Chapter 13

THE WATERSHED MOMENT OF EASTERN EUROPE'S INTERWAR

Klaus Richter, Jasmin Nithammer, and Anca Mândru

The fall in agricultural prices, the collapse of global trade, and the Central European banking crisis had a catastrophic impact on Eastern Europe. However, although the Great Depression caused profound economic damage, it is impossible to insulate its chronology from the broader interwar crisis that stretched from the end of World War I to the beginning of World War II. World War I had shattered Europe's very economic foundations. In Eastern Europe, this was aggravated by the dramatic territorial reconfiguration brought about by imperial collapse and the postwar peace treaties. Bulgaria lost its granary, Dobruja, to Romania. Austria and Hungary were cut off from the former Habsburg Empire's industrial heartlands. Poland's territory consisted of vastly different developed regions. Outside of the region, this trend toward smaller territories and smaller economic units was interpreted as depreciation, particularism, and irrationality and, increasingly, as a problem that affected the economic recovery of Europe more broadly.

Eastern Europe's agricultural depression began before the Wall Street Crash. In 1927 already, the League noted a dramatic widening of the scissors between prices for manufactured products and agricultural prices, leading to a pauperization of rural producers. Moreover, additional factors, such as the Soviet Union's entry into the European timber market, make it difficult to discern the exact causes for economic dislocations. However, the authors of this volume have shown that, across most of Eastern Europe, the depression was initially regarded as a limited event. This changed by 1932, as no signs of recovery came into sight: The Great Depression was now considered an existential threat to states and societies, a disaster that the "small" states of Eastern Europe had become fully embroiled in, with little agency to influence its outcome. As international cooperation ground to a halt, the depression seemed to confirm what Eastern Europeans had suspected all along: that their fate was decided by the Great Powers, who undertook no meaningful efforts to address the root causes of the downturn. As the world economy recovered from 1934, Eastern Europe recovered, too, but for much of the region, this came at the cost of an increasing economic dependence on Germany, which would translate into a gradual—and then rapid—loss of sovereignty.

Focusing on the subjectivities of the depression and perspectives from within Eastern Europe provides us with a much clearer view of how the crisis changed the way Eastern Europeans viewed the world and their future prospects. Responses to the crisis were shaped by predictions of its duration, expectations toward a future recovery, and broader political and social contextualizations of the crisis. Zachary Doleshal has shown that the business strategies of Czechoslovak shoe manufacturer Bat'a and their US counterpart Endicott-Johnson in the face of the crisis differed dramatically, with the former embracing globalization and the latter protectionism. As Boris Nenovsky and Tsvetelina Marinova have demonstrated, Bulgarian economists and bankers were less concerned by their country's financial situation than they were by the fatalistic rumors that spread through Bulgarian society—Bulgaria's depression was certainly an economic depression, but it was also a psychological crisis of Bulgarian society.

The Great Depression thoroughly transformed Eastern European states and societies. Existing scholarship has stressed that the depression furthered "the idea of increased state responsibility and control over the social safety net."[1] This book has further demonstrated that the welfare state was both expanded and contested during the depression. As Béla Tomka has shown, Hungary's recovery from the depression was accompanied by the expansion of social rights of workers and the extension of the welfare system to the countryside. The 8-hour working day was introduced, as well as a considerable education allowance. Yet the depression also led to

1 Tomasz Inglot, *Welfare States in East Central Europe, 1919–2004* (Cambridge: Cambridge University Press, 2009), 59.

substantial cuts in welfare, especially in those countries that were the hardest hit. In Austria, plans to abolish all social insurance benefits were considered, yet the 1935 social insurance law limited itself to reducing pensions and the eligibility for unemployment benefits and sick pay. In Romania, as Alexandra Ghiț has revealed, austerity measures, introduced as a condition for a stabilization loan of the League of Nations, led to a significant reduction in pensions and welfare provisions. This erosion of social systems translated into heightened support for the extreme right.

The transformation of the relationship between states, majority nationalities, and national minorities has traditionally been framed as a result of increasing xenophobia (especially anti-Semitism) in the context of the failure of democracy and the rise of authoritarianism and totalitarianism.[2] However, as the authors of this volume have shown, the Great Depression had a much more immediate impact on the multiethnic fabric of Eastern Europe. Some national minorities, like Belarusians and Ukrainians in Poland, who mostly worked in agriculture, were disproportionately hard hit by the depression. Moreover, in large parts of Eastern Europe, national minorities were concentrated in specific sectors, especially trade and sometimes industrial production, which made them a target for policies that aimed at furthering the national character of the states of Eastern Europe. Katja Wezel has shown how the centralization of the economy in the hands of the government and the "Latvianisation" of the economy were "two sides of the same coin": As the Latvian government brought Baltic German- or Jewish-owned key industrial enterprises under its control, it put ethnic Latvians in charge of running them. Although this policy catalyzed after the 1934 authoritarian coup of Kārlis Ulmanis, it was put in place as a key component of post-1918 state-building already. In Lithuania, as Klaus Richter argues in his chapter, the government pursued a similar policy

2 Stephan M. Horak, *Eastern European National Minorites, 1919–1980: A Handbook* (Littleton, CO: Libraries Unlimited, 1985); Jeffrey S. Kopstein and Jason Wittenberg, "Beyond Dictatorship and Democracy: Rethinking National Minority Inclusion and Regime Type in Interwar Eastern Europe," *Comparative Political Studies* 43, no. 8–9 (2010): 1089–118; Sabrina P. Ramet, "The Failure of Democracy-building, the Fate of Minorities: An Introduction," in *Interwar East Central Europe, 1918–1941*, ed. Sabrina P. Ramet (London: Routledge, 2020), 1–34.

throughout the depression, often in opposition to the very different demands of those groups that were conceived of as the beneficiaries of "Lithuanianization."

Jerzy Łazor has shown that such policies probably went furthest in Poland, where Jewish merchants came under increased pressure by Christian competitors once the depression had hit. Companies owned by national minorities were under constant threat of state takeover. After the death of Piłsudski in 1935, economic anti-Semitism became an accepted political agenda, as the state officially condoned anti-Jewish boycotts. In Hungary, the experience of the depression directly fed into state control of financial institutions through the hiring of bank directors, which was in practice used to exclude Jews. The Law on National Defense in Czechoslovakia was specifically used to target enterprises owned by German speakers. Not least, such measures were legitimized with reference to the alleged role of national minorities as "foreign agents." In Estonia, the Baltic German bank director Klaus Scheel was often portrayed as either a stooge of the German government or as a Jew who felt no loyalty toward the Estonian state. However, these "nostrification" policies also provoked circumvention efforts. For the Czechoslovak shoe manufacturer Bat'a, a "nationally indifferent" company town, where German and English could be heard alongside Czech and Slovak, was existential for its success as a company that conceived of itself as global and that acted as such. In Latvia, the mighty Riga Exchange Committee managed to avoid nationalization by appointing a president who was equally respected among Latvians and Baltic Germans.

The Great Depression fundamentally transformed the relationship of Eastern Europe with the international order. The states of Eastern Europe considered a system based on international cooperation fundamental to the protection of their own sovereignty, which reflected in their enthusiasm regarding the work of the League of Nations and the possibilities of economic cooperation and foreign investment. In rare cases, this enthusiasm survived into the 1930s, as Bat'a expanded its global activities due to the limitations imposed by the small Czechoslovak domestic market (its US counterpart Endicott-Johnson proved too consumed by its own, much larger domestic market, to consider becoming global). However, in most of Eastern Europe, this enthusiasm had dampened in the 1920s already. The League's work was increasingly regarded as colonial in nature and the rosy promises of foreign investments never materialized. International investors regarded Poland as too insecure and volatile a market, which resulted in foreign takeovers of Polish companies rather than greenfield investments. In the run-up to the depression already, the Polish public viewed foreign ownership as a threat to national interests. "The profits are someone else's, the losses are ours," Polish novelist Paweł Hulka-Laskowski wrote.[3]

If these tensions were boiling under the surface in the 1920s, they erupted during the Great Depression. The League, in its failure to understand the implications of national sovereignty in the region, increasingly demanded one-sided concessions from the states of Eastern Europe and blamed their leaders for obstructing Europe's recovery. Demands from within the region to allow preferential treatment for agricultural exports were rejected, only to be implemented one-sidedly by the Great Powers themselves later, as in the case of British Imperial Preference. The League's mediation of stabilization loans came to a halt: While Austria and Romania received new loans on the precondition of accepting budget supervision through a League advisor, Estonia's national bank refused League supervision, stressing that the League's advice had caused Estonia's gold losses. In the most extreme case, Greece rejected a stabilization loan and defaulted on its debts. As Catherine Brégianni has shown, the League's efforts to aid the recovery of European monetary cooperation can only be classed as a failure. The loss of authority of the League directly contributed to the erosion of the most favored nation principle. As preferential treatment and bilateral trade became the norm, much of Eastern Europe moved into Nazi Germany's economic orbit. By the end of the 1930s, Hungary, the first country to conclude a clearing agreement with Berlin in 1934, carried out 40 percent of its entire foreign trade with Germany. As the examples of both Hungary and Bulgaria show, the structural adjustments made to facilitate this clearing trade dramatically enhanced mechanisms and institutions of state intervention.

3 See note 47 in Jerzy Łazor's chapter.

The book has shown that looking at the history of Eastern Europe through the lens of the depression fundamentally enhances our understanding of the dynamics that destroyed democracies and of the broad acceptance of authoritarian rule beyond the traditional explanation of an Eastern European lack of democratic experience.[4] While some countries had turned authoritarian already before the slump (e.g., Poland and Lithuania in 1926), the Great Depression was the decisive event that signaled the end of democracy across the region, with the single exception of Czechoslovakia. It directly led to the 1934 military coup in Bulgaria and the establishment of the Metaxas regime in Greece in 1936. However, as the authors have shown, the end of democracy was not a sudden rupture, but a dynamic process that interacted closely with the depression's downward spiral. In his chapter, Nathan Marcus argues that Austria's depression was so profound and sustained that it damaged the remaining vestiges of parliamentary democracy beyond repair. Perceptions of Nazi Germany's apparent successes in battling the depression enhanced acceptance for Anschluss. In Hungary, Gyula Gömbös's rise to power in 1932 did not lead the Hungarian political class to immediately embrace authoritarianism—but it paved the way for the 1935 dissolution of parliament. In Romania, the failed "open-door" policy enacted by the National Peasant Party undermined the legitimacy of the party and of parliamentary democracy more broadly. In the Baltic States, both Kārlis Ulmanis and Konstantin Päts, who came to power in 1934, legitimized their coups by referring to the democratic governments' inability to overcome the economic crisis—although in both Latvia and Estonia, the economy was by that point already in the process of recovery. Taking ownership of these recoveries decisively contributed to the consolidation of both regimes. As David Feest has shown, the economic crisis in Estonia was connected to a crisis of "our rule," as large parts of the population—not least the Estonian urban middle class, which had emerged only in the 1920s—felt that the post-1918

4 Heidi Hein-Kircher and Steffen Kailitz, "'Double Transformations': Nation Formation and Democratization in Interwar East Central Europe," *Nationalities Papers* 46, no. 5 (2018): 745–58; John Coakley, "Political Succession and Regime Change in New States in Inter-War Europe: Ireland, Finland, Czechoslovakia and the Baltic Republics," *European Journal of Political Research* 14, no. 1–2 (1986): 187–206.

project of building an Estonian state for the Estonian nation was about to fail. This provided the turn to authoritarianism and economic nationalism with a sense of urgency.

The case studies in this volume also contribute to a new understanding of the nature of economic nationalism during the Great Depression and beyond. Whereas traditional historiography has focused on 1930s' economic nationalism as a foreign-trade dogma, the case of Eastern Europe points toward a form of economic nationalism embedded in broader agendas of nationalism.[5] As such, the contributions respond to George T. Crane's 1998 call to "bring the nation back" into the study of economic nationalism, that is, to put the relationship of the state with those conceived of as "the nation" at the center.[6] As the chapter on Poland has shown, the country's policy of taking over "foreign" companies was by no means part of a consistent, coordinated policy, but rather a response to the dislocations of the depression: In a move of "forced statism," the government took over companies because no private buyers were available. As Vojislav Marinković's impassioned speech at the League of Nations showed, the states of Eastern Europe, fearing for a loss of their sovereignty in a hostile international environment, felt they had little choice but to protect their markets. Although a consensus emerged both among economists and the broader public that the state was the only actor that could overcome the economic crisis, many business owners, as the case of Latvia has shown, were deeply dissatisfied with the obstacles of soaring tariffs. However, we can conclude from all chapters that the main battlefield of economic nationalism was not in the arena of international trade, but at home. Governments claimed their policies aimed at protecting and empowering the embattled nations, which, in a multiethnic region such as Eastern Europe, meant delineating a core nationality as bearers of the state and clearly separating them from other groups

5 Harold James, *The End of Globalization: Lessons from the Great Depression* (Boston, Mass.: Harvard University Press, 2009); Douglas A. Irwin, *Trade Policy Disaster: Lessons from the 1930s* (Boston, Mass.: MIT Press); Patricia Clavin, *The Failure of Economic Diplomacy: Britain, Germany, France and the United States, 1931–36* (London: Macmillan Press, 1996).

6 George T. Crane, "Economic Nationalism: Bringing the Nation Back In," *Millennium: Journal of International Studies* 27, no. 1 (1998): 5–75.

that were increasingly viewed, at best, as overprivileged minorities that had to cede economic agency to the core nationalities or, at worst, as foreign agents. This understanding did not neatly map onto how those parts of society felt that were cast as the core nationality—often, the depression had deeply fragmented these socially heterogeneous groups, and their views on how the state should alleviate their plights had more to do with debt relief and social welfare than with alleged "national" concerns.

For Eastern Europe, the Great Depression was the watershed moment of the interwar period. Its consequences have been overshadowed by the larger catastrophe of World War II. Yet its impact has continued far beyond the rupture of 1945. Postwar Communist economic policies in Eastern Europe were deeply influenced by the experiences of the Great Depression.[7] Cold-War communist regimes referred to the depression itself—and the world's inability to fight it—as the most critical historical event showcasing the failure of capitalism and the bourgeoisie. Yet with the end of the Cold War, the slump was gradually relegated from central event in the interwar history of Eastern Europe to the margins of the region's historiography. We hope this book has helped shift it back toward the center.

7 Janusz Kaliński, *Polityka Gospodarcza Polski w latach 1948–1956* (Warsaw: Książka i Wiedza, 1987); Anna Jarosz-Nojszewska, "80 lat Gospodarki Narodowej (1931–2011)," *Gospodarka Narodowa* 1–2, no. 233–34 (2011): 1–18.