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THE BAVARIAN LOANS AND CHANCELLOR BISMARCK'S INTERVENTION IN THE GREEK-TURKISH DISPUTE OVER GREECE'S BORDERS (1878-81)

Greece's first territorial expansion northwards took place on 24 May 1881 at the Constantinople Conference, when the treaty was finally signed which gave Thessaly and Arta to Greece.

At the Berlin Congress in 1878, under Bismarck's chairmanship, the Great Powers did not resolve the question of the Greek-Turkish borders, leaving Greece and Turkey to sort it out by themselves. Article 24 provided for the intervention of the Great Powers only in the event of Greece and Turkey's failure to reach an agreement[1]. This unfortunate solution was to generate great problems, and it took three whole years of negotiations, consultations, and meetings before the wishes of the Great Powers were carried out, in part and to the detriment of Greece[2].

The Berlin Congress was followed two years later. in June 1880, by the Berlin Conference, the basic reason for which was the Greeks and the Turks' inability to reach an agreement either at Preveza or at Constantinople in 1879 on the Great Powers' proposal that the Turkish government surrender parts of Thessaly and Epirus to Greece. The European Powers were reluctant to intervene actively and to force either the Greeks or the Turks to comply with their wishes: indeed, they refused to do so, and this can only have been because some of the Powers preferred the issue to remain open or to resolve itself, rather than themselves uniting with the rest in order to settle it. Realising that the Powers were not going to force Turkey's hand, Harilaos Trikoupis issued orders for a general military mobilisation on 24 July 1880[3]. The Porte

1. Great Britain, House of Commons, *Parliamentary Papers, Accounts, and Papers, Turkey*, No 44 (1878), p. 21. See also M. Laskaris, *Το Ανατολικόν Ζήτημα* (The Eastern Question), vol. I, p. 296.

2. For a full discussion of the subject, see the Ministry for Foreign Affairs, *Διπλωματικά έγγραφα αφορώντα εις το μεθοριακόν ζήτημα κατατεθέντα εις την Βουλήν* (Diplomatic documents relating to the border question presented before Parliament), Athens 1882.

3. A. Eftaxias, *Η Ελλάς εν χρεωκοπία* (Greece bankrupt), Athens 1894, estimates the ex-

responded by mustering forces in Epirus and Thessaly; and faced with the threat of a Greek-Turkish confrontation, the Powers elected to apply pressure on the weaker side, and warned the Greek government that a military engagement would have unfortunate repercussions for Greece[4]. Neither Greece nor Turkey was invited to the Berlin Conference. Trikoupis sent a delegation to Berlin led by Petros Vraïlas Armenis, Greek Ambassador to Paris, to engage in some discreet lobbying[5]. Research in the Greek archives has come up with a completely new aspect to Bismark's role in the negotiations over the Greek question. In June 1880, twenty years after Greece had acknowledged its old debts (as Bismarck was well aware), during the conference he demanded that the Bavarian debt be paid off before Greece's border problem could be resolved according to the latter of the Treaty of Berlin[6].

Before discussing Bismarck's demand in detail, let us first take a brief look at how the Bavarian loans were contracted.

In the first years of Otto's reign, Greece's economy was not doing well. Believing that the government was not fulfilling the purposes for which the new kingdom had been established, the Great Powers refused to approve the third instalment of a sixty-million-franc loan[7] — and the Bavarian loans were the direct result. On 30 June 1835, the Greek government borrowed one million francs from the Bavarian government. A year later, the same predicament obliged the Greek government to seek a new loan, and on 10 March

pense of the preparatory work and the mobilisations of 1878 and 1880-1, together with the war expenses, at 137,765,222 dr. It was a large sum, because the income from regular sources was no more than 169,996,385 dr. during those three years. For the Greek economy from the Berlin Treaty to the annexation of Thessaly, see A. M. Andreadis, *Μαθήματα Δημοσίας Οικονομίας: Εθνικά Δάνεια και Ελληνική Δημοσία Οικονομία* (Lessons in public economy: national debts, and Greek public economy), part I, from the War of Independence to bankruptcy, Athens 1925.

4. Driault and L'Heritier, *Histoire diplomatique de la Grece*, vol. 4, p. 77; *Ιστορία του Ελληνικού 'Εθνους: Νεώτερος Ελληνισμός από 1833-1881* (History of the Greek nation: the modern Greeks from 1833 to 1881), vol. XIII, p. 364.

5. T. Vournas, *Ιστορία της νεώτερης Ελλάδας, από την επανάσταση του 1821 ως το κίνημα του Γουδί* (History of modern Greece, from the War of Independence of 1821 to the Goudi uprising-1909), 3rd ed., Athens, 1974, pp. 486-497.

6. Foreign Ministry Archives (A.Y.E.), Ambassador A. R. Ragavis to the Prime Minister and Minister for Foreign Affairs, Harilaos Trikoupis, Berlin 7/19 June 1880, report No 138.

7. Concerning the arrangement, the issuing, and the use of the loan of sixty million francs, see A. M. Andreadis, *Ιστορία των εθνικών δανείων* (History of the national loans), part I, *Τα δάνεια της ανεξαρτησίας (1824-1825): Το δημόσιον χρέος επί της βαυαρικής δυναστείας* (The loans of independence (1824-1825): the public debt under the Bavarian dynasty), Athens 1904, pp. 81-104.

1836 it borrowed a further one million francs. At the end of the same year, on 25 December, a third loan (of one million florins) was sought and granted. The annual interest on the loans was 4%, and they were to be repaid in instalments from the available state revenues[8].

On 15 March 1838, the Greek government signed a new agreement, engaging: i) to pay off the first loan and the interest on it in four equal instalments in one year; and ii) to pay off the second and third loans by March 1840 in four equal instalments of 500,000 fr. each, and one million fr. per year over the next four years, provided that the third instalment of the sixty-million-franc loan had been received by then[9].

On 30 April 1838, however, a fresh agreement stipulated that the instalments for 1838 and 1839 would be included, together with the interest, in the instalments for 1840, 1841, 1842, 1843, and 1844. They would be paid in State Revenue Office bills and warrants three months before each instalment was due.

According to the agreement, the Greek government was to pay one million francs in 1840 and 500,000 in 1841. But fresh difficulties obliged it to contract a sixth agreement with the Bavarian government on 14/26 January 1840. This had only one article, which was regarded as an addition to the agreement of 30 April/12 May and stipulated that the 500,000 fr. would be paid in 1840 and the one million francs in 1841. This the Greek government almost managed to do, paying the 500,000 fr., as agreed, in 1840 and three instalments on the one million — i.e. 750,000 fr. — and all the interest by the end of 1841. However, various unforessen circumstances, such as the payment of the outstanding interest and the repayments of the sixty-million-franc loan and the compensation to the Sublime Porte for the *vakoufs*, prevented the Greeks from paying the fourth instalment on the debt for 1841 and the money owing for subsequent years. The Greeks government submitted an application to the Bavarian government asking for repayment of some of the sums owing to be deferred. So Greece was obliged to contract yet another agreement, the seventh, on 14/26 February 1842, with an interest rate of 4%.

8. A.Y.E., Trikoupis to Ambassadors Vraïlas-Armenis and Ragavis, Memorandum concerning the Bavarian loans, Athens, 14/26 June 1880, No 747.

9. *Op. cit.*, Memorandum concerning the Bavarian loans. See T. Lignadis, *Η Ξενική Εξάρτησις κατά την διαδρομήν του Νεοελληνικού Κράτους (1821-1845): Πολιτική Διαμόρφωσις - Εθνική Γη - Δανειοδότησις* (Foreign dependence in the history of the modern Greek state (1821-1845): political development, national land, and borrowing), Athens 1975.

The total sum owing was now 2,971,711 fr., and it was to be paid off between 1842 and 1848 as follows:

250,000 fr.	on 18 November	1842
250,000 fr.	" " "	1843
500,000 fr.	in three equal instalments in	1844
"	" " " " " "	" 1845
		" 1846
		" 1847[10]
41,471 fr.		" 1848

In accordance with this seventh agreement, all the interest, at 4%, had been paid by 18/30 November 1842, as had the first instalment of 250,000 fr. for 1842; which meant that Greece's debt to Bavaria was now 2,667.711 fr. However, 1843 brought constitutional reforms to Greece, and the 250,000 which should have been paid by 18/30 November of that year was not, in fact, paid. The reason was that the National Assembly issued a reslolution[11], which concerned the obligations which Bavaria had undertaken and which had been included among the London Conference protocols on 26 April 1832. When Bavaria had accepted the throne on Prince Otto's behalf, it had submitted a memorandum to the Allies undertaking obligatios both towards Otto and towards Greece. The most important of these concerned the clergy the regency council, and the military[12].

The resolution issued by the Revolutionary Assembly on 3 September 1843 also mentioned the diplomatic documents according to which the agreement could not be kept, and also contested the very basis of the Bavarian demands. At session 84 on 24 October 1868, Athanasius Petsalis ieported that not only had Bavaria not fulfilled its obligations, but the relevant expenses had come out of the Greek public purse. The account in the State Audit Department shows that even the furniture the Bavarian king had given to his son had been paid for out of the sixty-million-franc loan. This despite the fact that, under the terms of the agreement of February 1832, he had undertaken to pay his son's settling-in expenses and to provide him with money thereafter, until such time as Greece should be in a sufficiently robust eco-

10. Andreadis and Lignadis say that the sum of 2,971,711 fr. was to be paid by 1847. See Andreadis, *Ιστορία των εθνικών δανείων*, part. I, p. 107; Lignadis, *Η Ξενική Εξάρτησις*, p. 110.

11. *Op. cit.*, Memorandum concerning the Bavarian loans.

12. *Op. cit.*

nomic condition to take over. The Bavarian King had also undertaken to finance the training of military personnel and civil servants. Citing the resolution of 3 September, Petsalis declared that "the Greek Nation has a claim against Bavaria"[13].

Although the resolution's conclusion was legally incorrect (for, as Pavlos Kallıgas so pertinently asked at the forty-fourth session on 11 December 1880, "Have you ever heard it proposed that an unsettled demand be offset against an exigible debt?"), after the resolution had been issued, Bavaria made no demand for the repayment of the debt[14].

Owing to the doubts, the Greek government appointed a committee to investigate the gravity of the questions which had been raised. It never achieved anything, however, because the chairman, Christidis, resigned almost immediately. At this point, Greece ceased all repayments[15]. Two years later, the Bavarian Ambassador to Athens, Gesser, complained in a diplomatic note that the repayments were in arrears and that the loan had not been included in the budget. The Greek government replied four days later and sent Gesser a copy of a report of the state revenues and expenses for the period 1833-43, which the Minister for Financial Affairs, Metaxas, had submitted to Parliament and the Senate in 1845. According to Metaxas' report, the deficit was due to mismanagement of funds: some five million drachmas, for instance, had been spent on the Bavarian auxiliary corps; two and a half million on the Regency Council's salaries; and the rest on such items as the maintenance of volunteers and the salaries and bonuses of the foreign officials[16]. Consequently, the loans during this period had been spent on completely unrelated purposes, and not on the state's domestic needs[17].

The Bavarian government disagreed, maintaining that it had discharged all its obligations since the establishment of the monarchy in Greece, and was continuing to pay the salaries of all the members of the Regency Council, the officers, and all the other officials who had been sent to Greece from Bavaria. If Greece or the Regency Council wished to give them Greek as well

13. For further details, see the official report of parliamentary proceedings, period II, session I, vol. I, Athens 1868, pp. 507-513.

14. Official report of parliamentary proceedings, period VIII, session II, Athens 1881, p. 451. See also P. Kalligas, *Εν Μελέταις και Λόγοις* (Studies and discourses), vol. II, Athens 1881, p. 451.

15. A.Y.E., 1880-1881, Ragavis to Trikoupis, report No 152, Berlin 12/24 June 1880.

16. *Op. cit.*, Memorandum concerning the Bavarian loans.

17. For the Bavarian loans and the debt to Otto's heirs, see Andreadis, *Ιστορία των ε-θνικών δανείων*, part I, pp. 105-13; Lignadis, *Η Ξενική Εξάρτησις*, pp. 110-11.

as Bavarian salaries, then that was Greece's problem and nothing to with Bavaria[18]. In a document to the Bavarian Ambassador to Athens, the Bavarian government informed the Greek government that in 1849 it had promulgated a legislative act transferring all its own titles and rights to King Ludwig I and his descendants, and was now demanding 1,933,333 florins and 20 kreutzer in outstanding principal and interest[19]. With this transfer of the debt to Otto's father, the question of the Bavarian loans entered a completely new phase.

The Bavarian court made no demand for the repayment of the debt until 11 September 1859, when a number of family scandals had provoked fears that Bavaria would lose the succession to the Greek throne. An aggressive demand for repayment followed. Quite out of the blue, on 11 May 1860, the Bavarian Ambassador insisted in a diplomatic note that the loan be regarded as a personal loan from King Ludwig, not a Bavarian state loan, and that it be returned to the King, who had already paid back the Bavarian government. The Greek Government categorically refused so to regard the loan, arguing that its original nature could not be changed by transferring it, and not could the grantee have more rights than the grantor. The Greeks also refused to include the sum in question in the budget, maintaining that the sixty-million-franc loan had priority[20]. The Greek government did not bother at the time to point out that the counterclaims against the net exigible debt (to which it could raise no objections) were not valid. The State Audit Department confirmed the existence of the loan and the principal, without the interest, comprised in the seventh agreement, before the resolution of 1843: i.e. 2,667,711 fr.[21]. After Ludwig's death on 19 June 1868, and after a family compromise had been agreed, the demand was transferred to Prince Adalbert on 6 April 1869.

So Bismarck, fully aware of the story behind the loans, chose the moment when Greece was preoccupied with the problem of its borders and badly needed the unanimous support of the Great Powers to bring Bavaria's demands back out of the closet.

Bismarck did not present his claim directly to the Greek government, but instead sent a diplomatic note from the Bavarian government to the

18. A.Y.E., Ragavis to Trikoupis, report No 163, Berlin, 25 June/7 July 1880.

19. *Op. cit.*, Memorandum concerning the Bavarian loans.

20. H. von Sicherer, *Das Bayerisch-Griechische Anlehre aus den Jahren 1835, 1836, 1837*, Munich 1880, appendix, pp. 52-4.

21. *Op. cit.*, Memorandum concerning the Bavarian loans.

German Foreign Minister, Prince Hohenlohe[22]. So on 7 June 1880, at the Berlin Conference, when the Greek Ambassador to Berlin, Alexandros Ragavis, was introducing the Greek delegate Petros Vraïlas Armenis to Prince Hohenlohe, the latter showed the two Greek diplomats a note mentioning the loan contracted by King Otto and specifically expressing Bavaria's desire that its repayment be sought in good time, in view of the fact that the European Council was discussing the expansion of Greece's borders. Ragavis told Hohenlohe that he had not been informed on the issue. He thought it unlikely, but just in case the demand should be included on the Conference agenda, he took steps to brief the French Ambassador, Count St Vallier, in confidence, telling him that in the six years he had spent in Berlin, not once had either the German government or the successive Bavarian ambassadors ever raised the subject with him, even in private. He only knew that it had always been Greece's prime concern to settle its debts, which was why it had sorted out the sixty-million-franc debt of its own accord in 1859, and subsequently acknowledged and paid to King Otto and Queen Amalia what was due to them for the palace. The Greek government had also settled the controversial debt for 1824 and 1825[23].

The next evening, at a dinner given by St Vallier, Bismarck himself cornered the French Ambassador and, having given him a detailed account of Bavaria's demand, commented that he was not prepared in all conscience to co-operate with the local expansion of a nation which took so reprehensible an attitude towards its obligations. He added that, although Bavaria had supported Greece hitherto, he feared that it might no longer be possible to continue, unless Greece changed its attitude. When Sr Vallier asked him whether the German government had ever informed the Greek government of the demand in writing, he replied that it had not, because he would then have been obliged to use language which would not have pleased the Greek government at all. He had chosen this approach out of consideration for Greece[24].

The Greek diplomats lost no time in informing their government and in sending it some excerpts from a letter from the Bavarian Foreign Minister, which had been given to Ragavis in private. It was Professor von Sicherer's professional opinion that, with the interest for 1880, the sum Bavaria was demanding of Greece amounted to 3,058,666 florins or 5,243,428 marks and

22. A.Y.E., Ragavis to Trikoupis, Berlin, 7/19 June 1880, No 138.
23. *Op. cit.*
24. A.Y.E., 1880-1881, Ragavis to Trikoupis, Berlin, 11/23 June 1880, No 142.

57 pfennings[25]. In the turbulent period through which Greece was then passing, this major issue presented the Trikoupis government with a real headache, for it had to be dealt with at the expense of all the other thorny problems that were awaiting resolution. It seemed reasonable to suppose that if Bismarck had spoken directly to the Greek representatives, then there would have been no further discussion or negotiation of the final settlement of the matter. However, Bismarck had apparently brought the subject up with the intention of indirectly intimidating the Greek government and backing down from what had been agreed at the Berlin Congress. He was thus doing Ludwig's successors a favour and vindicating his pro-Turkish stance. Trikoupis believed that the problem could be overcome felicitously and painlessley by feigning indifference and ignoring the whole matter. So this was what he urget the Greek representatives in Berlin to do, not only because the Chancellor's demand had been made indirectly, but also, and principally, because it was an exorbitant one and had nothing whatever to do with Greece's borders. In a confidential report dated 14 June, Trikoupis observed that it the Bavarian demand had been a minor one, it might have been in Greece's interests to meet it voluntarily in order to appease Bismarck. But the sum in question amounted to millions of drachmas and Greece's and Bavaria's accounts had not been audited to ascertain which of the two countries was in fact in debt to the other[26].

The numerous documents show that Ragavis felt it imperative that Greece make the most of the unofficial warning and take action of its own accord, rather than waiting for an official diplomatic reminder; for there was no doubt in his mind that the Bavarian debt was still outstanding. Although it had been neglected for many years, as the debtor it was up to the Greek government to bring the subject up first and not give its creditors any reason to believe that Greece was a mala fide debtor. It was in the national interest to avoid censure and to be the first to suggest, unprompted, that the payments be settled. It would be greatly to Greece's political advantage to enjoy the sympathy of the Great Powers, particularly Germany, on the current border question; all the more so since they had reached the precarious stage of carrying out the decision, and the unanimous agreement of the Great Powers was as vital as it was difficult to achieve. The other ambassadors who were

25. *Op. cit.*, enclosure 1, Bavarian Foreign Ministry to Prince von Hohenlohe, A. 3515 PR, 12 June 1880, confidential, copy.

26. A.Y.E., 1880-1881, Trikoupis to Vraïlas-Armenis, Athens, 14/26 June 1880, confidential report No 747.

taking part in the conference and concerned about the Greek question were of like mind. They thought it essential that Greece not neglect the subject of the loans, because Bismarck was determined to pursue the satisfaction of Bavaria's demands with the greatest persistence, and would not hesitate to go to court in order to pre-empt statutory limitation, if he did not receive assurances from Greece that it was dealing with the matter and intended immediately to find a fair and acceptable solution. An abrupt, harsh, and practical man, Bismarck had already been heard threatening that he would cease to support Greek interests[27].

The documents also show that the German government was not indifferent to Bavaria's demands. On 2 August, on the orders of the German Emperor, the German Ambassador to Athens addressed a diplomatic note to the Greek government, officially raising the question of the Bavarian claims. The Bavarian government was demanding the immediate repayment of the loans and calling upon the Greek government to give adequate assurances of now the matter was to be settled[28]. Bismarck thought the Greek government should send a reliable representative to Munich, who would furnish assurances that Greece was prepared to resolve the issue and discuss the best way of accomplishing it. If Greece accepted Bismarck's proposal, then it should set forth its own claims against Bavaria; and Bavaria would ask the Prussian Ambassador to investigate whether or not the Bavarian government had discharged all its financial obligations towards Greece[29].

The Greek government responded to the note by appointing a three-member committee (headed by Professor Stefan Streit) to examine the Bavarian demands and to investigate how far the Greek government could sustain a counterclaim relating to Bavaria's debt for salaries and other sums paid out by the Greek government to the military and political officials sent from Bavaria to Greece.

The committee examined the ministry's memorandum relating to the Bavarian loans and the successive agreements contracted between Greece and Bavaria between 2 June 1835 and 14 February 1842 (they may be found in the appendix to Professor Sicherer's book), and on 6 August 1880 pronounced the opinion that there was no evidence that Greece had any claim against Bavaria. On the contrary, Greece owed Bavaria and its lawful beneficiaries

27. A.Y.E., Ragavis to Trikoupis, report No 163, Berlin, 25 June/7 July 1880.

28. A.Y.E., Count de Waldenbourg to Trikoupis, Athens, 2 August 1880.

29. A.Y.E., Ragavis to Trikoupis, report No 207, Berlin, 16/28 July 1880, report No Π. 224-225, Berlin, 5/17 August 1880.

the remaining principal of the debt and the 4% annual interest since 18/30 November 1842[30]. On 17 August, Professor Streit was sent to Munich to negotiate with Bavaria's appointed charge d'affaires. There he was informed that Professor Sicherer had been appointed to investigate the Bavarian and Greek claims as the representative of the Bavarian government, His Majesty the King of Bavaria, as head of the royal family, and Prince Ludwig Ferdinand. The Bavarian government gave the Greek delegate every possible assistance and was frank in its dealings with him. As a result of his investigations in the Bavarian archives of the Ministry of War (it should be noted that the documents in the Greek archive had been destroyed by a fire in the Ministry of War), he managed to find grounds to support the Greek counterclaim[31]. Having resolved numerous legal questions raised by both countries, on 7 October 1880 Streit sent the Greek government a lengthy report and proposed a compromise: not the remission of the debt, but the reduction of the Bavarian demand by three fifths. Streit's proposal was based on the following facts and figures. Although Greece owed precisely 6,722,631 fr., it would now be asked to pay 2,600,000 fr., to offset the counterclaim, which would be increased from the trivial sum of 440,000 fr. to three fifths of the principal demanded by Bavaria. The Greek government accepted the compromise and informed Bavaria that it was prepared to pay the sum requested in a single cash instalment[32].

On 11 November 1880, on the orders of the German Emperor, the German Ambassador to Athens reported in an official diplomatic note to the Greek Prime Minister (who was now Alexandros Koumoundouros) that Ludwig's heirs were in agreement that Greece should pay a lump sum of 2,600,000 fr. In Greece it remained to determine where and when the money should be paid[23]. On 13 December 1880, the third reading of the bill ratifying the agreement with Bavaria took place, and, with articles 1 and 2, the Bavarian loans were legally repaid[34].

So, although Greece's problem was revived at the Berlin Conference, by the time the renewed negotiations began in Constantinople over the final fixing of the borders, the question of the Bavarian loans had been resolved.

30. A.Y.E., Opinion of the three-member committee under Stefan Streit to the Foreign Ministry, confidential protocol No 1350, Athens, 8 August 1880.

31. A.Y.E., Ragavis to Trikoupis, report, Berlin, 17/29 September 1880.

32. A.Y.E., Streit to Foreign Ministry, report No 1426, Athens, 7 October 1880.

33. A.Y.E., Count de Waldenbourg to Koumoundouros, Athens, 11 November 1880.

34. Parliamentary proceedings, session II, period VIII, Athens 1881, pp. 208-9.

The basic concern of all the Greek governments was the state's territorial expansion, it was fear lest Bavaria's demands adversely affect the drawing of the new borders that finally compelled the Greeks to repay the Bavarian loans. Yet six months later Greece's borders were fixed without any reference to the loans at all[35].

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35. For a detail analysis of the reasons which led to the settlement, see Basil Kondis, "The Albanian Nationalist Movement and the Epiro-Thessalian Boundary Problem", *Association Internationale des Etudes du Sud-Est Européen - Comité National Grec des Etudes du Sud-Est Européen, Symposium Historique International, "La dernière phase de la crise orientale et l'Hellénisme (1878-1881)"*, Volos: 27-30 Septembre 1981. Actes, Athènes 1983, 305-315.