

FROM IMPERIAL TRADE TO ETHNIC BUSINESS? THE ECONOMIC CONSEQUENCES OF THE TARTU PEACE TREATY AND THE BANK G. SCHEEL & CO.

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It is a well-known fact that the Tartu Peace Treaty between the Estonian and the Bolshevik governments was of political advantage for both sides. For Estonia it meant the end of a gruelling war that had endangered the independence of the state. Soviet Russia profited from the possibility to concentrate its forces along the South-eastern Front in the Russian Civil War. For both states, it was the first international treaty recognising their respective statehood. In addition, some historians have also pointed out the impact the peace agreement in Tartu had on the economic situation of both states.¹ It provided the Soviet regime with new opportunities for trade with Western countries, thus helping the new socialist state to overcome its isolation. Ago von Maltzan, who headed the Russia department of the German government, claimed in January of 1920 that the mere fact that negotiations were underway had virtually broken the economic blockade around Russia. Lenin agreed with this point of view.² But also for Estonia, the peace treaty had major significance from the economic perspective. In a way, it put the country back in its position of the pre-war years by making it a bridge for Russian trade with the West. This not only re-established the country's function as a transit space. It also meant that the export of Estonian products would continue to be oriented to the east. This created unforeseen opportunities for the young republic, but ultimately also severe problems.

¹ Jaak Valge, "The Tartu Peace Treaty and the Economic Development of the Republic of Estonia", *Emancipation and Interdependence. The Baltic States as New Entities in the International Economy, 1918–1940*, ed. by Anders Johansson *et al.* (Stockholm: Centre for Baltic Studies, Stockholm University, 1994).

² John Hiden, *The Baltic States and Weimar Ostpolitik* (Cambridge: Cambridge University Press, 1987), 75. Accordingly, some historians have spoken of a 'semi-blockade'. Jüri Ant, *Eesti 1920. Iseseisvuse esimene rahuaasta* (Tallinn: Olion, 1990), 137.



Figure 1. The new building of the Scheel Bank in Tallinn. Estonian Historical Museum, AM F 23238:90

In this article, I adopt a novel perspective on this process by asking which role ethnicity played in it. Many of the old industrial enterprises were still in the hands of the old elites that were identified as Baltic German by their members as well as by Estonians. In the long run, they were relatively successful in organising credits from Western Europe. The linchpin of these operations was a bank that had been quite modest before the war: Georg Scheel & Co, established in 1884, and from 1919 on directed by Georg Scheel's grandson, the young banker Klaus Scheel (1890–1961). This bank was soon to be called the 'German bank'. Meanwhile, it is worth discussing what the designation 'Baltic German' meant at this moment and if it really made a difference in economic transactions. A good vantage point for this discussion is the Tartu Peace Treaty, the economic situation it created, and the people who profited from it.

The treaty set the rules for trade in some detail, and the conditions Estonia had negotiated were quite favourable for the young republic. The Estonian side was to receive 15 million gold roubles, which equalled its proportional share of the imperial treasury. The transfer of goods across the border was to be free of import taxes and transit duties. There was to be a most-favoured-nation clause, although under the conditions of a planned economy, its implementation turned out to be troublesome.³ For her part, Estonia especially provided the Soviet state with privileged usage of its infrastructure. In the port, special zones were created to transship, store and repack goods. Within Estonia, the transport of transit goods was not allowed to be more expensive than the local norm.⁴

The treaty reinforced Estonia's position as a transit area for Russian trade. Yet the conditions for this trade had changed. First and foremost, due to economic failure and inflation, the Bolshevik government hardly had any money to offer.⁵ It lacked hard currency for buying products on the international markets in the West, especially medicines and military equipment needed for the civil war. What it had was gold and valuables which were taken from the national treasury and private banks or stolen from the country's citizens.⁶ These commodities had to be converted into money to be used for purchasing the desired goods on the international markets. This was not an easy task. Since the Bolsheviks had refused to be accountable for Russia's foreign debt obligations, the Entente had introduced

³ Valge, "The Tartu Peace Treaty", 180.

⁴ Edgar Mattisen, *Tartu rahu*, 2nd edition (Tallinn: Eesti Raamat, 1989), 459.

⁵ Sean McMeekin, *History's Greatest Heist. The Looting of Russia by the Bolsheviks* (New Haven, CN: Yale Univ. Press, 2009), 195.

⁶ *Ibid.*, 11–53.

a ban on transactions involving looted gold in 1918. After the war, most neutral countries had joined the ban.⁷ Although this ‘gold blockade’ was never strictly enforced, it made the gold trade semi-legal at best. Nevertheless, Western countries were very attracted by the economic opportunities the new situation offered. The Swedish government was the first to actually start dealing with Soviet gold when the ‘gold blockade’ was still officially in force. Meanwhile, as the first country that had concluded a peace treaty with Soviet Russia, Estonia became the most important intermediary in the Bolsheviks’ trade with the West, regarding both the import of goods as well as the export of gold.

The question of trust

The conditions under which these business contacts were established were not favourable for one of the key factors in economic interaction: the generation of trust. Since one party generally has to provide an advance in payment or services, trust essentially constitutes a market.⁸ In a stable economic environment, the market is established by practiced patterns and long-term interests. These in turn are institutionalised by titles, contracts, and sanctioning mechanisms. In contrast, in chaotic and uncertain times, these mechanisms cannot be taken for granted. As a matter of fact, the business world after February of 1920 can be described as a *low trust environment*. There was a lack of standardisation in how to do business. Lots of new players that did not identify with the traditional codes of trade entered the market. They did not have a good name to lose and were mainly interested in short term gains.

In this situation, the Tartu Peace Treaty supplied nothing more than the outlines for trade. Also, the new Soviet Trade Mission in Estonia can hardly be considered a stabilising factor. It was established on 18 February – shortly after the conclusion of the treaty – as the first of such missions in East-Central Europe. The mission was directed by a representative of the People’s Commissariat for Foreign Affairs, Isidor Gukovsky, and from August of 1920 on also by Georgi Solomon, who was subordinated to the People’s Commissariat for Foreign Trade. Although the former was

⁷ *Ibid.*, 33.

⁸ Hartmut Berghoff, “Die Zähmung des entfesselten Prometheus? Die Generierung von Vertrauenskapital und die Konstruktion des Marktes im Industrialisierungs- und Globalisierungsprozess”, *Wirtschaftsgeschichte als Kulturgeschichte. Dimensionen eines Kulturwechsels*, ed. by Hartmut Berghoff, Jakob Vogel (Frankfurt am Main/New York, NY: Campus Verlag, 2004).

responsible for the mission's political aims, and the latter for its financial aims, their responsibilities were not always clearly separated, and internal strife was a daily occurrence. Nominally, the trade mission was subordinated to the Central Union of Consumer Cooperatives, to give it a less state controlled gloss.⁹ The whole setting seemed improvised: the trade mission was housed in the St Petersburg Hotel in Tallinn, the members of its staff worked in their respective bedrooms, and their operations were somewhat chaotic.¹⁰ As a rule, the mission's personnel even had little knowledge of the international gold prices.¹¹

The mission's first challenge was to find reliable, trustworthy local partners to do business with. In the summer of 1920, Gukovsky complained to his superiors that 'more or less serious suppliers, and especially direct representatives of factories, feared to come to us due to political considerations partly because they did not believe that it was really not dangerous to have contacts with us, and suspected that we did not come here with honest but with some other intentions'.¹² Therefore, he had to make do with middlemen who were newcomers in the business and not committed to predictable codes of behaviour. Yet they boasted the necessary contacts and were ready for high risks. Business with Soviet Russia offered incredibly high profit margins. Soon Tallinn was flooded with people trying to make fast money. There were representatives of companies from the US, the Netherlands, Sweden, Denmark, Germany, etc.¹³ As much as the Trade Mission depended on them, they did not serve its long-term interests. The People's Commissar for Trade and Industry, Leonid Krasin, who had participated in the Tartu Peace talks together with Gukovsky, maintained that only the 'worst profiteers' journeyed to the Baltics, and complained about the 'unhealthy speculative character' of the business conducted there.¹⁴

Middlemen were also vital in the banking sector, which was of paramount importance for the Soviet Trade Mission, as this is where the gold trade took place. There was more than one possibility for supplying the market with Soviet gold. The most straightforward way was to sell the gold

⁹ This was already clear to contemporaries, cp. Ernst Fuckner, *Rußlands neue Wirtschaftspolitik* (Wiesbaden: Springer Fachmedien, 1922), 18.

¹⁰ For a subjective first-hand account see G. A. Solomon, *Sredi krasnykh vozhdiei. Lichno perezhitoe i videnoe na sovetskoi sluzhbe*, volume 2 (Paris: Mišen', 1930).

¹¹ Valge, "The Tartu Peace Treaty", 184.

¹² Estonian National Archives (Rahvusarhiiv, henceforth RA), ERA.1790.1.522, l. 123: *Gukovsky to Lezhava, 6 July 1920*.

¹³ Mattisen, *Tartu rahu*, 420.

¹⁴ Timothy Edward O'Connor, *The Engineer of Revolution. L. B. Krasin and the Bolsheviks, 1870–1926* (Boulder: Westview Press, 1992), 232.

directly to prospective buyers for foreign currency. It was transported to Tallinn by train and then shipped to Stockholm. There, the ingots were sold at the stock exchange. To conceal their origins, they were recast and given a new embossment. From Stockholm they were then sold to European and transatlantic markets.¹⁵ Such transactions were conducted by local banks, among them G. Scheel & Co. Since the Soviet Trade Mission was in a great hurry to turn the gold into money, it sold the ingots at cut-throat prices. Solomon claimed with dismay that Gukovsky had sold the gold for up to 30 percent below its market value – especially to Scheel.¹⁶ Historians have estimated that the losses amounted from 15 to 25, or even 40, percent on every major transaction.¹⁷ Another possibility was to buy the desired goods from the West using gold as security, sometimes also as a direct means of payment. As a rule, these transactions also required one or more subcontractors to organise them. These subcontractors enjoyed a great deal of independence and had more than one possibility for earning additional money, for instance by selling the gold for a higher price or by taking high fees for financial services.¹⁸

When Georgi Solomon started working at the Trade Mission in August of 1920, he reported to Moscow with dismay that ‘in Tallinn, our work with the banks proceeds under very disadvantageous conditions because the delegation’s financial transactions have depended mainly on two abominable bankers: Mihkel Pung and Scheel’.¹⁹ The former was the owner of the Pung Bank. In another letter, Solomon likened them to small predators or money grabbers respectively.²⁰ Among other things, Solomon accused both Pung and Scheel of scheming to keep the gold price artificially low.²¹ In August of 1920, Solomon reported to Moscow that he was planning to emancipate the mission ‘step by step’ from the ‘roguish bankers’ in favour of a more

¹⁵ Solomon, *Sredi krasnykh vozhdiei*, 432.

¹⁶ *Ibid.*, 166.

¹⁷ McMeekin, *History’s Greatest Heist*, 167; Jaak Valge, “Es ist nicht alles Gold, was glänzt. Das Gold der Bolschewiki in Estland 1920–1922 und die Folgen”, *Estland und Russland. Aspekte der Beziehungen beider Länder*, ed. by Olaf Mertelsmann (Hamburg: Verlag Dr. Kovač, 2005), 172.

¹⁸ David Feest, “Klaus Scheel, Estlands ungekrönter König. Eine biografische Skizze”, *Individuum und Gesellschaft in Ost- und Nordosteuropa*, ed. by Joachim Tauber (Lüneburg, 2017) URL: <https://www.ikgn.de/cms/index.php/downloads/send/55-individuum-und-gesellschaft-in-ost-und-nordosteuropa/1251-feest-klaus-scheel-estlands-ungekroenter-koenig> (visited on 02/02/2019), 16–18.

¹⁹ RA, ERA.1790.1.523, l. 42: Solomon to Lezhava, 20 August 1920.

²⁰ RA, ERA.1790.1.522), l. 9: Solomon to Lezhava, 20 August 1920.

²¹ RA, ERA.1790.1.523, l. 27: Solomon to Lezhava, 25 September 1920.

reliable bank.²² The bank he had in mind was the Harju Bank, run by the future State Elder Konstantin Päts, the current Minister of Finance Georg Vestel, the Commander-in-Chief of the Estonian Armed Forces during the Estonian War of Independence Johan Laidoner, and others. Nevertheless, in the course of a few months, Solomon's relation to Scheel seems to have warmed. Solomon needed professional assistance in stabilising the gold price, and Scheel, along with the left-leaning Swedish banker Olof Aschberg, provided it. This process can be described as 'clientalisation': Scheel and others became trustworthy through personal contact and soon served Soviet aims in an increasingly predictable manner. In retrospect, Solomon even described Scheel as 'intelligent and correct', and also found benign words in reference to his profiteering: 'I have to give credit to Scheel and Aschberg', Solomon wrote in 1930. 'Of course, they also earned their part, but at the same time they gave me the necessary pieces of advice that helped me to bring the gold price to the said level in a relatively short time.'²³ It is also clear that Solomon saw that his colleague Gukovsky lacked this professional attitude since Gukovsky mainly tried to put as much gold on the market as possible, and was also notorious for lining his pockets.

Soviet Russia also needed those bankers for their ability to establish contacts with Western markets. This was not straightforward. Often, a number of subcontractors were involved, and the banks had some freedom of action. In order to be trustworthy, they had to rely on what Pierre Bourdieu called 'social capital': Klaus Scheel's international contacts, which he had obtained during his training in London, Paris, and St Petersburg, as well as his social skills. For instance, when striking deals with American banks that had no reason to trust him, he would run the deal by way of the eminent Swedish Enskilda Bank.²⁴ And since this bank did not accept Soviet gold as payment due to rumours that it had been alloyed with other metals, Scheel had to find ways to turn it into money somewhere else.²⁵ In this way, even relatively simple deals could involve a large number of people and transactions.²⁶ These transactions also required trust, but it was primarily not trust in procedures, but rather in individuals and their respective networks connected by short term business interests. There was money to be

²² RA, ERA.1790.1.523, l. 50: Solomon to Lezhava, undated, probably August 2020.

²³ Solomon, *Sredi krasnykh vozhdiei*, 343.

²⁴ RA, ERA.2140.1.57a: Klaus Scheel to the prosecutor of the appeal court, 12 December 1924.

²⁵ RA, ERA.2140.1.57a, l. 10: Klaus Scheel to the prosecutor of the criminal division, 22 December 1924.

²⁶ Feest, "Klaus Scheel, Estlands ungekrönter König", 16–18.

made at each of these junctures, and Scheel grabbed the opportunities with both hands. In the end, the Soviet gold trade created a number of exceedingly rich people, among them the founders of the Harju Bank. The richest of all was Scheel, who is said to have earned 30–40 million gold roubles.²⁷ This was more than twice as much as what Estonia had received from the Soviet Russian treasury as a result of the peace treaty.

It is notable, however, that the ethnic origin of their business partners obviously had no significance for the Soviet side. Scheel was a descendant of a Baltic German family that had come to the Baltics in the mid-19th century. By contrast, Pung was a rising member of the new Estonian political elite. The Harju Bank was also an Estonian venture, and its owners considered it a national enterprise.²⁸ And yet it seems that in these deals, imperial traditions of dealing with Russia were more important than ethnic divisions. Furthermore, Solomon himself had been part of an international company by working for Siemens-Schuckert in Imperial Russia before the First World War. He still remained familiar with international habits and standards of conducting trade from the pre-revolutionary years.²⁹

Two roads of development

Estonia's special status as the only link between Soviet Russia and the rest of the world lasted only half a year. After Soviet Russia and Latvia had concluded a peace treaty in August of 1920, there was another player on the market. And when in March of 1921, England and Russia reached an agreement, the gold blockade was virtually removed.³⁰ Now it was more advantageous for Soviet Russia to seek direct business relations with Western countries. In addition, the Soviet market proved to have less purchasing power than expected, and the market did not benefit from being regulated by the state. In the longer perspective, the situation created by the Tartu Peace Treaty was problematic in still another respect: Estonia had mainly

²⁷ RA, ERA.80.2.1679, 1925, p. 3: Rkl. A. Jõeäär, J. Piiskari ja L. Johanson'i arupärimise ettepanek rahaministrile "Scheel ja Ko" pangamajas ettetulnud tulude varjamise ja väärnähtuse asjas [Interpellation proposal from A. Jõeäär, J. Piiskari and L. Johanson to the Minister of Finances concerning the concealment of profits and impropriety that have come to light at the 'Scheel and Co.' bank].

²⁸ Jaak Valge, *Lahtirakendamise: Eesti Vabariigi majanduse stabiliseerimine 1918–1924* (Tallinn: Rahvusrhiiv, 2003), 92.

²⁹ This may have contributed to the relatively positive reputation Solomon enjoyed in Estonia, cp. Ant, *Eesti 1920*, 147.

³⁰ McMeekin, *History's Greatest Heist*, 184.

functioned as a transit country. Long term investments in the Estonian economy itself were low, and it was unclear what the future had in store.

There were different strategies for reacting to this situation. One was to maintain the system created by the Tartu Peace Treaty. It was based on Eastern trade and relied on income from the gold trade. The group centred around Päts chose this approach.³¹ It was the strategy of the Harju Bank as the issuing bank, the Bank of Estonia, and the Minister of Finance as well. This policy decision also determined production priorities: these banks mainly financed industrial ventures connected to Eastern trade.³² Obtaining credits remained a big problem, however. Income from the gold trade still accounted for an important part of the income that was reinvested, and when this well started to run dry, the Bank of Estonia started using the state's gold reserves. This led to a serious political scandal that brought down the first government that was headed by Päts. The failed investments also caused the bankruptcy of the Harju Bank in 1925.³³

Scheel represented a different strategy, according to which he tried to obtain investments from the West. Not unlike Päts, Scheel invested the millions he had earned in the gold trade in industrial enterprises. Yet he fared better than Päts and his partners in the Harju Bank. Firstly, he showed entrepreneurial foresight with the companies he invested in. Among others, his bank purchased the majority of stocks of the Türi paper and cellulose plants in Järvamaa, the Krull machine factory, and the Saku brewery, and it was the main financier of the Kreenholm textile factory.³⁴ In the long run, these enterprises proved to be able to implement the structural changes necessary to survive Estonia's turn to the West. Secondly, and more importantly, Scheel understood that the heyday of the gold trade was over and looked for other sources for financing. He found them mainly in England and Germany. In the mid-1920s, a huge proportion of the foreign investments that were made in Estonian industry came through the Scheel Bank.³⁵

³¹ For a comprehensive overview see Valge, *Lahtirakendamine*.

³² Maie Pihlamägi, *Eesti industrialiseerimine 1870–1940* (Tallinn: Ajaloo Instituut, 1999), 81.

³³ Jaak Valge, "Es ist nicht alles Gold, was glänzt", 187.

³⁴ German Federal Archives (Bundesarchiv – BArch) 09.01/45366, 7–12: Dr. E. Munzer: Die Lage des Bankhauses G. Scheel & Co. A. G. in Reval (Estland), March 1934.

³⁵ Pihlamägi, *Eesti industrialiseerimine*, 95.

Ethnic business?

Apart from being economically viable, there was another special feature of the enterprises that Scheel financed. They all belonged to members of the Baltic German minority. Symbolically, the Scheel Bank was soon coined the ‘German bank’. This begs the question if it is really justified to stress the German character of the financial institution? Did Scheel’s ethnic affiliation contribute to trust in a way that it makes sense to speak of an ‘ethnic business’? And what value does this term have in understanding the special position that Scheel held in the Estonian business world? To answer these questions, two factors have to be taken into account: one is the changing modes of belonging to Baltic German elites in the late 19th and early 20th centuries. The other is the relation that Scheel himself had to Baltic German circles on the one hand, and to the Estonian state and society on the other.

Until the late 19th century, Baltic German conceptions of who they were hardly had any ethnic connotations. Being the leading class, the small minority had set themselves apart from the Estonian majority by social standing as well as estate-based institutions. Meanwhile, ethnic and social boundaries corresponded to one another. Upward social mobility was impeded by the strict divisions of feudal society, but where it happened – mostly in the cities – it was accompanied by an acculturation to German culture. In the last decades of the tsarist empire, the privileged Baltic German position was challenged by Estonian and Latvian national movements as well as Russian centralism. And while Baltic Germans had been exceptionally loyal to the tsar for most of their history, during World War I many of them gradually switched their loyalties to the *Kaiserreich* that seemed more capable of preserving their privileged position in the Baltic provinces. Still, historians have pointed out that for most people, a local identity prevailed. A more universal German Baltic identity, transcending not only social divisions but also the administrative borders between the Baltic provinces of Estland and Livland, was not the rule, let alone an even more universal identification with a pan-German people. In contrast, as Estonians and Latvians started becoming more dominant in the urban centres, they increasingly communicated more with the Baltic Germans on equal terms concerning local issues.³⁶

³⁶ For a thorough discussion of Baltic German identity see Karsten Brüggemann and Katja Wezel, “Nationally Indifferent or Ardent Nationalists? On the Options for Being German in Russia’s Baltic Provinces, 1905–17”, *Kritika* 20 (2019), 39–62.

The Scheel & Co. bank can serve as an example for all these options for Baltic German self-identification. Although the Scheels were by no means an old Baltic German family, in the 19th century it had been very closely connected to the owners of the Baltic German enterprises who had their banking business managed by the small deposit bank that Klaus Scheel's grandfather had founded.³⁷ The importance that such connections and traditions had for Klaus Scheel became apparent in his membership in one of the oldest Baltic German associations: the Brotherhood of Blackheads (*Bruderschaft der Schwarzenhäupter*), which he joined in 1914. Yet after 1918, the altered function of the brotherhood's building says much about the social changes the Baltic German minority as a whole went through. Under Scheel's crucial influence, a new Blackheads Club (*Schwarzenhäupter-Klub*) was formed, which became the centre of a new kind of Baltic German social activity in the capital. It differed from the older association by the fact that the old estate-based divisions played a much smaller role.³⁸ There were good reasons for coming closer together. The Baltic German minority had been stripped of its political power and land reform had destroyed their predominance in the agrarian sector in 1919. Many had left the countryside for the cities to earn a living there. Some even found jobs in the expanding Scheel Bank, preparing, as it were, for life in a new and unfamiliar bourgeois surrounding.³⁹ These examples make the Baltic Germans almost a picture book example of the 'dense culture of trust that arose from an interplay of outside pressure and interior cohesion'⁴⁰ in diaspora groups. This in turn has been described as the foundation of 'ethnic businesses'.⁴¹

Indeed, Scheel was a vital part of the Baltic German community, and his commitment to it went far beyond business relations. This became especially clear when starting in 1925, the 'cultural autonomy act' provided ethnic minorities with the chance to administer their cultural affairs themselves. It soon turned out that the taxes the German cultural administration collected did not suffice for financing German schools, theatres, sports clubs, and other cultural institutions. Therefore, Scheel created an

³⁷ Walter Dehio, *Erhard Dehio. Lebensbild eines baltischen Hanseaten 1855–1940* (Heilbronn: Eugen Salzer-Verlag, 1970), 64–5.

³⁸ Feest, "Klaus Scheel, Estlands ungekrönter König", 29.

³⁹ BArch 49/2503), 39: Statement by the German Ambassador in Tallinn Frohwein about the naturalisation of Klaus Scheel, 18 November 1940. See also: Berndt von Staden, *Erinnerungen aus der Vorzeit. Eine Jugend im Baltikum. 1919–1939* (Berlin: Siedler, 1999), 7.

⁴⁰ Berghoff, "Die Zähmung des entfesselten Prometheus?", 150.

⁴¹ *Ibid.*

unofficial organisation called the ‘guarantor committee’ (*Garantenkomitee*) that mainly consisted of enterprises of the Scheel group. At the end of each year, it settled the debts that the various organisations had accumulated.⁴² Many of the German cultural organisations in Estonia would not have survived without this support. How traditional bonds and ethnic belonging were central for generating trust becomes clear in the way Scheel administered these financial means. A large sum of money—especially spoils from the gold trade in 1920—was booked out of the bank’s account and put in a ‘black fund’ together with investments from members of the richest Baltic German families. It was invested in shares of the enterprises the Scheel Bank controlled, but the shareholders remained anonymous or were officially listed as Dutch or English companies.⁴³ The first semi-official list of these ‘silent partners’ was compiled in 1939, and it reads like a *who’s who* of the important and rich Baltic German families. The ‘black fund’ was used to finance German cultural organisations, but it was also a financial safety net for the bank. And it was a way of circumventing the Estonian authorities.⁴⁴ Here, the ethnic German minority figured as a self-contained unit, following its own rules and highly depending on face-to-face contacts.

This interpretation of Scheel’s business relying on ethnic networks is to some extent supported by the foreign policies of the German Reich. Right after the First World War, Germany began using active trade as compensation for its lack of military power.⁴⁵ Germany was one of the countries that needed Estonia as a bridge to the Soviet market.⁴⁶ The Scheel Bank was its reliable partner for placing its credits. Yet the German Reich knew that it also needed connections with Estonians no less than with the Baltic Germans. The Scheel Bank was the ideal partner in this respect as well: Scheel was known to be extremely well connected with the new Estonian elites.⁴⁷ This is the other, and by no means less important, side of Scheel. While many Baltic Germans were critical of the new state, Scheel was clearly a man of the Republic of Estonia. He admittedly proved to be quite

⁴² Feest, “Klaus Scheel, Estlands ungekrönter König“, 30–31.

⁴³ BArch 49/2503, 1941, 83: Protokoll der Ausführungen von Herbert von Dehn über Klaus Scheel, Teil 1, 17. Juni 1941 [Protocol of the statements by Herbert von Dehn on Klaus Scheel, part 1, 17 June 1941].

⁴⁴ BArch 49/2503, 1941), 107: Sinn und Zweck des sogenannten “schwarzen Fonds” des Bankhauses G. Scheel & Co., 19. Juni 1941 [Spirit and purpose of the so called ‘black fund’ of the bank G. Scheel & Co., 19 June 1941].

⁴⁵ Hiden, *The Baltic States and Weimar Ostpolitik*, 63.

⁴⁶ *Ibid.*, 63, 74.

⁴⁷ *Ibid.*, 80.

reluctant to pay taxes. Yet the same thing can be said about many Estonians who were engaged in international business.⁴⁸ On the other hand, Scheel was a central figure in brokering credits for the young Estonian state: a small Finnish credit in 1919 and a much more substantial one enabled by the League of Nation's Ter-Meulen-Program in 1927.⁴⁹ The fact that at the same time he also furthered his own interests hardly suggest that his actions were directed against the Estonian republic, as some of his critics wanted to see it.⁵⁰

Still more importantly, Scheel's stunning career was intrinsically connected to the formative years of the Republic of Estonia. Professionally, he had lived through the same experiences as many other men of the new Estonians elite like Päts, Vestel or Laidoner. Privately, they became his good friends. These networks were an important asset for doing business in Estonia.⁵¹ When Scheel's bank ran into trouble, he often approached Päts and Vestel personally and directly.⁵² When he founded the oil shale company 'Estonian Oil Shale' (*Eesti Kiviõli*) in 1922, he surely had no second thoughts when he appointed Laidoner as second director.⁵³ The third director was also an Estonian, the banker and politician Artur Uibopuu. Later, Laidoner and Vestel would become board members of the Scheel Bank.⁵⁴ Just as his ethnic German connections contributed to a relationship of trust with the old elites, these networks created bonds to the new ones. It does not seem far-fetched that precisely the chaotic year of 1920 had created some stable social relations among the economic newcomers. In the language of the social sciences, they took advantage of 'shared mental models' that facilitated the necessary degree of predictability. The Tartu

⁴⁸ Otto Karma, *Eesti Vabariigi majanduspoliitika: kaks aastakümnet 1919–1939* (Tallinn: Umara, 1999), 67.

⁴⁹ Karma, *Eesti Vabariigi majanduspoliitika*, 71; Vahur Made, *Estonian Banking and the Currency Reform Loan of 1927: A Case Study of Estonian Economic Cooperation with the League of Nations* (Tallinn: Estonian Business School 1998), 6.

⁵⁰ Karma, *Eesti Vabariigi majanduspoliitika*, 71; Made, *Estonian Banking and the Currency Reform Loan of 1927*, 6; Feest, "Klaus Scheel, Estlands ungekrönter König", 48.

⁵¹ Cp. my arguments in David Feest, "Global, lokal, national? Klaus Scheel und die Frage der Zugehörigkeit eines international agierenden Bankiers", *Geld, Prestige, Verantwortung. Bankiers und Banken als Akteure im wirtschaftlichen, politischen und kulturellen Netzwerk im (Nordost-)Europa des 16.–20. Jahrhunderts*, ed. by David Feest, Aleksandra Lipińska, Agnieszka Pufelska (Kiel: Solivagus, 2020).

⁵² Feest, "Klaus Scheel, Estlands ungekrönter König", 40.

⁵³ "Uus aktsiaselts õlikiwi ümbertöötamiseks [A new stock company for processing oil shale]", *Postimees*, 8 April 1927, 1.

⁵⁴ "Käimas Scheel panga Eestistamine [The Estonianisation of the Scheel Bank is on its way]", *Päewaleht*, 10 January 1932, 6.

Peace Treaty sounded the bell for a new era for the republic and the banker alike, and overemphasising ethnic relations means ignoring the complex web of relations that existed at many levels. The case of William Tomingas, who directly participated in the Tartu peace talks as a secretary (and famously organised the champagne to celebrate the outcome) may serve as an example of this. In his memoirs he wrote:

‘A month after I had left the Ministry of Foreign Affairs, in November of 1920, the Minister of Finance Kaarel Baars gave me a license to open up a tobacco factory. Together with my friend from our times in Petrograd, the pharmacist Johannes Laussen, I founded the first tobacco factory in Estonia (Havana). To get this venture going, Klaus Scheel lent me 2 million marks. My good friend from my time in Petrograd, the director of the Harju Bank Madis Jaakson, vouched for me.’⁵⁵

While Scheel in many respects went his own way after 1920, sometimes directly competing with Estonian banks and enterprises like the Harju Bank or the Estonian National Oil Shale Works (*Riigi Põlevkivitööstus*), he also remained part of these circles. In this spirit, Scheel utterly denied the significance of his Baltic German background in his investment decisions. In 1923, he explicitly wrote in the *Postimees* newspaper: ‘... our bank does not act on a political, nor a national, but on a purely economic base’.⁵⁶ From an economic point of view, this made sense. In 1920, the most profitable companies were in Baltic German hands, and it was quite rational for Scheel to invest the lion’s share of the bank’s capital in them.⁵⁷ Still, his ethnic affiliation doubtlessly made these business relationships much easier.

Some contemporaries have tried to explain Scheel’s good relations with members of the Estonian elite as purely strategic calculations. To them they were mere devices for survival in a hostile Estonian business environment, while his real loyalty allegedly was exclusively to the Baltic German minority.⁵⁸ A closer look at Scheel’s social and economic conduct does not support this claim. It does not make sense to draw an artificial line between the business contacts Scheel maintained within Estonia and his

⁵⁵ William Tomingas, *Mälestused. Vaikiv ajastu Eestis* (Tallinn: Olion, 1992), 36.

⁵⁶ “Saku ja Jõhvi õllewabrikute omandamise asjus [The property matters of the Saku and Jõhvi breweries]”, *Postimees*, 14 October 1923, 7.

⁵⁷ Vesa Vasara, “Das Bankhaus Georg Scheel & Co., Reval (1884–1940)”, *Die deutsche Volksgruppe in Estland während der Zwischenkriegszeit und aktuelle Fragen des deutsch-estnischen Verhältnisses*, ed. by Boris Meissner, 2nd edition (Hamburg, 1997), 98–105.

⁵⁸ Cp. for instance BArch OST DOK 14/6: Schriftliche Befragung des Herrn Dr. Bruno Meyer-Landrut, Bielefeld, Schlosshofstr. 156, im Januar 1959 [Written survey of Mr. Dr. Bruno Meyer-Landrut, Bielefeld, Schlosshofstr. 156, in January of 1959]. See also my discussion of this question in Feest, “Klaus Scheel, Estlands ungekrönter König”, 63–66.

social life: economic contacts, public social responsibility, and private life were hard to disentangle. And if there were social associations that bore a clearly ethnic character, like the Blackheads Club on the German side or the Centrum Club on the Estonian side, there were other places where Tallinn's important players met independently of their ethnic origin. For instance, the Rotary Club founded in 1929, the bridge clubs that became meeting points for the economic and creative elites, or the sailing clubs of Tallinn, just to name a few. Scheel was an active member in all these associations that in their essence can be described as 'nationally indifferent'.⁵⁹ The same is true for the bank's various investments in social welfare, culture or sports that aimed at the whole society of the Republic of Estonia.⁶⁰ Thus, when we take a look at the business elites in Tallinn, there was much more common ground than a purely national approach would suggest. In anticipation of the later years of the Republic of Estonia, it should be added that even when Germany's influence on the bank grew in the early 1930s, causing some anxiety among a number of nationally minded Estonians, Scheel's relations with his Estonian friends and partners seem to have become even tighter.⁶¹ Again, it does not seem appropriate to interpret this as the result of strategic manoeuvres. Rather, it needs to be acknowledged how intricately connected Scheel was with Estonian life and culture. One indicator for this is that his son Patrick founded a family with an Estonian woman where Estonian became the main language spoken—later in Swedish and Canadian exile the respective state language became dominant. According to Scheel's grandson John Scheel, Patrick Scheel later identified himself as Estonian more than anything else and within the family it was a foregone conclusion that the same was true for his father Klaus.⁶²

Conclusions

The effects of the Tartu Peace Treaty on the Estonian economy were quite ambiguous. First and foremost, the economic possibilities the treaty offered meant a bailout for the ailing Estonian economy. New money started coming in, and the Russian market that had been virtually closed during the war years, was opened again. While Estonia profited from the transit economy, it also had the chance to recover and enhance its own industries.

⁵⁹ Cp. David Feest, "Spaces of 'national indifference' in biographical research on citizens of the Baltic republics 1918–1940", *Journal of Baltic Studies*, 48 (2017), 55–66.

⁶⁰ Feest, "Klaus Scheel, Estlands ungekrönter König", 37.

⁶¹ Feest, "Global, lokal, national?", 140.

⁶² Private e-mails from John Scheel, 26 and 27 November 2019.

In the long run, however, the eastern markets did not live up to their promise. Also, Estonia soon lost its exclusive role as the intermediary country as other players came on the market and the significance of the gold trade as such diminished. Ultimately, hopes that imperial trade relations could be revived in a new form were bound to fail. The orientation of trade shifted to Western Europe, and Estonia went through a painful process of adapting to new markets.

Meanwhile, the economy had begun to be interpreted in ethnic terms. For the Baltic German former upper class, economic issues were increasingly national political matters. They were a means of maintaining economic power where political power had been lost. This caused some anxiety among Estonians who realised how dominant the position of the former leading class still was. Under these circumstances, although this had to some extent already started in the late 19th century, upcoming Estonian businesses were increasingly understood as national enterprises. They were even more so under the conditions of the Estonian nation-state. Generally speaking, the imperial modes of doing business were substituted by ethnic ones.

Still, the case of the bank Georg Scheel & Co. shows that this is only half of the truth. It is true that Scheel's economic success after 1920 very much depended on his intimate contacts with other Baltic Germans who still owned some of the most important enterprises in the country. However, he would never have succeeded had he not also been firmly integrated into Estonian society. The year that followed the conclusion of the Tartu Peace Treaty is the key to this integration. Together with his Estonian counterparts, he was part of a new cohort of businessmen and politicians determined to seize the opportunities the new situation offered. They were looking forward, not backward, and their area of action was the Republic of Estonia.

KEYWORDS: Tartu Peace Treaty; Klaus Scheel; banking; national minorities; Baltic Germans; Soviet Russia

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KOKKUVÕTE: *Impeeriumi kaubandusest etniliseks äriks? Tartu rahulepingu majanduslikud järelmõjud Scheeli pangale*

Artikkel uurib Tartu rahuga kaasnenud majanduslike muutuste üht tahku, nn etnilise äri tähtsust ebakindlatel aegadel usalduse loomisel panga Georg Scheel & Co näitel. Enamik Scheeli panga kliente kuulus baltisaksa eliidi hulka, mistõttu mängis pank Eesti Vabariigis tegutsenud sakslaste kultuuri- ja sotsiaalelus kesket rolli. Artiklis aga näidatakse, et panga direktor Klaus Scheel oli aktiivne ka nn rahvuslikult ükskõiksete ning eestlaste ringkondades.

Eesti Vabariigi panganduselu pöördepunktiks võib lugeda 1920. aastat, mil nii Scheeli pank kui ka eestlastele kuulunud pangad rikastusid, kaubeldes Nõukogude Venemaalt tulnud kullaga, mis aitas luua uusi kontakte ja võimalusi nii isiklikul kui ka ärilisel tasandil. Kuigi saksa ühendused moodustasid Scheeli jaoks olulise usaldusvõrgustiku, ei olnud tema eesmärk vana korra taastamine. Koos eestlastest kolleegidega kuulus Scheel uute ärimeeste ja poliitikute ringkonda, kes kasutasid ära uues olukorras tekkinud võimalusi. Nad vaatasid tulevikku ja nende tegevuspiirkond oli vastloodud Eesti Vabariik.

MÄRKSONAD: Tartu rahuleping; Klaus Scheel; pangandus; rahvusvähemused; baltisakslased; Nõukogude Venemaa

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