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The Basic Traits of Economic Development in Slovakia during the first Czechoslovak Republic

Slovakia, with its wealth of natural resources and cheap workforce, belonged to the territories of Hungary with the best conditions for a developing industry. Thanks to this fact, there was a great increase in the number of industrial companies, which employed a high number of workers. The growth of industry in the 20th century, and especially before the First World War, was much more dynamic than in any other parts of Hungary.[1]

The methods of industrialization and the support of industrial growth from the highest Hungarian circles had an effect on the structure and the ownership of the Slovakian industry, with special regard to the light industry as well as to the food one. The advantages created by the Hungarian government in order to develop the industry were rarely used by the businessmen of Slovakian origin (their share in the total capital invested in corporations was about 2%). Despite the fast economic growth before the Fist World War, Slovakia was still an undeveloped agricultural country in the post-war period, in which the industry employed only 18%, and the agriculture 60% of the productive population. The Slovakian industry was very weak against Austrian competition and was dependent upon the help of the government.[2]

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[1] Strhan, p. 203.

[2] Strhan, p. 204.

On the other hand, the Czech territories, being a part of the more advanced Austrian part of the HABSBURG Monarchy, became the industrial arsenals of the empire. Before the First World War, over 50 percent of the industrial potential of the monarchy were concentrated on the Czech territories. From an economic point of view, the Czech industry was strong, however, most of this strength came from the light industry as well as from the metallurgical and machine sectors. The industry's consumer was mainly the internal market of the monarchy, but steps were also made to bring products with a competitive edge to the world market.[3] This goes to show that the Czechoslovak Republic was formed from two unequal parts: the agricultural Slovakia and the industrially advanced Czech territories. The different levels of economic development of Slovakia and the Czech territories led to economic differences between them for centuries, which was mainly obvious during the era of industrial development.

After 1918, the industry in Slovakia became an inseparable part of the industry of the Czechoslovak Republic. The first two years of the independent Czechoslovakian state was a time of the effects of the world war on the world industrial production. Companies were reoriented on civil industry, manufacturing machines became worn out and were almost destroyed, the administrative and transportation system was in a disorderly state, the interconnected industrial system used during the war was continued, and a fight was started for the political character of the republic: all the above factors exerted an impact on industrial production in these years. In addition, it is important to emphasize that these factors had a much greater negative effect on the Slovakian industry than on the industry in the Czech territories. Since the declaration of the Czechoslovak Republic in 1919, Slovakia represented an arena of fights over the question of Slovakia's part in the republic. Between May and August, the Hungarian Red Army invaded a large part of Slovakia, therefore Slovakia was greatly damaged by military operations. If we add to this fact that there was a considerable lack of energy and fuel and the railway was in disorder, we can see that the conditions for manufacturing were very hard. Due to this, most of the industrial companies did not start production until the end of 1919. This largely influenced the amount of manufactured goods, which dropped below the standard level of the previous war year.[4]

The effects of some negative factors, especially the malfunctioning of the transportation system, became a reality also in the following year. However, on the whole, we can say that manufacturing began to rise from 1919. The destruction of great collateral values during the world war

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[3] Faltus, Prucha (a), p. 27.

[4] Faltus, Prucha (b), p. 16.

created a lack of industrial products. The great demand, the lack of finances and high inflation led to the construction of new factories, in Slovakia particularly wood processing and construction works were set up.

The economic growth was interrupted by the economic crisis in the summer of 1921. The crisis due to overproduction hit the world economy already in 1920. Since 1921, the first signs of this crisis hit the Czechoslovakian industry. This crisis was made worse by two factors: the great dependence of the Czechoslovakian economy on exports as well as on deflation. The republic inherited a 75% economic potential and 25% of the inhabitants after the old monarchy.[5] Even though the purchasing power of the population in total was slightly larger than in the old monarchy, and the Czechoslovakian industry could only place a minor amount of its products on the inner market. The rest went out for export directed to the traditional countries: to the countries of the old monarchy, as well as to the states of Eastern Europe and the Balkans. The great inflation in these states, their attempt to surround themselves with customs borders and, under their protection, to build a strong industry, and the fierce competition with other western European industries (mainly from Germany) all had an effect on the drop of exports into other states. Even reorienting the exports to western markets did not compensate the drop in exports, so finally the exports totally decreased owing to the above facts. The deflation system, which also influenced the exchange rate of the Czechoslovakian Crown, had a large impact on this decrease. The increase of the financial course had a final effect on the prices of industrial products, which meant that the prices went up heavily, and this resulted in a further cut in the exports to the world markets. These facts had a negative influence on the entire industry of the Czechoslovak Republic. This crisis reached its peak at the beginning of 1923, when the unemployment rate reached 440 000.[6] Once again, the crisis in the years 1921 – 1923 turned out to be more difficult for Slovakia than on the Czech territories. The decrease of the internal market meant that the Slovakian industry had to compete with the Czech industry even more than ever before, and was pushed out in the final effect. Besides, further negative factors influenced the decrease of the Slovakian competition on the internal market, for example, the ineffective and expensive railway and transportation, the lack of loans, the high interest rates on existing loans as well as the high taxes. These factors resulted in a massive decrease of the Slovakian competition on the internal and foreign markets, the problems with demand were rising and soon the Slovakian industry had to face the problem of overproduction.[7] The metallurgical industry, the

[5] Strhan, p. 206.
[6] Strhan, p. 207.
[7] Faltus, Prucha (a), p. 209.

machine industry and mining were worst hit by this crisis in Slovakia. In 1922 the exploitation of iron ore decreased to 20% of the amount reached in the year 1913, and the production of metal kyz was completely stopped in 1923.

The crisis in the Slovakian industry lasted longer, therefore the first visible sign of improvement began only in late 1924. Production in all branches of the Slovakian industry increased from this year until 1929, with the exception of a decline in the crisis year, 1926. The increase in manufacturing is only one side of the development of the industry in the years of provisional stabilization. The other question is whether the Slovakian industry went through a boom.[8]

The total increasing trend of the Czechoslovakian economy came to a halt in 1929. The decrease in production hit all the branches without exception, although not to the same extent. The crisis affected annual production, which dropped to 40% of the standard level and brought the state of the Czechoslovakian economy to the period of the beginning of the 20th century. Compared to other countries, the Czechoslovakian economy was affected exceptionally hard by the crisis. Since a large part of the Czechoslovakian production went for export, the stock market crash cut manufacturing down to 37%, and the world export to 66%. The Czechoslovakian goods represented a considerable competition thanks to good quality and cheap workforce. Low pay was the factor that created a relatively low level of consumer demand even before the economic crisis. A catastrophic unemployment rate and the large pay cuts during the crisis lowered the conditions for the home market demand. In addition, at the same time several other factors influenced the economy. The crisis mainly hit upon the agriculture, which was one of the head branches of the economy, therefore this fact made the industrial crisis even worse.[9]

The crisis influenced the Slovakian industry especially hard. During this severe period, the production of raw iron was completely stopped, accompanied with a huge decrease in the mining activities. Chemical manufacturing also declined rapidly.

The main impulse towards revitalizing the Czechoslovakian industry came in 1934 and its increase in the following years was due to armament production. This had an impact especially on the growth of the machine industry, metallurgical industry and construction. On the other hand, the decrease of the living standards and numerous customs barriers entered into force in order to protect home producers and exerted a negative effect on the light industry. The preparations for war were the main goal of the Slovakian industry. At that time there was a rapid increase in mining,

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[8] Strhan, p. 209.

[9] Faltus, Prucha (a), 210.

metallurgy, machinery, construction and chemical industry, while this development was not so visible in the branches of light industry.[10]

The threat represented by the Nazi Germany led many representatives of the state to suggest moving some of the armament factories to the newly built Slovakian factories. During these hard times, the establishment of new factories was necessary purely for economic reasons, i.e. to create better manufacturing conditions in Slovakia. The transportation differences between Slovakia and the Czech territories were ended by building new railways, by unifying pay rates as well as by building new roads, highways and communication systems. The increase of electricity production reached about 20% and it was larger than the increase in the other parts of the republic. The electrification of transportation led to lower-priced transportation and this meant cheaper industrial production, which resulted in a better competition capability of the Slovakian industry. Investors were attracted to Slovakia mainly because of its inexpensive workforce. During this era, mining in Slovakia became more efficient[11] and more organised.

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[10] Strhan, p. 210.
[11] Strhan, p. 210.