because of those industries' close connections to other enterprises in Russia and the CIS for intermediate goods in their production runs.<sup>107</sup> In late 1994 the Ukrainian Union of Industrialists and Entrepreneurs met with its Russian and Belarusian counterparts in Minsk to coordinate their continuing attempts to influence the creation of a customs union in the CIS.<sup>108</sup> Even the Ukrainian agricultural sector, which is more efficient than Ukrainian industry, has remained oriented toward Russia and the CIS, primarily because their exports, despite their competitiveness, have also not penetrated Western markets.<sup>109</sup> These two sectors, heavy industry and agriculture, are indeed Ukraine's most important.

It was precisely these "industrialists and farmers," according to Kuchma, who "were the first to realize" that Ukraine needs economic cooperation with Russia, that "it cannot go on like this," with the Ukrainian economy separated from the economic space it had shared with Russia for so long.<sup>110</sup> Only in Rus-

105. Vladimir Kulagin, "Predprinimateli Rossii i Ukrainy vystupaiot protiv razrusheniia edinogo ekonomicheskogo prostranstva" (Entrepreneurs of Russia and Ukraine come out against destruction of the single economic space), *Izvestiia*, 21 October 1992.

106. See the discussion of the Civic Congress of Ukraine, the Ukrainian Labor Party, the All-Ukrainian Labor Collectives Council, and the Interregional Association of Industrialists in "Parties Oppose Call for Commonwealth Withdrawal," *Krasnaia zvezda*, 12 January 1993, in FBIS-SOV-94-008, 13 January 1993, 44.

107. Moscow television, 18 August 1993, in FBIS-SOV-93-162, 24 August 1993, 36-37.

108. Valentin Zhdanko, "Cooperation: Industrialists of Russia, Ukraine, and Belorussia Call For Further Integration," *Segodnia*, 14 December 1994, in FBIS-SOV-94-241, 15 December 1994, 2.

109. See Bartłomiej Kaminski, "Trade Performance and Access to OECD Markets," in *Trade in the New Independent States*, eds. Constantine Michaelopoulos and David Tarr (Washington, D.C.: World Bank/UNDP, 1994), 237-54.

110. Quoted in Viktor Drozd's interview with Leonid Kuchma, "Kakoe Obshchestvo My Stroim?" (What kind of society are we building?), *Pravda*, 9 July 1993.

sian and former Soviet markets could Ukraine find an outlet for its goods at acceptable prices. Kuchma, then prime minister, was one of the leading advocates of economic cooperation with Russia so that Ukrainian industry would survive its postindependence crises, and, having the ear of Kravchuk, he was able to clarify the costs of Ukraine's economic autonomy policies. As Kuchma later explained, he was only pragmatic, not pro-Russian, because of his encouragement of cooperation with Russia. "When I became Prime Minister of Ukraine," he insisted, "I went to Moscow because corn and sugar beets were lying ungathered in Ukraine's fields and the gas pumps were empty. So where should I have gone?"<sup>111</sup> Ultimately, Kuchma resigned as prime minister. His next position was as leader of the Ukrainian Union of Industrialists and Entrepreneurs, the same organization that had been lobbying for cooperation and maintenance of a common, post-Soviet economic space. Moreover, Kuchma, who had been the head of the largest nuclear missile plant in the USSR, located in eastern Ukraine, had strong historical ties to east Ukrainian industry.<sup>112</sup>

By the summer of 1993 the changing conception of Ukraine's economic relationship to Russia was apparent in Kravchuk's assessments of political events. "Our difficulties are primarily of an economic nature," Kravchuk explained. "Now we have created our own state, the people have created their own state. But the resources—those that used to belong to the whole country—have mainly remained in other states, in Russia to a very great extent."<sup>113</sup> Specifically, it was Ukrainian industry's, indeed Ukrainian society's, dependence on inexpensive Russian oil and gas that became most important over the course of Ukraine's first years of sovereignty. Oles M. Smolansky shows that the government's awareness of energy shortages and their devastating effects on Ukrainian industry led Kravchuk, "in a major about-face, publicly to express his administration's desire to establish close economic cooperation with Russia."<sup>114</sup> The pattern of Ukrainian foreign economic relations was a fundamental cause of the change in Ukrainian foreign policy, of Kravchuk's "swing

to the East."<sup>115</sup> In 1995 Ukrainian prime minister Vitaly Masol reflected on the lessons of Ukraine's postindependence economic strategy and understated, "it is not so easy to leave the traditional economic zone."<sup>116</sup>

#### THE PRICE OF AUTONOMY

Russia failed in its attempts to exploit the coercive power inherent in its asymmetric economic relationship with Ukraine because Ukraine perceived (and continues to perceive) Russia as a security threat.<sup>117</sup> The Ukrainian government, under its first president, Kravchuk, was defiant, refusing to give in fully to Russian demands about the distribution of Soviet assets, control of the Black Sea Fleet, and basing rights in Sevastopol. Even after 1994 when Ukraine's second president, Kuchma, was elected on a platform of improved, or at least normalized, relations with Russia, the Ukrainian government has refused to accommodate specific Russian demands, especially when those demands are backed by economic power. In some ways Kuchma has been, contrary to many expectations, even more recalcitrant than Kravchuk on a number of contentious political issues, including multilateral political and economic integration within the CIS.<sup>118</sup> Neither the economic bullying underlying specific Russian demands, nor the election of a new, presumably more accommodating president led to changes in Ukrainian foreign policy. Moscow's most heavy-handed tactics did not force reversals in Kiev.

Clearly, however, Ukrainian foreign policy did change in 1992–93. The moderation of Ukraine's autonomy policies resulted from the way that patterns of economic relations with Russia influenced competing definitions of the na-

115. On Kravchuk's "swing to the east" and the influence of economic actors, see Lloyd, "Weak Ukraine Plays Into Russia's Hands."

116. Quoted in the interview with Masol in "Masol Discusses Energy, Closer CIS Ties," *Uryadovi kurier*, 17 January 1995, in FBIS-SOV-95-017, 26 January 1995, 64–66.

117. Daniel Drezner, "Allies, Adversaries, and Economic Coercion: Russian Foreign Economic Policy Since 1991," *Security Studies* 6, no. 3 (spring 1997): 65–111, esp. 96–105. Compare Fiona Hill and Pamela Jewett, "Back in the USSR": *Russia's Intervention in the Internal Affairs of the Former Soviet Republics and the Implications for United States Policy Toward Russia* (Strengthening Democratic Institutions Project, Kennedy School of Government, Harvard University, 1994), 66–85.

118. "Russia Frustrated with Ukraine, Belarus Leaders," Reuters, 9 July 1995. See Taras Kuzio, *Ukraine Under Kuchma: Political Reform, Economic Transformation, and Security Policy in Independent Ukraine* (New York: St. Martin's, 1997), esp. chap. 6. See also Alexander J. Motyl and Bohdan Krawchenko, "Ukraine: From Empire to Statehood," in *New States, New Politics: Building the Post-Soviet Nations*, ed. Ian Bremmer and Ray Taras (Cambridge: Cambridge University Press, 1997), 235–75; and P. Terrence Hopmann, Stephen D. Shenfield, and Dominique Arel, *Integration and Disintegration in the Former Soviet Union: Implications for Regional and Global Security* (Occasional Paper no. 30, Watson Institute for International Studies, Brown University, 1997).

111. Quoted in Vladimir Skachko, "Exclusive: Both Kravchuk and Kuchma Know What They Will Do If They Win Election—Two Interviews At the Polls," *Nezavisima gazeta*, 28 June 1994, in *Current Digest of the Post-Soviet Press* 46, no. 26 (27 July 1994): 9–10.

112. Aleksandr Maslov, "Leonid Kuchma—New Leader of the Ukrainian Union of Industrialists and Entrepreneurs," *Kievskie novosti*, 17 December 1993, in FBIS-SOV-93-248, 29 December 1993, 37. Moreover, when Kuchma was elected president in 1994, the vote was split precisely along these regional, not ethnic, lines, with eastern and southern Ukraine supporting Kuchma and the renewal of economic ties with Russia.

113. Interview with Kravchuk on Moscow television, 24 August 1993, in FBIS-SOV-93-163, 25 August 1993, 32–33.

114. Oles M. Smolansky, "Ukraine's Quest for Independence: The Fuel Factor," *Europe-Asia Studies* 47, no. 1 (January 1995): 67–90, at 73.

tional interest. The cumulative effect of Russian energy manipulation has helped to convince Ukrainian political and economic actors that the Ukrainian economy is too dependent to exit fully the Russian sphere of economic influence. There are elements of both continuity and change in Ukrainian foreign policy since 1991. Ukrainian security policy is still oriented toward Western Europe. Ukraine's foreign economic policy orientation, however, is now divided between West and East, and economic and political relations with Russia have normalized. In this sense, Russia's broadest strategic goal with regard to Ukraine, that of keeping the second largest Soviet successor state politically and economically close, has already been achieved.<sup>119</sup> Although Russia was unable to coerce Ukraine on specific policies, it was able to prevent Ukraine from going the way of the Baltic republics, which are exiting the Russian sphere of influence and integrating with the European Union. The widely recognized continuity of foreign policy under Kravchuk and Kuchma, despite expectations to the contrary in 1993 and 1994, is based on the fact that the Ukrainian government had, by the 1994 presidential elections, already begun its economic rapprochement with Russia. Although much has been made of the "energy war" between Ukraine and Russia during 1993–94, a political-economic conflict in which Ukraine faced gas and oil cutoffs by Russia for nonpayment of debts, Russia's economic influence had by that time already persuaded Kiev to change its course.

#### HIRSCHMAN, INFLUENCE, AND INTERNATIONAL RELATIONS

*National Power and the Structure of Foreign Trade* is largely about Germany's interwar foreign policy, but the political behavior and phenomena elucidated by Hirschman are general. States, especially in their asymmetric relations, are willing to make economic sacrifices in order to advance strategic goals. The pattern of international economic relations affects the balance of political power within societies, and this in turn shapes foreign policy. The contours of commerce, once in place, may be difficult to alter, constraining strategic choice in the future. The cases considered above demonstrate how consequential for international politics these Hirschmanesque effects are.

Relations between the United States and the Hawaiian Kingdom offer an excellent illustration of Hirschmanesque forces at work. In the last quarter of the nineteenth century, U.S. goals with regard to the Islands were strategic, not

economic. Hawaii, on the other hand, was motivated principally by economics. To keep foreign powers out and increase American political influence the United States agreed to treaty of reciprocity from which the economic benefits accrued solely to Hawaii. The treaty, however, did change the balance of political power on the Islands, strengthening the hands of those forces who wanted closer ties with the United States.

Competing definitions of the national interest in interwar Austria were competing definitions of the German problem in Europe. Although most Austrians and Austrian political elites supported the *Anschluss*, the only group of economic and political actors that opposed unification with Germany, the Christian Socials, maintained power throughout the 1920s. Two kinds of Hirschmanesque politics were at work. First, the Christian Socials defined their economic and political interests away from Germany and toward the Danubian basin because of the concentration of financial and industrial interests in the Habsburg successor states, contrasting with the paucity of economic links with Germany. Relying also for support from agriculture, which was protected by tariffs, the Christian Socials offered one of the political futures, independence, least popular in Austria. Austrian independence, however, was very popular outside of Austria, particularly in France and Czechoslovakia. Second, the Geneva loan and its stipulations, a clear financial power play by a Czechoslovak government very aware of Austria's capital shortage and domestic political debates, ensured that the definition of the Austrian national interest most preferred by Paris and Prague would win Austrian political battles throughout the 1920s. Not only did the pattern of Austrian foreign economic relations help determine internal political struggles, but the use of financial power by other states tipped the balance in favor of the Christian Socials, thereby further solidifying the Christian Socials' economic orientation toward Prague, and not Berlin.

Although the first independent Ukrainian government attempted to achieve quickly economic autonomy from Russia, the costs of the autonomy policies proved to be unsustainable. Soviet policy was a central cause of these high costs of autonomy, since planners had favored a tightly integrated regional economy based on the free flow of inexpensive Russian energy sources. Soviet industrialization policies therefore caused Ukrainian industry to be energy-inefficient and addicted to Russian raw materials, while at the same time they ensured that Ukraine would not have a thriving energy sector of its own, at least not one that could supply its heavy industry. Ukrainian industrialists themselves lobbied Kravchuk's government in order to clarify these high costs of autonomy, which created economic difficulties that were exacerbated by the industrialists' continuing dependence on Russian markets. The Russian gov-

119. For a similar interpretation of recent Ukrainian-Russian relations, see James Sherr, "Russia-Ukraine Rapprochement?: The Black Sea Fleet Accords," *Survival* 39, no. 3 (autumn 1997): 33–50.

ernment, finally, also tried to convince the Ukrainian government that it had not foreseen the true price of independence. Russia's manipulation of the economic incentives facing domestic economic actors within Ukraine did influence Ukraine's debate about its national interest. Ukraine moderated its economic autonomy policies, and economic cooperation came to be seen by Kiev as an inescapable component of Ukraine's medium-term foreign policy strategy.

*National Power* has been celebrated for explaining how divergent opportunity costs of exit can give states coercive power over others in asymmetric economic relations. Less attention has been given to Hirschman's arguments about the political influence accrued by economic relations. It is the latter, however, that is more profound for international politics. In most circumstances there is more than one plausible set of National Interests for a given country. Foreign policies, and the configurations of interests that underlie them, are not immutable, but emerge from domestic political struggles. International economic opportunities and the foreign economic policies of other states affect those struggles and, in turn, the trajectory of a state's foreign policy.