Czechoslovakian Trade Policy after World War I (1918-1927):
Nationalism and Capitalism

1. Problem Definition

The aim of this paper is to interpret the trade policy of Czechoslovakia (CS) following the First World War. The CS was created as an independent country following the dissolution of the Austro-Hungarian Empire (AU) – it became one of several successor states (together with Austria, Hungary, Yugoslavia, and Poland) in Central and Eastern Europe. These states were generally weak in every sense (politically, economically, and militarily); this was a significant problem for a post-war political and economic system in Europe. One typical policy following the war was political and economic nationalism. States were attempting to secure their political independence and their territory (except for Hungary, which actually tried to reclaim some parts it lost). More importantly from our point of view, economic and trade policies were mainly those of import and export regulation (even prohibition) in order to protect the balance of payments (in context of debts, devalued currency) and domestic agricultural and industrial production (with low production and productivity levels). After the first few, most difficult years (with shortages of food as well as of all kinds of goods), regulation of international trade was aimed at building up industry (which was "lacking" on territory of new states; e.g. Teichova 1989: 907) and at finding markets for abundant commodities (typically agricultural goods – to raise international money to pay for necessary imports).

We argue that the CS was in many important ways different from the rest of countries in the region. The CS was industrialized, highly dependent on the export of industrial goods (Purš 1960: 9 ff.). Since 1920, it consistently achieved a trade surplus (overall, and especially in trade with manufactured goods) (e.g. Pryor F.L., Pryor Z.P. 1973). The foreign debt – while significant (as result of allocation of share of AHE debt and an obligation to pay the "liberation contribution") – was manageable (see Nötel 1974: 84); inflation after 1922 was nonexistent. Economic growth was – except for self-inflicted damage on the Czechoslovak crown (CSK) in 1922 – solid. The political environment was relatively stable, and the international position promising: the greatest potential political rivals and economic competitors (Austria and Reich Germany) had been badly damaged and handicapped by peace treaties. Political relations with the Central Powers (with the exception of revanchist Hungary) were rather cooperative; Western European countries as well as the Balkan countries (Yugoslavia, Romania) were important allies.

However, during the reconstruction after the war (1919-1923), as well as through the economic boom period (i.e. 1924-1929; Pryor 1973: 195 ff.), the CS followed policies of economic nationalism. Heavy levels of protectionism and regulation of international trade, promotion of heavy industry, cartelism, and corporatism were typical. In spite of the general character of the CS economy (as an industrial goods exporter), unfavorable policies for export industries (i.e. high industrial tariffs and starting in 1927 high agricultural tariffs as well) provoking international retaliation were established and followed, together with a policy of keeping a rather strong currency. That is why we believe that, despite rather limited importance of the CS case for understanding of interwar international economy and its developments, this CS trade policy represents an interesting and counterintuitive case study of some significance for those who are interested in the interplay of politics and economics in real-world economic history.

Table 1. **Index HDP in 1929** (1913=100) **and average growth rate**

	Index 1929	Annual growth rate (percent)		
		1914-1929	year	percent
GB	102	0.1	1921-29	1.9
FRA	138	2.0	1921-29	5.9
GER	96	-0.1	1926-29	2.5
ITA	137	2.0	1921-29	2.6
NED	168	3.3	1922-29	4.2
SPA	142	2.2	1921-29	1.6
DEN	138	2.0	1922-29	2.8
SWE	143	2.2	1921-29	2.6
CS	**152**	**2.6**	19**22-29**	**5.7**
AUT	105	0.3	1922-29	4.6
HUN			1922-29	5.3
YUG			1922-29	4.7

Průcha 2004: 114.

Table 2. **Debt and inflation in CS**

	P**ublic debt** (mil. CSK)			Average Exchange rate (CSK / 100 SWF)	Index of wholesale prices
	total	**domestic**	**foreign**		
1921	13392	10099	3293	1412.2	
1922	19051	16183	2868	851.9	1322
1923	22218	18567	3651	619.1	967
1924	24627	20356	4271	625.1	986
1925	26586	21364	5222	655.4	997
1926	27783	22602	5181	653.3	944
1927	27775	22692	5083	650.3	968
1928	28327	23364	4963	650.0	969
1929	28909	23602	5307	651.2	913

Průcha 2004: 151.

Table 3. **Comparison of international trade balances, 1928** (USD per capita)

BALANCE	
CSR	**+21,5**
FRA	-7,6
BELUX	-19,0
SWE	-30,4
GER	-38,3
AUT	-112,3
SWI	-137,6
NED	-189,5

UK	-193,7

Statistical yearbook of CS: IV. 1932.

2. Explanation of CS Trade Policy

On the basis of discussion of local as well as international economic history literature and extensive research of primary sources – content analysis of discussions of trade policy (licensing, tariffs, treaties) in the CS parliament, analysis of relevant committee reports, analysis of arguments in explanatory memorandums of relevant laws – we propose the following interpretation of specific CS trade policies. The policies of CS were heavily influenced by strong political and consequently economic nationalism and in context of social/class struggle from which emerged (quite early) victorious in the Czech capital.

Since the independence of the CS, the key role in economic policy was played by Czech nationalist business elites led by Živnobanka (ZB; the most influential bank in the CS, forming a concern of Czech capital) and Agrární banka (AB; a bank with a significant share of CS agrarian capital) represented mainly by Jaroslav Preiss and Karel Svoboda respectively. At that time Czech political leaders (from the resistance and previously in exile) led by Tomáš G. Masaryk and Edvard Beneš had little experience in economic policy and focused on foreign and domestic political issues. Their common interest was to achieve economic independence from the "new" Austria and especially its dominance in banking, finance, and its intermediary position in international trade as an outcome of the Vienna-centered economic system (Boyer 2000: 263; Teichova 1989: 905, 917-918). It is important to understand that a very significant part of the CS export industry (generally light, consumer goods production) were located in areas of the CS with a predominantly German population and were connected to native German, Reich German and Austrian capital groups[1]. Czech financial capital – the ZB concern – was generally committed to heavy industry (iron and steel, engineering); it was largely uncompetitive and oriented to the domestic market (exploiting high domestic prices raised due to the strict regulation of international trade and high protective tariffs introduced in 1921). The promotion of export industry performance (for a large part controlled by Germans[2]) was – at the very least – not a priority for them. Of course, heavy industry was always seen closely connected with an issue of national independence, prestige, and political and military power. The special role of certain branches of production (automobiles, airplanes, machinery, and arms production – the CS become one of world's leading exporters of weapons in the 1930s) is clearly apparent from discussions of trade policy by CS representatives (R. Klein 12/17/1920; CR 5/8/1921; EM 11/6/1920). For these reasons, Czech financial capital supported the intentional deflationary policies and government interventions in order to strengthen the CS currency (CSK). The beneficiaries of this policy were the creditors (banks) and heavy industry (importing inputs

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[1] Where we speak about Germany (a state), we use Reich German. By German we therefore mean native Germans (or their business or capital) on the territory of CS.

[2] As much as 48.16% of Germans were active in industry in Czech lands. German population represented 33.5% of total industrial employment in industry (Pátek 2000: 253-254). While the share of Germans on CS population was 23.4%, out of firms employing less than 100 workers 45% of them were situated in districts with strong majority of German population; the figure for firms up to 300 workers was 66% and for firms with more than 1000 workers it was 54% (Karl Kostka, 6/16/1919).

and selling on domestic markets); the losers were export industries, debtors, and most German business groups conducting business in Austrian and Reich German currencies.

While it is undisputable that Czech capital (represented by ZB) was openly nationalist and particularly anti-German (Reich German, Austrian, native German), it was also strongly anti-socialist. Socialist and social-democratic parties held a particularly strong political position in the 1920s, leading two government coalitions (1919-1920) and parts of governments until the "Gentry Coalition" in 1926. However, foreign economic policy was under the purview of the National Democrats (ND). This conservative-nationalist party received limited electoral support (6.3% of votes in 1920 and 4% in the 1925 elections), but was backed by the Czech business elite (ZB), which was able through this party not only decisively influence trade policy, but also place its nominees into government posts: Ministers of Finances for the ND included Alois Rašín, Augustin Novák and Bohdan Bečka; Ministers of Industry and Commerce included Ladislav Novák, and Jan Dvořáček. It is therefore not surprising that the economic and trade policies of the CS strongly promoted the interests of Czech heavy, import-competing industry (from Reich German competition and capital involvement). The example of the CS is quite illustrative about the preferences of capital in this period. As we shall see below, Czech capital directed the trade policies of the state, extending the regime (inherited from the war) of public regulation of international trade; any abandonment of state regulation of trade was made conditional on high protection from imports. Regardless of any alleged anti-German and pro-Entente political attitudes (fully corresponding with foreign policy of the CS), Czech capital entered into informal agreements with Reich German capital (much more than with the French or with the UK); firms from consortium of ZB were often members of Reich German-led cartels and part of agreements on the dividing up of market and production quotas. While Czech business was keeping prices high on the domestic market (protected by high tariffs), it was (often) selling at prices below production costs abroad. A strong currency, decreasing the standard of living of the vast majority of citizens in the partially-closed economy, and crushing many traditional branches of (export) industry, further decreased the cost of imported inputs for their (import-competing) enterprises.

The policy preferences of the Agrarian Party (and agrarian capital) in the first years after the war was that of "free trade" – meaning the opportunity to export agricultural products from the food scarce/starving CS to Western Europe (for a high price and strong currency). At the same time, the Agrarian Party argued in favor of the free importation of industrial products (both consumer and capital goods). By the time agricultural prices fell, they had changed their position on demanding equal protection of industrial and agricultural goods, leading to high agricultural tariffs established in 1925 and 1926. This was possible because of major shifts in the logic of the formation of a majority government. The previously dominant national cleavage (coalition formed from CS parties regardless of the ideology, with parties of ethnic minorities were in opposition) was abandoned in favor of a pragmatic alliance of CS as well as German capitalist (industrial and agrarian) and religious parties; both CS and German socialists formed the opposition. Agricultural tariffs reduced the standard of living not only of the urban population, but also of many farmers, as it was introduced mainly on flour and grain. This was clearly in the interest of large landholders (including the Catholic Church). What is more, the introduction of high agricultural tariffs was obviously in conflict with traditional logic of the CS's managing of international trade, with its focus on exporting manufactured goods and importing raw materials and agricultural products. This was particularly problematic with respect to foreign policy orientation toward allies of the Little Entente – Yugoslavia and Romania, provoking their retaliation toward industrial exports from CS (as well as a trade war with Hungary). It is also useful to note that while CS political representatives strongly opposed any proposal leading to a customs union among Reich Germany, Austria, and the CS (both for political as well as economic reasons), many Agrarians would have welcomed such an initiative, potentially reversing the traditional trade patterns of CS (i.e. exports of agricultural products into industrial markets of Reich Germany and Austria) (see Lacina, Hájek 2002: 100).

3. The Relevance of the CS Economy and its Performance 1919-1928

The Austrian-Hungarian Empire (AHE) was a moderately developed, partially industrialized economy with great differences in the level of economic development between its parts. This significant economic area of 52 million inhabitants was from an economic point of view largely inward-looking and inclined towards self-subsistence. Its share of total world international trade was around 3.5% in 1904 (Olšovský, Průcha 1968: 66).

While CS had only about 26% of the inhabitants of the former AHE (13.6 million in 1921; this included 3.1 mil Germans, 748,000 Hungarians, and 462,000 Russians), its territory produced 50% of the tax revenues, and represented 65-70% of its industrial production (Pryor 1973; Lacina: 1990: 146-147, 169). According to most experts (Lacina 1997; Kubů, Pátek 2000: 204), around 60% of the production of its most important industrial branch – textiles – was exported, and even more in a number of other branches of light, consumer goods industries. In total, approximately 39% of the value of total industrial production had to be exported to avoid severe contraction of production capacities (compared to figures for GER 20%; UK 25%; FRA 24%; NED 34%; AUT 36%; BEL 51%).

Table 4. **The Structure of CSR industry 1926** (percent)

	Establishments	Employees	Horse powers employed	Value of production 1927
Coal mining, coking plants	2.8	10.5	17.5	
Metal industry	10.7	18.8	29.2	18.7 (23.2 in 1930)
Chemical industry	3.0	2.7	2.5	
Stone and earth industry	16.9	9.5	6.1	
Glassworks	6.2	3.7	1.2	
Timbering	13.0	5.6	4.6	
Paper industry	2.1	2.3	4.4	
Textile industry	13.9	26.7	18.7	25.9 (22.5 in 1930)
Leather processing	2.4	2.7	1.4	
Food processing (exl flour mills)	19.6	12.6	12.2	
Producer goods	*37.3*	*42.7*	*56.5*	
Consumer goods	*62.7*	*57.3*	*43.5*	
Heavy industry				*37.9 (41.8 in 1930)*

total				

Průcha 2004: 162; Olšovský, Průcha 1968: 186.

It is therefore fair to consider the CS as relatively developed industrial economy. The GDP per capita was close to the levels of Austria or Reich Germany in the western parts of the CS (Bohemia, Moravia, Silesia), and even much less developed Slovakia was clearly above the level typical for agricultural countries of Central and Eastern Europe (CEE) (Lacina 1995: 289). The western part of CS was heavily industrialized, with 40% of inhabitants working in industry and only 34% in agriculture (Kosta 1999). The economy as whole was strongly export-dependent. This was of course a source of many concerns in the context of a disrupted European and world international trade system and – even more – the transformation from the traditional, relatively conservative, and somewhat protected market of the AHE into multiple foreign countries struggling with debts, dealing with balance of payment problems, and erecting protective barriers. Moreover, most raw materials and inputs into CS industrial production had to be imported, now from foreign countries. One would expect that this aspect would point out the importance of a normal functioning of international trade (on both the export and import side) for the CS even further.

There were number of general challenges for CS international trade. Regarding the commodity composition of CS trade, it can be said that the CS textile industry was even bigger than that of Poland, Austria, Hungary, Yugoslavia and Romania combined. It was expected that these countries would represent an important outlet for CS exports of industrial goods. However, even in the first years, the textile export encountered a number of problems. These countries were not able or willing to import large volumes of industrial goods, either because they were in short supply of hard currency (CS even allowed its allies Yugoslavia and Romania to pay in their own devalued currency), or because they were attempting to industrialize and build up their own (typically textile) industry (Drábek 1973). To compensate by exporting to Western Europe, CS producers would have to reorient themselves to producing top-quality products. It was difficult to find a source for investments in modernization; therefore, the typical strategy was dumping and increasing the share of semi-processed goods (Olšovský, Průcha 1968: 221-223; e.g. F. Heidler, 25/11/1919; R. Klein 6/15/1920). Another factor was the dependence on the re-export of many CS goods through traders and financiers in Vienna or Hamburg. The establishment of direct trade relations between CS producers and customers abroad led to the share of exports to AUT declining steeply from 35% to 15% as a total of CS exports (Jančík, Kubů 1995: 311) (in addition to the trade deficit of AUT with CS).

Table 5. **Commodity composition of CS international trade** (percent of total trade)

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	import				**export**			
	1921	**1922-1925**	**1926-1928**	**1929**	**1921**	**1922-1925**	**1926-1928**	**1929**
Livestock	0.3	4.8	3.9	4.8	0.9	0.3	0.3	0.2
Food and beverages	27.2	22.9	20.3	14.6	16.2	16.5	15.4	11.4
Raw materials and semi-	43.5	48.2	47.5	48.9	14.6	20.9	18.7	16.8

processed								
Manufactured goods (exclude food processing)	28.3	24.0	28.2	31.5	67.4	61.7	65.3	71.5
Bullion	0.7	0.1	0.1	0.2	0.9	0.6	0.3	0.1

Kaser, Radice 1985.

Top on the agenda of CS trade policy was the problem of the incompatibility of CS foreign policy orientation to the Entente (primarily toward France, then the UK, Belgium, and potentially the US) with traditional and real trade flows towards the successor states of the AHE and Reich Germany. Trade with key *political* allies (France, Yugoslavia, and Romania) represented only 11% of total CS trade; on other hand trade with Reich Germany, Austria and Hungary was about 48% of total trade. The National Democrats in particular were deeply hostile towards the Soviet Union, which was the main reason why economic relations were not officially maintained until 1922 (and even unpublicized cooperation on the level of individual firms was negligible) even after other countries (Reich Germany, UK) already started to sell substantive amounts of industrial products there (see the EM 10/13/1921 by L. Novák and discussion e.g. K. Kreibich 8/6/1921; R. Fischer 4/5/1921; A. Slavíček 2/9/1921; K. Merta 7/9/1925).

Tough negotiations with major allies France and the UK regarding trade treaties made for an unpleasant lesson in realist politics for the CS. Both powers had very limited interest in intensifying ties with the countries of CEE; their main economic interests lay in Western Europe and in their respective empires. The negotiations were full of one-side concessions by CS; the problem was further aggravated by the similar export structure of France. To illustrate the quality of relations between CS and Entente allies, it was not until 1929 at the Hague Conference (and because of US initiative, the "Young Plan") was the charge for liberation decreased by 75% (Průcha 2004: 118, 224). On the other hand, close collaboration with Reich Germany was not a viable option for CS representatives – fear of economic (technological, industrial, financial) dependence and potential political domination in CEE was (and had been since the 1924 Dawes Plan) one of the most important topics of CS economic policy (Jančík, Kubů 1995: 311).

Another issue of trade after the First World War was obviously currency misalignments. The specific problem of CS trade constituted the bulk of export of industrial goods into countries with devalued currency on the one hand, and the import of most raw materials and sophisticated capital goods from states with strong currencies on the other hand. Exporters therefore were forced to give up the strong currency they earned to the state, and importers of foreign goods from strong currency countries had to prove the necessity to import from abroad; only after that would the Bank institute of Finance ministry release the foreign currency. It is true, that devaluation of the CSK in first years (until 1922) helped CS exports to a certain extent, but it was more than offset by even deeper currency devaluation by neighboring states and special surcharges placed on imports from countries with devalued money by Western European importers.

Despite all these problems, the role the CS economy played in European trade in this period was and continued to be noticeable. The share of (oncoming) CS of European exports in 1912 was 4.27%; its share of world exports was 2.21%. In 1928 these figures were 4.2% and 1.93% respectively (Průcha 2004: 218). On the European level, the CS was an important producer of brown coal, uranium ore, antimony, mercury, beet sugar, glass and glass jewelry, shoes, and arms. According to some experts (Olšovský, Průcha 1968: 67), by 1924, the CS was the world's largest exporter of glass and shoes. For the CS's balance of payments one thing that was very important was the export of refined (beet) sugar – needed in Europe after war – with no need to import raw materials, therefore presenting "net trade gain" (Olšovský, Průcha 1968: 224). Yet in 1929 the CS was the 10th largest producer of industrial manufactured goods in the world (1.7% of world industrial output).

Table 6. **The CS economy in international economy** (selected industrial productions; share in total European/world production, percent) 1926.

	Share of European production	**Share of world production**
Stone coal	2.73	1.25
Lignite	10.26	9.95
Iron ore	1.76	0.92
Silver	6.33	0.27
Electricity	-	1.03
Iron	3.56	1.67
Steel	4.10	1.82
Fertilizers (artificial)	2.69	-
Cement	3.57	1.67
Cotton Spindles	3.50	2.21
Cotton consumption	4.73	1.98
Beat sugar	15.20	11.4

Průcha 2004: 164.

To assess the development of trade *policy* of CS, it is important to mention that the general development of the CS economy was rather favorable. In 1918, industrial and agricultural production was 50% of what it was compared to 1913 levels; from this low point, by 1920 it had rebounded to 90%, and by 1921 it was already at 97.7% of pre-war levels (Lacina 1995: 290). In 1925 – compared to 1923 levels – industrial production was up by a further 37% (agricultural by 7%), the value of foreign trade was higher by 48%, unemployment decreased by 25% in those two years, and wages increased (rather moderately) by 5-6%. Overall GDP was growing at a rate of 10% in 1924, 1925, and 1927, and by 12% in 1928 (there was a short contraction in 1926) (Lacina 1995: 292). In 1929, therefore, CS industrial production was at 152% of 1913 levels (and agricultural at 128% of 1913 levels) – top figures never reached again until World War II.

Table 7. **CS international trade** (value in mil. of golden crowns, constant prices; index 1920=100)

	1920	**1921**	**1922**	**1923**	**1924**
Total					
Value	3 674	3 223	3 672	3 558	4 725
Index	100	88	100	97	129
Import					
Value	1 676	1 437	1 495	1 557	2 278
Index	100	86	89	93	136
Export					
Value	1 998	1 787	2 177	2 001	2 447

Index	100	89	109	100	122

Olšovský, Průcha 1968.

Table 8. **CS export** (mil. CSK)

	1924	**1929**
Total	17035	20499
Textiles	5098	6078
- Cotton	1801	1947
- Wool	1192	1305
- Linen	286	296
- Silk	291	567
Sugar	2334	999
Glass	689	983
Glass jewelry	717	769
Leather goods	4264	14972
Timber	1087	597
Coal	1078	945
Iron products	546	852
Machinery	499	681

Olšovský, Průcha 1968.

Table 9. **CS foreign trade in machinery** (mil. CSK)

	1924			**1925**			**1926**			**1927**			**1928**		
	IMP	**EXP**	**BAL**	**IMP**	**EXP**	**BAL**	**IMP**	**EXP**	**BAL**	**IMP**	**EXP**	**BAL**	**IMP**	**EXP**	**BAL**
Agricultural	12	43	31	25	89	64	37	85	48	74	84	10	65	90	25
Textile	69	29	-31	117	21	-96	101	24	-77	116	39	-77	158	49	-109
Driving	22	60	38	42	69	27	50	48	-2	42	74	32	43	114	71
Machine-tool	47	19	-28	85	14	-71	96	13	-83	71	17	-54	168	18	-150
Electric	126	27	-99	150	34	-116	205	46	-159	245	75	-170	249	98	-151
Other and parts	207	321	114	297	224	-73	278	179	-99	312	213	-99	426	318	-108
Total	483	499	16	716	451	-265	767	395	-372	860	502	-358	1109	687	-422

Weirich 1938-1939: 229.

After 1920 there was a consistent surplus in the trade balance of the CS economy. After a period of strong revaluation of currency (1921-1922; see below), the turnout of international trade grew by 8.6% per year (average for 1923-1929 period) (Průcha 2004: 219). The ratio of foreign trade to CS GDP was 55.16% and was significantly higher than major Western European economies (UK 38.1%, Reich Germany 31.4%) and comparable to top smaller Western European traders (Denmark 57.3%) (Kosta 1999).

Table 10. **The balance of international trade** (current prices, mil. CSK; index 1921=100)

	Import	**Export**	**Value**	**Balance**	**Import**	**Export**	**Value**
1921	23 658	29 458	53 116	+5773	100.0	100.0	100.0

1922	13 478	19 633	33 111	+6 155	56.9	66.6	62.3
1923	10 821	13 903	24 724	+3 082	45.7	47.2	46.5
1924	15 855	17 035	32 890	+1 180	66.9	57.8	61.9
1925	17 618	18 821	36 439	+1 203	74.4	63.9	68.6
1926	15 277	17 857	33 134	+2 580	64.5	60.6	62.3
1927	17 962	20 135	38 097	+2 173	75.8	68.4	71.7
1928	19 208	21 224	40 482	+2 016	81.1	72.0	46.2
1929	19 988	20 499	40 487	+511	84.4	69.6	76.2

Průcha 2004: 219.

Table 11. **Index HDP in 1929** (1913=100) **and average growth rate**

	Index 1929	Annual growth rate (percent)		
		1914-1929	year	percent
GB	102	0.1	1921-29	1.9
FRA	138	2.0	1921-29	5.9
GER	96	-0.1	1926-29	2.5
ITA	137	2.0	1921-29	2.6
NED	168	3.3	1922-29	4.2
SPA	142	2.2	1921-29	1.6
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AUT	105	0.3	1922-29	4.6
HUN			1922-29	5.3
YUG			1922-29	4.7

Průcha 2004: 114.

As we already mentioned, there were important regional patterns of CS trade as well. The CS had a massive surplus with Austria, Hungary, and the Balkan countries, and moderately surplus or balanced trade with the UK, Turkey, Japan, and China. A significant trade deficit was recorded with Reich Germany and to lesser extent with Poland, France, and Asian parts of British Empire. Regarding political relations as one context of CS trade, it can be said on the inter-governmental levels (possibly surprisingly, considering the foreign policy orientation of the CS) there were generally rather cooperative relations towards the Central Powers (i.e. Reich Germany and Austria).

The situation of near-socialist revolution in Austria and the pressure of Western powers led the prevailing (nationalistic, anti-socialist as well as social-reformist) dominant political forces in the CS to provide aid to Austria in form of shipments of raw materials and food (e.g. 5000-7000 tons of coal per day; 2500 tons of sugar in 1919), both of which were in short supply in CSR itself. Austria was in return willing to accept so-called "nostrifications" of firms (relocation of headquarters into CSR – where the business was conducted and taxes therefore are paid). Compensation was approved in a trade treaty in March 1919 (other treaties followed in 1920 and 1924) (Lacina, Hájek 2002: 73, 83). A treaty with Germany from June 1920 was first a *tariff treaty* negotiated by the CSR – major concessions were granted. The CSR also did not take advantage of its rights guaranteed by Versailles treaty to confiscate German property on its territory (Jančík, Kubů 1995: 313). Moreover, the CSR did not join the Entente sanctions towards Germany during the Ruhr Crisis (January 1923). It can be said that the general CSR policy towards the Central Powers in the 1920s was cooperation with all neighboring countries and was rather consistently performed by top political representatives of the CSR (e.g. Vice President Beneš). It was, among others, the Czech business community (closely connected to CS nationalist politicians) that declared much more confrontational stance towards Germans (CS German, Austrian and Reich German) and their business and capital. This was of course in stark contrast with the actual practice of individual firms – supplying the German market during Ruhr Crisis, enjoying a relaxing break from Western European competition on the German market and German competition in Balkans (Lacina 1995: 291; Jančík, Kubů 1995: 291).

Nevertheless, the issue of economic dependence on Germany was a major issue in the 1920s, where unsurprisingly uncompetitive CS businesses and politicians alike interpreted this threat in a protectionist way. This was either because they followed basic mercantilist precepts (much more valuable imports of machinery, electrical-engineering goods, chemicals, colors, pharmaceuticals, colonial goods from Germany and much less important exports of raw materials, semi-processed and intermediary goods into Germany), or because they believed that the economic power of Germany would lead to political dominance in CEE. At least since 1926, German economic superiority was generally accepted by CS business, politicians, and the public. It was estimated that the cost advantage of industry was about 20% as a result of cheaper infrastructure (transportation), the higher level of modernization and rationalization; state promotion of exports; and some qualitative factors (e.g. lower flexibility, adaptation, ability to finance sales by credit; setting of sales points; promotion and marketing); (Kubů, Pátek 2000: 219-220).

Table 12. **Territorial composition (most important trade partners, percent in total trade)**

	Year	Turnover	Import	Export
Germany and ports	1921	20,0	26,3	14,7
	1925	32,7	37,3	28,3
	1929	30,5	38,4	22,9
Austria	1921	19,7	8,8	28,7
	1925	12,5	7,4	17,3
	1929	11,5	7,8	15,0
Hungary	1921	8,0	4,1	11,2
	1925	6,3	6,4	6,3
	1929	5,6	4,8	6,4
Yugoslavia	1921	4,8	1,6	7,4
	1925	3,6	2,8	4,4
	1929	3,7	1,7	5,6
Poland and ports	1921	3,6	1,7	5,2
	1925	5,2	7,0	3,5
	1929	5,5	6,5	4,4
UK	1921	6,9	6,0	7,7
	1925	6,0	3,7	8,2
	1929	5,5	4,1	6,9
France	1921	3,9	2,8	4,8
	1925	2,6	3,9	1,4
	1929	2,7	3,8	1,6
US	1921	10,5	18,0	5,2

	1925	5,1	6,3	4,0
	1929	6,3	5,4	7,2

Průcha 2004: 222.

4. Trade policy of the CS

The CSR inherited possibly most complex system of administrative regulation of foreign trade in Europe. The purpose of the system in the years following the war was to control exports of scarce resources and goods as well as imports of goods – especially those considered unnecessary or luxurious. The focus was on protection of the balance of payments and economization of international monies. Few commodities were of great fiscal importance and trade was directly controlled by state (sugar, spirit/ethanol, malt, timber, coal). We mentioned above that it was national radicals (e.g. Kramář, Rašín, and Preiss) and allied CS capital and business groups who took over CSR economic policies and gradually got the upper hand over officials and economists of more liberal and consensual persuasion (such as Rudolf Hotowetz, and Karel Engliš) (Lacina, Hájek 2002: 48). After November 1918, trade was regulated by the CS Commission for Import and Export. This institution quickly came to be dominated by CS business and capital groups. Control of administrative regulation of trade by stakeholders was institutionalized by creation of so-called Syndicates in February 1919. Membership in these was compulsory for all firms engaged in international trade; they were organized by industrial sectors (twenty of them existed in total). One of the main goals was to avoid mutual competition of CS firms in export and imports and generally regulated trade in favor of the largest firms in a given sector. The operation of this system was under constant criticism by the parliamentary opposition and economic experts (e.g. F. Heidler, 29/10/1919; R. Mlčoch, 2/13/1920; F. Petrovický, 6/16/1920; J. Netolický, 6/16/1920). The syndicates were dissolved by 1920 and a new institution was established to concentrate the control of trade in state hands – the Office for International Trade. This office had ministerial authority; Dr. Hotowetz was in charge as a minister. During this time, CS business had to face demands for its nationalization (socialization) as it was included in policy statement of Tusar's government. However after Minister Hotowetz's resignation of the office in October 1921 (after losing the clash over protective tariffs, see below) the Office was dissolved, and state regulation of trade had become effectively executed by major business associations themselves (e.g. Central Association of CS Industry, dominated by ZB) (Klimecký 1968: 43). There is no doubt that administrative regulation of foreign trade was gradually liberalized: in October 1921 controls on export (72.5% of items was license free) were relaxed; later they were fully liberalized; imports until 1925 were under a licensing procedure; even after gradual liberalization in 1925 there was still 27% items subject to it (still 11% in 1928) (Průcha 2004: 102, 226; Olšovský, Průcha 1968: 334). However, this process was closely related to concurrent trend of increasing tariff protection. Yet in July of 1928, the CS acceded to international commitment to implement export and import bans/restrictions only on conditions of ratification of new agricultural tariffs. We believe this example of development in the CSR is a rather illustrative contribution to discussion of specific preferences and attitudes of private business towards the administrative regulation of markets.

Because of administrative regulation of trade in the years following the war, tariff policy was of limited importance. Nevertheless, tariff *rates* were gradually raised in this period. The aim of this was to adjust to the massive devaluation of the CZK since 1913, which made the specific duties on imports negligible (customs were paid in a certain amount of crowns per 100 kg of goods: e.g. for 100kg of electrodynamic machines of middle weight, 50 crowns were due). This had been the case since 1906 in the days of the AHE until Tariff Act no. 379 from 1919). To counter the inflation of the CSK, surcharges were introduced: 150% already in October 1918; further increased to 2000% in January 1919; raised and subdivided to 100 – 500% surcharges in April 1920 and once more increased to 200-900% in November 1920. Later, the system was slightly modified – duties from the 1906 custom tariff were multiplied by ratios of 1 to 16 in May 1921 (according to traditional mercantilist priorities of imports of raw materials of low value-added and exports of high value-added goods) and once more raised to 1:30 ratios at the end of 1921. By the beginning of 1922, duties were in general roughly equal to 1906 tariff levels, but on selected items, they were significantly higher (Průcha 2004: 101; Olšovský, Průcha 1968: 70). The difference was mainly the duty-free import of flour, grain, seed, livestock, meat, fat, mineral oils – in other words, raw materials and "deficit" agricultural products.

To understand the process of the final shifting of (the industrial, export-dependent) CS economy into a high–tariff, protectionist country, it is important to examine two developments. First was the above-mentioned clash over tariffs between economic experts of the state (R. Hotowetz, K. Engliš) and nationalist politicians and business elites (K. Kramář, A. Rašín, L. Preiss). The second problem was deflationary policies linked to massive revaluation of the crown, which in effect led to multiplication of effective tariff rates (because these were in the form of specific duties in CSK per weight unit).

In September 1921, politicians of ND and business shareholders succeeded in increasing the tariff on cars, engines, airplanes (as an exception to the specific tariffs, in this case a tariff equal to 65% of value was used). According to Hotowetz, this tariff (together with other charges and luxury taxes, this meant an effective tariff of almost 100% on cheaper cars) threatened exports to car producing countries (FRA, ITA, GB possibly US) (K. Kostka, 4/24/1923). After this incident, it was clear that the relatively liberal tariff prepared by Hotowetz would have no chance of being approved in Parliament; the minister (supported by Engliš and Beneš) resigned in protest. Ladislav Novák nominee chose The Minister of Commerce position was subsequently filled by Ladislav Novák, a nominee of ND (and ZB) and a supporter of heavy industry and protectionist policies. (Indeed, until 1925, he acted also as Minister of Industry) (Peroutka 1936: 2316-2321; Olšovský, Průcha 1968: 71; Lacina 1990: 176). At the end of 1921, Minister Novák revised the tariff, increasing duties for metallurgy, metalworking and chemical industry imports; significantly less protected were the food-processing, textile, and leather industries (Lacina, Hájek 2002: 67).

The economically nationalist policy ideas were most apparent from the commitment to build up (behind high protectionist barriers and with direct support of the state) the industrial capacities which were "lacking" – mainly arms and explosives; the chemical, electric industry; and telecommunications equipment. Notable newly established firms included Zbrojovka Brno (arms production); Explosia (explosives); Kbely Aviation Workshops and Avia (aircraft); Kablo Kladno (electric cable); Osram and Elektra (electrical devices and appliances); and Telegrafia (telephones and telegraphs) (Pátek 1995; Jakubec 1995).

Another key event was the revaluation of currency and deflation policies of Alois Rašín. While some notable experts (including Engliš, who was forced to resign his position as

Minister of Finance in March 1921 by an opponent from ND and ZB) proposed stabilization of CSK, the clique in ND and ZB supported significant revaluation of CSK in 1921 (Lacina 1990: 178-179). The declared goal of this policy was to strengthen the prestige of the CSR; this separated the destiny of the CSK from the inflated currencies of Reich Germany and Austria.

Revaluation of the CSK was favorable for those branches of industry who were importing raw materials and semi-processed goods and selling final products on domestic market; it was catastrophic for exporters, (who had to dump their exports (pressured by wages)) and for CS German industrialists (who bet on German and Austrian currency). The exchange rate of the CSK in Swiss francs changed from 0.05 in November 1921 to 0.19 in October 1922 and later stabilized on 0.16 to 0.17 Swiss francs until the end of the 1920s. To intervene in support of the crown, the government used foreign credit to intervene (revaluation decreased the cost of borrowing from abroad, but led to higher debt) (Průcha 2004: 146).

This process was – together with deflation on the domestic market – related to a fall of industrial production by 25% and an increase of registered unemployment from 73,000 in December 1921 to 438,000 in December 1922 (from 1.4% in 1921 to 4.8% in 1922 and 9.1% in 1923) (Lacina 1990: 191). Consumer prices decreased between 30 and 40%. Wages fell even further as a result of high unemployment, problems of the export industry, and the decision accepted by leading CS industry associations. Industries exploiting a monopoly on the protected domestic market therefore partly succeeded in keeping the prices on the home market. They were backed by the whole CS financial sector. Deflation was favorable for creditors, but bad for industries using credit to invest or run production. The consortium of ZB therefore managed to enlarge its portfolio at bargain prices.

Overall production of the CS economy fell by 2.8% in 1922; the volume of foreign trade decreased by 38% in 1922 and further 25% in 1923 (Kosta 1995: 337). After assassination of Alois Rašín by a leftist radical in January 1923, the post of Finance Minister was filled by ZB's nominee and ND member Bohdan Bečka.

The National Democrats and also (explicitly) representatives of the ZB corporation also claimed that a falling value of the CSK would be a threat to CSR independence (L. Preiss cited in Lacina 1990: 191). As an argument in support of deflation/revaluation, ZB stated that it would decrease the cost of imports – which was of major interest to those who processed imported raw materials into products sold on the domestic market (i.e. heavy industry). At the same time, this kind of enterprise dominated the portfolio of ZB.

As we mentioned above, the revaluation of the CZK consequently led to a *de facto* increase of tariff protection by factor of 3.5 to 4 during 1922. As a result, the CSR had prohibitive tariffs on most types of cars, car engines, and many products of the machinery, chemical, and textile industries. Both sunrise and sunset production was protected. Average tariffs reached 53% on iron (recalculated as value tariff), 46% for machines, and 43% for chemical products, and remained at that level until the end of the 1920s (Průcha 2004: 208; Kubů, Pátek 2000: 206-207). As tariffs helped to establish or maintain monopoly sales on the domestic market and increased prices there, a significant volume of export was conducted at dumping prices (on average, export prices were 33% below domestic prices according to Olšovský, Průcha 1968: 73). It should be noted that during our research we failed to find even a single mention of essentially and effectively increasing tariff protection as a goal, secondary objective, or even perhaps significant secondary consequence of the revaluation of the crown by the government (even though we examined reports of parliamentary committees, explanatory memoranda to all relevant acts, and gathered all stenographic records from plenary meetings of parliament which dealt with any foreign trade and trade policy issue for period of 1919-1927).

Another important dimension of trade policy was naturally trade agreements. Immediately after the war, the CSR concluded a number of compensation agreements (guaranteeing exchange of a specific amount of particular goods between two countries). These were closed with Germany, Italy, and the Balkan countries, reacting to a major problem of shortage of international currency. Another type of agreements which were concluded by the CSR included contingent treaties (negotiated with Yugoslavia, Switzerland, Germany, and France). These included most favorite nation treatment clauses (MFN), with reservations of the capability of licensing regulation of imports by the CSR. Therefore they were supplemented by list of items which could be (after paying MFN tariff) imported freely up to certain amount (stated alternatively in wagons or tons per year). Both sides, of course, looked for the possibility of exports of goods of particular importance for domestic firms, making this kind of agreement the most easily negotiated between countries of different economic and export structure. The last type of trade agreements were tariff treaties. These were concluded with the most important trade partners of the CSR: France, Italy, Germany, Poland, Spain, Austria, Belgium, Switzerland, Hungary, and Norway. In such agreements, countries exchanged tariff concessions (typically by granting a lower “preferential tariff” instead of a higher “autonomous tariff”) by parties on particular items of their interest and included MFN clauses.

The policy of the CSR regarding trade treaties in early years following the war was influenced by the fact that the Entente canceled pre-war trade treaties with the Central Powers and their successor states. Western European powers proposed some kind of political agreement between central European states to prevent the breakup of former large customs territories into “balkanized” areas of small, unsustainable economies. As it was politically unacceptable for the CSR government to grant more favorable treatment to “enemies” than it had with allies, and was unwilling to accept any potential economic influence of Austria it declined both a proposal for forming a Danube federation (favored by France) and customs union of successor states (supported by UK). The CSR also never took advantage of some clauses in the peace treaties, which allowed the formation of trade preferences between former AHE states without the obligation to expand it through the MFN principle (included in future potential treaties) to other countries. There is no doubt that the concept of a customs union or even a confederation in the CEE region was rather unappealing to everyone (with possible exception of Hungary). Yugoslavia and Romania felt that such project would threaten their ongoing industrialization. The CSR would not participate on initiative involving only Austria and Hungary, membership of Germany was out of question because of potential crushing pressure of competitive German industry (at least by 1925 onwards). The preferred scenario from Austria’s perspective was to form a customs union with Germany; preventing this from happening was considered to be a vital national interest to the CSR (Lacina, Hájek 2002: 57). In order to achieve this, it was necessary for the CSR to initiate the Little Entente, which occurred just before the relations between its members (CSR, Yugoslavia, and Romania) were irreparably damaged by introduction of high agricultural tariffs by the CSR.

The case of the raising of high agricultural tariffs is very illustrative about the economic nationalism and the role of capital in the CSR. It should be stressed that until 1922, agricultural interests in the CSR did not request any tariff protection. The reason was naturally high prices of agricultural goods in Europe and the fact that food and other agricultural products were in short supply in CS and it was necessary to import great amount form abroad. As a matter of fact, some of the (very few) examples of argumentation advocating free trade we have found during our research were from the Agrarian party, arguing that farmers should be allowed to freely export their products into Western Europe in order to exploit high prices (to large extent a result of actual exchange rate) there. (eg. J. Kubíček, 6/16/ 1920) Generally speaking, it was agriculture which was relatively less damaged by the war, mainly because many big landowners were able to take advantage of high prices on the black market. The relative position of agrarian capital in the CS economy was therefore (during period of agricultural product scarcity including the war and several subsequent years) significantly improved. After production capacity increases in agriculture in CS and Europe and a significant decline in agricultural prices – which had already started in 1922 – agriculturalists started request tariff protection. In the 1925 elections, the Agrarian Party emerged the strongest, and formed a collation of Czechoslovak parties (including Socialist and Social-Democratic party; German parties sat in opposition) under Prime Minister Antonín Švehla. This coalition succeeded in establishing moderate – adjusting – tariff rates (especially flour, grain, and lard) in June 1925. Because of the inflexibility of the mechanism, setting the actual tariff rate – often lagging behind the real development of prices (and speculative purchases traders on commodity exchange) – these tariffs had limited impact. This changed with the introduction of high to prohibitive fixed-rate agricultural tariffs in June 1926. Based on a large amount of literature, supported by findings of our own research, we believe it is justified to state that the introduction of agricultural duties was the main reason of the formation of the so-called "Gentry Coalition" in October 1926. This was the first coalition which was formed of Czechoslovak and German parties. It included Czechoslovak and CS German agrarian parties; Czech, Slovak, and CS German Christian parties; Czech nationalists and the Czechoslovak party. The opposition was formed (among other less important parties) by Czechoslovak and CS German Social Democrats, Socialists, and Communists. The main cleavage was therefore changed from national lines (Czechoslovak parties, regardless of the ideology) to class lines (industrial and agrarian capital and Christians against Socialists). The Gentry Coalition was massively criticized by the opposition, noting that the introduction of agrarian tariffs was a consequence of complex deal, including passage of the *congrua portio* (a pay increase of church officials; the Catholic Church was also a major landowner in the CSR) and continuous support for high industrial tariffs.

The highest tariffs were imposed on grain and flour (as well as rice, potatoes, and legumes); duties were also raised on horses and cattle, but generally the increases on livestock were much lower than in case of plant production. Large tariffs imposed on grain imports were favorable for large and medium landowners – smallholding farmers (who produced grain for the own consumption or even had to buy it themselves) did not benefit. Prices of livestock – the main interest of most smallholding farmers – did not significantly change (Olšovský, Průcha 1968: 210-211). Of course, the higher prices of foodstuffs increased the cost of living and put upward pressure on wages, which further threatened the competitiveness of industry, and which in turn was most felt by exporters.

The high agricultural tariffs (34% on average) of 1926 were so-called “minimal tariffs” that meant they could not be lowered as a result of negotiations over trade treaties. That aggravated relations with important allies Yugoslavia and Romania – countries which were supposed to be intensively linked by trade exchange with the CS economy (exporting industrial manufactured goods and importing agricultural goods). Both countries increased industrial tariffs in retaliation, and negotiating new trade treaties (in 1928 and 1929) proved very difficult. With Hungary, as a consequence of its agricultural tariff policy, relations quickly deteriorated into a state of trade war (Lacina, Hájek 2002: 97).

5. Role of capital: nationalism and pragmatism

If we focus mainly on the dominant CS capital and industrial corporations controlled by Živnobanka and agrarian capital represented mainly by Agrarian bank, we believe it is fair to describe the strategy of CS capital in the CS during the 1920s as combining (sometimes in an awkward way) elements of nationalism with pragmatic “business as usual” strategies. On many issues, e.g. suppression of German capital; the buildup of strategic branches of industry; protection of domestic industry from foreign competition; representation of CS business abroad; and export promotion through intergovernmental negotiations – CS capital sought close cooperation with the Czechoslovak state and requested direct assistance. On other issues – like monopolistic manipulation of prices on the domestic protected market and cartel agreements with domestic as well as foreign firms; abuse of public regulation of foreign trade; limited cooperation on establishing economic relations according to priorities of CS foreign policy – the goals of political authorities were not taken into account very much.

Regarding the domestic political priorities of the government, it is useful to note that in first years after war, it was socialist parties that gained the strongest support of CS citizens. After legislative elections in 1920, the CS Social Democratic Workers’ Party, followed by Catholic CS People’s Party (with – by then – a strong social program); third was the German Social Democratic Party of Workers in Czechoslovakia, followed by the Agrarians and the CS Socialist Party. It is thus self-evident, that for Tusar’s government (1919-1920) social issues – above all providing basic necessities and employment for a broad swath of society – were the highest priority.

As is evident from the results of our research, most of the criticism related to trade policy issues and the greatest concerns of leftist parties (manifested in parliament, its committees, proposed legislation etc.) were securing export opportunities for domestic industry and the fact that the mechanisms of foreign trade regulation were possessed by private stakeholders and used for their own advantage. It was socialists who on several occasions advocated deregulation of international trade (on imports), and broadly criticized the particular way in which the protectionist policy of CS industry was carried out. For the socialists, one this that was particularly outrageous was the strategy of CS industry attempting to bypass regulations on foreign trade and export necessities (e.g. raw materials, shoes, and clothing) which were in very short supply in order to exploit exchange rate fluctuations and high prices abroad. Alternatively, industrial firms and agricultural producers were often accused of hoarding their production in order to avoid selling for relatively low prices on domestic market that resulted from export regulations or administrative measures (R. Klein, 6/15/1920; CR 6/14/1920).

Regarding foreign trade and economic policy priorities, as we already noted, the priority of the CS government was to establish or significantly strengthen economic ties to Western European countries and possibly also the US and reorient the CS economy away from successor states of the AHE and the German Reich.

As we mentioned above, it was the director of ZB, Jaroslav Preiss, who was entrusted with formulating the economic program for newly-independent state. The leading role of ZB was given by its dominant position in CS capital circles and close personal ties with key political figures of the newly independent state: Preiss' relationship with the CS's first Prime Minister, Karel Kramář, was particularly close; one lawyer of ZB, Alois Rašín, become Minister of Finances; other managers of ZB – Augustin Novák, and Bohdan Bečka were also Ministers of Finances; and two directors of ZB, Jan Dvořáček and Ladislav Novák become Ministers of Industry. The dominant position between CS banking and financial institutions was given by the fact that the second largest CS bank – Czech Eskompt Bank – entered into agreement on cooperation with ZB and closely acted in concert against the rest of the Republic's financial institutions.

Consequently it was ZB – as the most important CS banking house and capital center – that led the Consortium for Credit Operations of the CS state. The goal of this institution was to manage the foreign loans for the CS made by UK and US banks in 1922 and 1924; US loans to CS in 1925-1926; and a French loan to CS from 1931 (Kaucká, Půlpán 2007).

Jaroslav Preiss and ZB in the first years after the war intensively participated in CS activities abroad – especially those of foreign minister Edvard Beneš, for whom intensive trade and capital relations and property holdings of French and UK capital in CS were the highest priority of CS foreign economic policy.

In 1919, ZB even achieved the position of agency exclusively managing UK exports into CS. However, when Ward's Investment Group expressed an interest in investing in ZB, it was refused (Novotný 1983: 97). The same was true about a proposal of another UK investor, Reilly's Financial Corporation, in 1921. An offer of investment by the French Banque l'Union Parisiénne – and respectively its subsidiary, the arms concern Schneider et. Cie – from 1920 was also declined. ZB was also able to block the French attempt to enter into property structures of another notable CS bank: Hospodářská úvěrní banka (Novotný 1983: 40). Nevertheless, Schneider bought share in Škoda works from the CS government. Regarding French capital involvement in CS, ZB was also able to block a large loan from Societé General to Prague Credit Bank; it was also involved in bitter struggle over influence in a major mining and metallurgical company, Mining and Metallurgical Company in Teschen.

In 1919 and 1920, US capital (Guaranty Trust Company) attempted to invest in ZB as a key CS financial and industrial concern; its offer was also declined. The ZB already in 1919 had successfully blocked a plan to establish an affiliate in Prague by First National City Bank from the US (Lacina 1990: 153-154). As we noted above, CS financial groups and industry – on other hand – participated in Reich Germany-led cartels, and cooperated with Reich German and Austrian financial houses (e.g. ZB signed memorandum of cooperation with Deutsche Bank and enterprises from the ZB consortium were heavily involved in cartels in the German Reich). This was all to a much larger extent, than it was true in the case of French, UK, and other Western European and US businesses (Lacina 1990: 135). All this directly conflicted with the foreign policy priorities of the CS government and led gradually to strained relations between the so-called “Castle group” (an influential political group including above all of President Masaryk, and many other influential figures critical of political parties and their clients – e.g. Ministers Beneš and Engliš, and Prime Ministers V. Tusar and Černý) and ZB (Balík, Hloušek 2003: 64-65). Gradually the “Castle group” had started to openly support the Pragobank and Anglo-Czechoslovak bank as a potential counterweight to ZB (Vencovský et al. 1999: 248).

The importance of agrarian capital also grew over the course of the 1920s. Its center was the Agrarian Bank, which later became an important financial and industrial concern. As we mentioned earlier, one important pillar of CS foreign policy was cooperation through the Little Entente (CS, Yugoslavia, Romania), originally meant to contain the Hungarian revanchism, but – even more importantly – it was the main instrument for the promotion of economic relations after the dissolution of the AHE in CEE, most importantly as a channel for CS industrial exports. It cannot be overstated how damaging the agricultural tariffs enforced by agrarian capital and the Agrarian Party were for this goal and strategy of CS economic policy.

Particularly consistent in market limiting practices were capital groups in metallurgy. The domestic market was divided between producers, and production was regulated by production quotas assigned by cartel agreements to individual firms. The “Big Three” – Vítkovice Minning and Foundry Works in Ostrava, Mining and Metallurgical company in Třinec (a part of ZB concern), Poldi’s Ironworks in Kladno (also a part of ZB concern) – represented 98% of iron and 76% of steel production of the CS economy by 1929. These firms were through the “Associated Ironworks Shop” members of international iron and steel production cartels (Hexner 1935; Pátek 1995: 308). In engineering enterprises another three firms were dominant and attempted to dominate the domestic market and participate in international cartel organizations: Škoda (owned together by the CS state and the French firm Schneider since 1919), Ringhoffer’s enterprises (part of the ZB concern) and ČM/ČS Kolben-Daněk (also included in the ZB concern). The cartel agreements were later (in 1927) introduced into the chemical industry, where the ZB concen included top firms: Spolchemie, Explosie, Synthesia, and others. Another cartel agreement was concluded in the sugar industry (1927), where a Czech company for the sugar industry, and the Schoeller sugar refinery were included under the ZB umbrella. The ZB group also included the most important textile industry enterprises: Mautner’s textile industries and Henrych and Son.

There was an apparent continual process of the growing importance of heavy industry (e.g. ironworks; engineering, machine building; the electrical industry) at the expense of light industry (e.g. cotton and linen spinning; wool, cotton, and linen textiles; glasswork; porcelain production) and food processing (e.g. sugar, beer) industry in the 1920s. By disintegration of the large protected market of AHE, the mining industry (lignite (brown coal), iron ore) was hit hard; not only did it lose markets but also it was confronted with higher productivity of importers (better coal seams gave Poland a significant competitive advantage). It is impossible to isolate the influence of one particular trade policy of CS and number of other important factors. Nevertheless, the historical dominance of the light consumer goods industry was never reversed; while 1913 production levels were reached in heavy industry by 1924 – light industry never caught up (Průcha 2004: 161; Olšovský, Průcha 1968: 183). Outstanding growth of production took place in the production of electricity; automobiles and motorcycles; tractors; cement; electric and other machinery; and in chemistry (Jakubec 1995: 323). But these were exactly those industries, which received the highest administrative and tariff protection from – generally – much more effective producers in Reich Germany, Western Europe, and the US. The much discussed issue of protection of domestic car producers is illustrative, with three notable firms in the CS: Škoda; ČS Kolen-Daněk, Praga; and Ringhoffer, Tatra). Their products were on a lower level technologically, were of rather solid quality, but were uncompetitively expensive. The limited domestic (and monopoly) market was one of the reasons – average series consisted of only 700 cars a year; the total sales on CS market were about 14,000 cars per year. The production costs were twice of what was true for Western Europe (and costs of Western Europe were about twice as high as in the US) (Jakubec 1995: 325).

6. The Political Process in Czechoslovakia and the Position of the Main Political Parties

There are well-known concerns about the quality of CSR democracy during 1920s. Most authors agree that the role of the unofficial, non-constitutional institution of the "Committee of Five" (consisting of the leaders of the five most influential parties: Rudolf Bechyně, of the Social Democrats; Alois Rašín, of the nationalists; Jiří Stříbrný from the socialists; Jan Šrámek, from the (Catholic) People's Party; and Antonín Švehla, from the agrarians), significantly interfering in the legislative and executive process, was the result of two main factors: the fragmentation of polity and an atomized party system. The fundamental cleavage in CS politics was one of nationality. Czechoslovak interests cooperated despite ideological differences, claiming it necessary in order to defend the nation against disloyal German and Hungarian minorities. This is the reason for the existence of the parallel system of CS and German political parties, as well as the success of other parties gaining support from a single national group (Slovak nationalists, Hungarian parties). The proportional electoral system was also not very helpful (Balík, Hloušek 2003: 52-54, 60-61). The number of parties represented in parliament was very high (16 parties in the Assembly in 1920 and 15 in 1925); the political relevance of many of them limited. The coalitions were therefore regularly formed from parties of same nationality (CS) but without any ideological proximity.

There is no doubt that this situation contributed to the shift of the locus of power away from the Assembly. It is a fact that it was in the executive branch (including the informal but fundamentally important Committee of Five) where policy was formed and on which the pressure groups focused. In case of trade policy, this simply meant that most important measures were implemented by government regulation, often on the very border of constitutionality. The industrial tariffs were introduced through the Government regulation. The only exception was the increase in tariff rates on automobiles, which was introduced as an MP's proposal and was approved by the Assembly. Similar situations occurred in cases of trade treaties – these were put into operation provisionally on the base of enabling acts. What is more, the treaties were usually submitted with significant delays, often of half a year (during which economic actors from both countries were conducting business according this treaty); this made parliamentary approval a mere formality (e.g. K. Kostka, A. Holitscher, 9/25/1924; R. Fischer, 4/24/1923; J. Netolický, 12/19/1924). Another example was an MP's proposal of agricultural tariffs – the most discussed and controversial issue regarding any aspect of trade policy – which (according to the official records) never appeared on the agenda of CS government. Of course, these practices were widely criticized by the opposition (J. Netolický, I. Dérer, R. Tayerle, A. Chalupa, 6/10-11/1926).

We have already mentioned the comparatively very strong influence of business interest groups on economic and trade policy. Personal ties to business were strongest in the case of the *National Democrats*. This party was truly based on Czech capital and industry. The main objectives were the establishment of an independent CS economy, taking control over industry and capital on the territory of the state by Czech business groups (i.e. nostrification). They attempted to justify strong regulation of foreign trade and high protectionist barriers for domestic industry on the grounds of distorted exchange rates (leading to unfair competition from countries with deeply devalued currencies) and due to inadequate tariff protection as a result of CZK devaluation (the alleged goal was therefore to bring the level of protection back on the pre-war level). In the case of certain strategically important industrial sectors (e.g. automobiles, airplanes, electrical machinery), they argued that it was necessary to protect the domestic industries, whenever it could be claimed that they would be able to produce given products (although with lower quality and/or for a higher price) (e.g. EM 11/6/1920). The representatives of the National Democrats in Parliament were – on trade-policy issues – rather inactive, with the logical exception of presenting government proposals as members of relevant committees. Based on our research, we disagree with the largely accepted view that the National Democrats represented a party with a liberal economic program, and certainly not in the case of trade policy.

Both *CS Social Democrats* and *Socialists* expressed concerns about the availability and the high prices of goods on domestic markets, and the competitiveness of CS industry because of workers' employment. But based on our research, we believe it can be said that the criticism focused on behavior of domestic firms (hoarding, monopoly practices, attacks on wages; F. Modráček, 4/5/22) rather than on the conceptualization and practice of foreign economic and trade policy. The situation fundamentally changed after "the Gentry Coalition" was formed – that is, during the discussion concerning agricultural tariffs. These were identified with an increase in prices of basic necessities, pressures on production costs of industry, their inability to compete, and consequently the threat of unemployment. Criticism also focused on the utilitarian character of the coalition and the way in which policy was asserted. Even though the government was formed to address the particular issue of agricultural protection, it never explicitly expressed its position on this issue. Criticism also focused on the purpose-built character of the coalition and the way in which the agricultural tariff proposal was being enforced (while it was arguably the main reason for the existence of this coalition, government never delivered its opinion on this issue).

The true opposition to the government policy regarding foreign trade was undoubtedly the *German Social Democrats*. In the body of literature dealing with the CSR in the interwar period, the German Social Democrats have been considered to be disloyal to the CS state and therefore "anti-system" opposition. However, based on our research, we are confident to conclude, that concerning economic and trade policy, the German Social Democrats followed a consistent position in which they always argued in favor of the (entire) national economy (and above all of industry) of the Czechoslovak Republic (e.g. Hackenberg, 6/15/1920). Their main theses were the imprudence of interrupting traditional trade relations between the successor states of AHE and securing outlets for export industry through diligently negotiated trade treaties with neighboring states (above all Austria and the German Reich, Poland, and Hungary) (R. Fischer, 4/5/1922; J. John 7/8/1925). As we noted above, both these points were fully consistent with recommendations and preferences of the Entente states. German Social Democrats criticized the lack of interest of CS decision makers regarding the promotion of export industry and the prioritization of protection of heavy industry through high tariffs and manipulation of administrative system of trade foreign trade regulation by stakeholders (in their view, both policies were likely to provoke retaliatory measures by trade partners). They were also very critical of the one-sided orientation on trade negotiations with Entente – with who the CSR had limited economic relations and who also negotiated the agreements very pragmatically (see. Wandycz 1962: 198 ff.; e.g. F. Palme, 12/13/1923). The positions of the German Social Democrats on agricultural tariffs were identical with CS Social democrats and Socialists. It is interesting, that there was no apparent difference between the arguments of German Social Democrats' representatives and those of other German parties. The only politicians of German parties which participated on the parliament discussion of foreign economic and trade policy before 1926 were Karl Kostka (representing liberal German Freiheitspertei; e.g. 6/16/1920) and Josef Böhr (German Christian democrats; e.g. 2/13/1923). It is logical that limited inputs into discussion of agricultural tariffs by German "activist parties" (those involved in Gentry coalition: German agrarian party and Christian peoples' party) were consistent with positions of Czech agrarians and Catholics (e.g. F. Budig, 6/11/1926).

The party of *Agrarians* was only active in trade policy related issues to a rather limited extent. As we already mentioned, in first few years after the war, agrarians argued in favor of free trade (J. Kubíček, 6/16/ 1920), while the prices of agricultural products were high and unlimited exports would also allow them to benefit from exchange rate differences. Similar arguments could be heard from the Czechoslovak Traders' party – a smaller political ally of the Agrarians (R. Mlčoch, 12/12/1923; F. Horák, 8/6/1921). They both criticized industrial protection, which according to them increased the cost of living of farmers (e.g. higher prices of cloth, shoes) and decreased their competitiveness (e.g. agricultural machines, fertilizers). In the case of agrarians, the situation changed fundamentally with the fall of agricultural prices on world markets and imports into the CSR. They stressed the imbalance between the level of protection of industry and agriculture (e.g. R. Böhm 6/9/1926; J. Petrovič 6/10/1926), and (in a similar manner as the industrial protectionists) pointed out that CS producers were working in less favorable conditions than competitors (i.e. on intensively cultivated soil that had been depleted from years of farming; e.g. J. Zadina; F. Heller 6/10/1926). Moreover, the higher earnings of farmers was said to lead to higher consumer demand for products of industry (A. Jiráček, 6/10/1926). The allegations, that the particular design of tariffs would be beneficial only to the larger grain producers were dismissed as false.

Regarding the CS *Peoples' Party*, a party representing the interests of Catholics, we believe it is justifiable to conclude that was not involved in the discussion and did not have clear preferences or a program concerning trade policy. Regarding agricultural tariff issue they echoed the arguments of Agrarian party (e.g. J. Krejčí, 6/10/1926).

Table 13. **CS Government coalitions in 1920s** (simplified for clarity)

Type of coalition and prime minister	**Participating parties**	**Period**
National K. Kramář (National Democrats)	- National democratic (CS) - Agrarian (CS) - Social democratic (CS)	November 1918 – July 1919

	- Socialists (CS) - Catholic (CS)	
Socialist-agrarian V. Tusar (Social Democrats)	- Social democratic (CS) - Agrarian party (CS) - Socialists (CS)	September 1919- May 1920 May 1920 – October 1920
Caretaking government J. Černý (independent)	- Support of parties of *national coalition*	October 1920 – October 1921
National E. Beneš (National social party)	- Social democratic (CS) - Catholic (CS) - Agrarian (CS) - Socialists (CS) - National democratic (CS)	October 1921 – July 1922
National A. Švehla (Agrarian party)	- Agrarian (CS) - Social democratic (CS) - Catholic (CS) - Socialists (CS) - National democratic (CS) - Trader's (CS) (*since December 1925*)	July 1922 – December 1925
Caretaking government J. Černý (independent)	- Support of parties of *Gentry coalition*	October 1920 – October 1921
Gentry coalition A. Švehla (Agrarian party)	- Agrarian (CS) - Catholic (CS) - Agrarian (German) - Nationalist and catholic, Peoples party (Slovak) - Christian democratic (German) - Trader's (CS) - National democratic (CS)	December 1925 – January 1929

Table 14. **CS Legislative election results 1920 and 1925** (simplified for clarity)

Political party	**April 1920**	**November 1925**
Social democratic (CS) - Communistic (CS)	25.7% (74 mandates) -	8.9% (29) 13.2% (41)
Catholic (CS) - Nationalist and catholic, Peoples party (Slovak)	11.3% (33) -	9.7% (31) 6.9% (23)
Social democratic (German)	11.1% (31)	5.8% (17)
Agrarian (CS)	9.7% (28)	13.7% (45)
Socialist (CS)	8.1% (24)	8.6% (28)
National democratic (CS)	6.3% (19)	4.0% (13)
National social (German)	5.3% (15)	2.4% (7)
Nationalist and catholic (Slovak)	3.9% (12)	-
Agrarian (German)	3.9% (11)	8.0% (24)
Christian democratic (German)	3.0% (10)	4.4% (13)
Christian social (Hungary – German)	2.2% (5)	-
Trader's (CS)	2.0% (6)	4.4% (13)

7. Conclusion

In this paper we attempt to explain the particular nature and evolution of trade policy of the CS in the 1920s. We have attempted to describe the logic behind the counterintuitive development of trade policy in this case – of a small, export-dependent, natural-resources-scarce economy – an industrial economy which in few years becomes one of the most protectionist industrial economies in Europe. We followed the process of slow partial removal of regulation of foreign trade, the replacement of these regulations with high industrial tariffs, and what's more – the introduction of high agricultural tariffs in 1925 and 1926 (see F. Petrovický: 6/10/1926). This last step could be considered to be the culmination of the trend of the closing of the CS economy, gradually changing from a notable consumer goods exporter towards a protectionist, self-subsistent industrial-agrarian state. This occurred all in an otherwise rather favorable context of regional and world economic boom, and gradually improving political relations with both allies as well as rivals. In context of (still) solid export performance and trade surpluses, in an economic environment free of inflation pressures or unmanageable foreign or internal debt issues – well before the signs of upcoming world depression could be apparent. We argue that the case of CS's trade policy in the 1920s is illustrative about two issues: the overriding importance of nationalism and the role of capital.

Phenomena of nationalism were all-encompassing. In context of economic and trade policy there were relatively few considerations paid to the vital interests of the consumer–goods industry. The CS economy was deliberately isolated from its traditional markets by closing up the borders, a system of complex administrative regulation of imports, and a consistent government policy of restriction of economic relations with successor states of the AHE and the German Reich. It is very difficult to conclude, how important the fact that most traditional light export industry was in the hands of Germans and in border regions in close proximity of the German Reich and Austria was for the formulation of these policies. The move towards a higher degree of economic self-sufficiency – and therefore need to build up the heavy industry that the CS was "lacking" – was considered a commonsense necessity in order to ensure the viability of the nation. Needless to say, it is heavy industry (e.g. iron, steel, machinery, engineering, chemistry) which was – and still is – traditionally associated with power of the state.

Regarding the role of capital, we focus particularly on its tendency to capture the public regulatory mechanisms and use them to its own advantage. Capital in the CS closely collaborated with political leaders; it had a major influence on economic and trade policy. In contrast to a significant part of economic literature, was very comfortable with the existence of heavy and complex regulation of foreign trade in the CS. It was also able to enforce policies, which were in stark contrast with the manifest interests of the majority of domestic industry (light and export industry) and also the general public. After the leading CS capital group gained control over the core of the CS economy, it exchanged the perspective of national interest and argumentation (e.g., nostrification; cutting off the influence of Austrian and Reich German capital; see Lacina 1996: 117) for going into a "business as usual" mode of behavior. On the other hand, on the monopolistically controlled (via high tariffs and administrative regulation) domestic market, they used cartel agreements to protect themselves. This also occurred on the international market through cartel agreements with the "political" rivals of the CS.

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