THE LION WITH TWO TALES:  
CZECHOSLOVAK ECONOMIC AND FOREIGN POLICY-MAKING  
AND ITS IMPACT ON U.S. RELATIONS, 1919-1929  

DISSERTATION  

Presented in Partial Fulfillment of the Requirements for  
the Degree Doctor of Philosophy in the Graduate  
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*****  

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2006  

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ABSTRACT

The relationship between the United States and Eastern Europe is often neglected in the scholarship of interwar international studies. This gap is all the more pronounced given the parallels that exist in the region between the events of the 1920s and the past decade and a half. Following the collapse of communism in 1989, Eastern Europe once again became the focus of Western statesmen and businessmen interested in integrating and stabilizing the region which had long been dominated by an imperial power.

The U.S.-Czechoslovak relationship in the 1920s offers a case study for understanding the role policy formulation played in some of the problems of integrating the small states of Eastern Europe into the broader scope of European and even trans-Atlantic affairs. Specifically, this dissertation examines the connection between foreign policy formulation and economic decision-making as it related to U.S. capital investment in Czechoslovakia in the 1920s.

By analyzing the effectiveness of Czechoslovak policy-makers to use the relative industrial and economic strength of their state as a tool in their efforts to secure diplomatic and economic patronage from the United States, this study provides a more robust understanding of Eastern Europe’s significance in world affairs. Also, it illustrates the importance of the historical legacies that continue to shape the relationship between Eastern Europe and the Western power establishment. Finally, this dissertation
challenges traditional interpretations of U.S.-Czechoslovak relations and contributes to an emerging dialogue among scholars concerning how best to integrate the material found in the increasingly accessible archives of Eastern Europe.
Dedicated entirely to Mom and Dad.

Děkuju mockrát.
ACKNOWLEDGMENTS

This dissertation would not have been possible without the aid and support of numerous individuals and institutions. I am indebted to their generosity, guidance, encouragement, and assistance. In the course of completing this project I have been introduced to many amazing people and my acknowledgement of their contributions is but small compensation for their efforts on my behalf.

Professor Carole Fink deserves highest praise and grateful acknowledgement for her guidance and intellectual support throughout this dissertation process. The breadth of knowledge and level of expertise she brings to any endeavor is truly humbling. She repeatedly encouraged a more international approach to what began as an East European project and provided critical insights and gracious encouragement throughout the writing process.

Professor Mansel Blackford graciously offered his guidance on this project. If this study in any way contributes to the broader scholarship in business history, it is to his credit for his honest and constructive critiques. Likewise, Professor Peter Hahn deserves recognition for his assistance with the U.S. foreign policy issues addressed in this study.

My many colleagues at The Ohio State University deserve recognition for their support and tolerance. I maintain their anonymity, but they know who they are. They reviewed, critiqued, counseled, and occasionally celebrated numerous revisions to this
work. Few will forget the tiny nation I study and though they may not admit it for many years, they are the better for it.

The faculty at DePaul University set me on the path to becoming a professional historian and I remain forever grateful. Critical professors such as Al Erlebacher and Jim Krokar have become trusted colleagues and cherished friends. I hope they can find pride in the work they helped initiate.

My research enjoyed funding from a number of institutions who deserve acknowledgement for their confidence in my project and the financial assistance they provided as I visited wonderfully varied locations combing archives in search of supporting material. The Department of History, the College of Humanities, the Center for Slavic and East European Studies, and the Mershon Center for International Security Studies at The Ohio State University all contributed much appreciated funds toward this endeavor.

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Over the past seven years the staff and archivists at the National Archive and Records Administration in College Park, Maryland have assisted in my search for supporting material in the records of the United States government. Likewise, the staff of the Special Collections Division at the Georgetown University Library were
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Few scholars of Czechoslovak history find an occasion to visit Laramie, Wyoming, but they would be richer for the experience. Ms. Kim Winters and the rest of the staff at the University of Wyoming’s American Heritage Center were incredibly helpful. They made my brief visit to examine the Lewis Einstein Papers both pleasant and rewarding.

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My time researching in the National Museum Archive in Prague was a wonderful reminder of the more intimate aspects of archival research. This small facility that can accommodate only six researchers at a time provided a ready source of material on Edvard Beneš, Karel Engliš, and Alois Rašin. I will be forever grateful to the cheerful staff for their warm smiles and kind assistance.

No amount of praise can suffice for the staff of the State Central Archives in Prague. Their professionalism and compassion for a researcher far from home made
possible the core of my dissertation research. For months on end they tolerated my questions, my accent, my constant requests to scan documents, and my numerous recalls. They added dimension to my experience and graciously aided my search through many tired old documents.

The people of Prague and Olomouc were endearing hosts during my many visits for study and research. The beauty of the Czech language and the distinct magic of the Golden City never cease to amaze me and constantly draw me to return. Prague was my first exposure to Eastern Europe and it has never lost its allure nor its mystique. Děkuje Vám.

I reserve the final and most important acknowledgements for the truly special individuals who share in the accomplishment this project represents. My family has been and continues to be my strength, my inspiration and my support. They deserve particularly special recognition and my most heartfelt appreciation. The remainder of this acknowledgement is addressed to them.

Granddaddydo, you were not able to read this finished dissertation, but you never doubted its completion. You were with me in my travels and that wonderfully crooked smile of yours stared down over me daily. Your voice was heard in every draft and your presence is felt with every turn of the page. No words can suffice. You are missed.

Ni, the pride in your voice during our frequent conversations always lifted my spirits. Whether over the phone, a cup of tea, or a serving of strawberry ice cream, our time together has inspired and comforted. What would this process have been without your gentle prodding and daily prayers?
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Kelley, you kindly opened your home to me on countless research trips to Washington, DC. I will always cherish the memories of the visits that coincided with my research, both at home and abroad.

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Maminka, likewise, this acknowledgement will fall far short. Your unbounded confidence and fierce loyalty gave me strength when unexpected obstacles seemed insurmountable. The near-daily calls under the guise of technical assistance were welcome injections of humor and humanity and this dissertation could not have been completed without your help, understanding, and accommodation. Your faith in my abilities exceeds a mother’s pride and is an immeasurable and continued source of comfort. Miluju se mockrat, Maminka.
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VITA

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<tr>
<td>ACCC</td>
<td>American Czechoslovak Chamber of Commerce</td>
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<td>AHC-UWY</td>
<td>American Heritage Center – University of Wyoming</td>
</tr>
<tr>
<td>AmLeg</td>
<td>American Legation, Prague</td>
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<tr>
<td>ANM</td>
<td>National Archive Museum, Prague</td>
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<tr>
<td>CAH-UTA</td>
<td>Center for American History – University of Texas at Austin</td>
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<tr>
<td>CHM</td>
<td>Czechoslovak Heritage Museum</td>
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<td>ČAS</td>
<td>Československá Agrární Strana (Czechoslovak Agrarian Party)</td>
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<td>ČKS</td>
<td>Československá Komunistická Strana (Czechoslovak Communist Party)</td>
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<td>ČNB</td>
<td>Československo národní banka (Czechoslovak National Bank)</td>
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<tr>
<td>ČNS</td>
<td>Československá Národně Socialistická Strana (Czechoslovak National Socialist Party)</td>
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<tr>
<td>ČLS</td>
<td>Československá Lidová Strana (Czechoslovak People’s Party)</td>
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<tr>
<td>ČSD</td>
<td>Československá Sociální Demokracie (Czechoslovak Social Democratic Party)</td>
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<tr>
<td>ČSR</td>
<td>Czechoslovak Republic</td>
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<tr>
<td>DoSIAC</td>
<td>Department of State Records Relating to the Internal Affairs of Czechoslovakia</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>EMHC</td>
<td>ExxonMobil Historical Collection</td>
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<td>GULSCD</td>
<td>Georgetown University Library Special Collections Department</td>
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<td>MF I</td>
<td>Ministerstvo Financí (I), Praha (Ministry of Finance in Prague)</td>
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<tr>
<td>MPOŽ</td>
<td>Ministerstvo Průmyslu, Obchodu, a Živností (Ministry of Industry, Commerce, and Trade)</td>
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<td>MVP</td>
<td>Ministerstvo Veřejných Prací (Ministry of the Interior)</td>
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<td>NAMP</td>
<td>National Archives Microfilm Publications</td>
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<td>NARA</td>
<td>National Archives and Records Administration</td>
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<tr>
<td>PMR</td>
<td>Předsednictvo Ministerstvo Rady (Council of Ministers)</td>
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<td>RCCI</td>
<td>Richard Crane Collection (I)</td>
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<td>SLS</td>
<td>Slovenská L’udová Strana (Slovak People’s Party)</td>
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<td>SÚA</td>
<td>Státní Ústřední Archiv (State Central Archives, Prague)</td>
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<tr>
<td>SONJ</td>
<td>Standard Oil of New Jersey</td>
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<tr>
<td>U.S.</td>
<td>United States</td>
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<tr>
<td>ÚPZO</td>
<td>Úřadu pro Zahraniční Obchodu (Bureau for Foreign Commerce)</td>
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<tr>
<td>ÚSČP</td>
<td>Ústřední Svazu Československu Průmyslu (Central Union of Czechoslovak Industrialists)</td>
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CHAPTER 1

FOUNDATIONS AND INTERPRETATIONS:
UNDERSTANDING THE DEVELOPMENT OF U.S.-CZECHOSLOVAK RELATIONS

1.1: Introduction

In recent years, Eastern Europe\textsuperscript{1} has once again become the focus of Western statesmen and businessmen. During the research and writing of this dissertation, most of the countries of this region have been admitted to the European Union (EU) and several others have undergone democratic revolutions.\textsuperscript{2} As a result, this region has become increasingly integrated into Western political and economic structures and is yet again a source of opportunity for policy-makers and foreign investors. Despite the prominent role East European countries are playing in the ongoing debate about European boundaries and the “expansion fatigue” brought on by recent EU membership initiatives, the region retains an unfortunate legacy of existing on the periphery of European affairs.

\textsuperscript{1} The term Eastern Europe is used in this dissertation for the sake of consistency and clarity. At varying times the Czechoslovak lands have been identified as part of Central, East Central, and Eastern Europe. Czechoslovak officials during the 1920s often used Central Europe to describe their location and there has been a renewed effort since 1989 to once again assert a Central, or even West, European identity. However, in the literature, as well as the mindset of most Western observers and scholars, Czechoslovakia is part of Eastern Europe as it became understood in the latter half of the twentieth century. Hence the use of the term in this work.

\textsuperscript{2} In 2004 the Czech Republic, Slovakia, Poland, Hungary, Estonia, Latvia, Lithuania, and Slovenia were among the newest initiates into the EU. The previous year witnessed Georgia’s Rose Revolution followed at the close of 2004 by Ukraine’s own peaceful Orange Revolution. Fifteen years after the Velvet Revolution freed Czechoslovakia of its communist regime, color continues to infuse the once gray landscape of Soviet-dominated Eastern Europe and Western observers still remain captivated by these events.
Although the concept of a peripheral Eastern Europe is now beginning to change, even a cursory glance at the broader twentieth-century history of Europe, particularly the early decades, indicates the inherent shortcomings this categorization has had for some time. In a similar fashion, a critical analysis of U.S. foreign policy toward Eastern Europe in the early twentieth century contributes to the broader scholarship on American economic involvement with Europe in the interwar decades of the 1920s and 1930s. A more thoughtful analysis of both issues reveals, in fact, that the countries of Eastern Europe were not at the periphery of European affairs in the 1920s, nor did the United States hesitate to engage economically and politically in this particular region.

In the 1920s, Czechoslovakia distinguished itself from its East European neighbors as a successful democracy and relatively stable economy. In so doing, the newly established state sought to manipulate the diplomatic and economic landscape of Eastern Europe by engaging in a foreign policy that solicited Western diplomatic support and an economic policy that maintained financial independence and promoted a dominant role in the region. At the same time, U.S. businessmen acting largely on their own, but with the support of the U.S. government, pursued investment opportunities that not only turned a profit but also aimed at stabilizing the region.

The relationship between the United States and Czechoslovakia in the 1920s offers a case study of the interaction between foreign policy formulation and economic decision-making, particularly as it pertains to the broader theme of small state attempts to secure large state patronage. The underlying argument of this dissertation is that Czechoslovak policy-makers failed to use the relative industrial and economic strength of their state in a flexible enough manner to secure the diplomatic and economic patronage
of the United States. In his study of U.S.-Polish relations in this same time period, Neal Pease states that his is “a detailed account of something that did not happen.” In many respects, the story of U.S.-Czechoslovak relations in the 1920s follows a similar pattern. Closely associated with this analysis is an examination of the subtle ways in which U.S. policy-makers communicated an interest in the First Czechoslovak Republic. The primary focus of this project is an examination of how, if at all, states coordinate their economic and foreign policies and to what degree private enterprise affects foreign policy formulation in an era of relative stability.

In November 2005, the outgoing Czech ambassador to the United States Martin Palouš delivered a lecture at the 6th Annual Czech and Slovak Freedom Lecture commemorating the 16th anniversary of the Velvet Revolution that freed Czechoslovakia from communist rule. The topic of his talk was the nature of U.S.-Czech relations in the twenty-first century and in outlining the challenges ahead, he connected them to the cooperation of the past. He traced current relations back to the end of the First World War when the United States “helped decisively with the creation of a democratic Czechoslovakia,” and he continually referenced the need to build upon those foundations in the pursuit of a continued relationship. Palouš focused on the place of the Czech Republic in the broader contemporary challenges facing U.S.-European relations and

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5 Ibid., 7.
asserted that it is the “Masarykian/Wilsonian idealism” of Czech policies that make it “a player in today’s world struggle for democracy” and a necessary ally for the United States. The presumption that most members of his audience would understand the reference to Masaryk’s ideals can only be justified by the fact that the event was attended by a minority of scholars, statesmen, and supporters knowledgeable of East European history. Even a broader scholarly audience would have been at a loss due largely to the lack of scholarly studies that deal with U.S.-East European relations in the 1920s and 1930s, let alone the policies on both sides of the Atlantic that shaped this relationship. Unfortunately, the former ambassador’s call to seek resolutions to current U.S.-European disagreements that “correspond to Tomas Masaryk’s maxim to ‘conceive the Czech question in worldly terms’” have little meaning to those unfamiliar with interwar Czechoslovak policies. This dissertation is a step toward addressing this gap in the existing scholarship and understanding the parallels Palouš hopes will become manifest in the coming years. It is also an attempt to better understand those elements of the relationship that should be avoided.

1.2: Standard Approaches to Czechoslovak Economic Development

The historiography of interwar Eastern Europe typically approaches the problem of economic stabilization and East-West diplomatic ties from the standpoint of the Western Powers. The importance of the region in the 1920s and 1930s is traditionally

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6 Ibid., 10. Tomáš Masaryk was the first president of an independent Czechoslovakia. More will be said about him and his role in shaping the Czechoslovak state later.

7 Ibid.
analyzed for its functionality as either a *cordon sanitaire* against westward Bolshevik advances or as a *barrière de l’est* against German expansion. Unfortunately, this approach can only interpret the economic issues that shaped the region from the standpoint of Western attempts to stabilize the region and/or integrate it into a foreign policy agenda. The perspective of East European statesmen is noticeably lacking in the general scholarship and contributes to a skewed understanding of the region’s place in European international relations. This is not to say, however, that serious scholarship has been devoid of important advances in this respect.

Piotr Wandycz’s work, for instance, is the foundation for understanding French interests in interwar Eastern Europe. His analysis of French foreign policy in the region explains the strategic value of Poland and Czechoslovakia in the interwar period to perceived notions of French security. As with Kalervo Hovi’s work, however, Wandycz’s studies primarily focus on France, and relegate the East European states to the position of secondary actors. Consequently, much of the richness and context of the story remains unexplored.

An exception to this, of course, is the work of scholars such as Ivan Berend, György Ránki, and Alice Teichova. Their scholarship has defined East European

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economic history and remains, to date, the most comprehensive treatment of the topic. While Berend and Ránki typically deal with broader trends in regional development, Teichova has remained almost exclusively focused on Czechoslovak economic activity in the interwar decades. In *An Economic Background to Munich*, she brilliantly challenges the commonly accepted notion that the withdrawal of Western diplomatic support for Czechoslovakia in 1938 was preceded by an economic withdrawal. Teichova illustrates, for example, that by 1937 approximately 10 percent of the existing companies in Czechoslovakia benefited from foreign direct investments. Moreover, nearly 48 percent of the combined nominal capital of all Czechoslovak businesses was the result of these foreign investments. In other words, there was a substantial amount of interest among foreign enterprises in the opportunities presented by the Czechoslovak economy. More often than not, however, Teichova’s works deal only with European enterprises and tend to discount the significance of U.S. participation in the region. Furthermore, both her individual and collaborative works avoid the interplay of economic and foreign policy agendas. The two can not be divorced, however, and this dissertation is a step toward redressing this flaw in the literature on Czechoslovak economic history.

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12 Ibid.
Another shortcoming of the scholarship in the field of East European economic studies is its apparent stagnation. Many of the studies that deal with the economic and diplomatic issues associated with interwar Eastern Europe are dated and have not been revisited in light of more recent developments. The few attempts made in the past two decades to address this gap in the scholarship still approach the topic from a non-East European perspective. Pease and Linda Killen offer important contributions to understanding the role of U.S. policy toward Eastern Europe. By examining Poland and Yugoslavia, respectively, they present two very different case studies that enliven the literature of the region’s economic and diplomatic development. Similarly, Gábor Bátoryi offers a fresh approach to understanding British policy toward Czechoslovakia, Hungary, and Austria and in so doing shows that there was more of an evolution in Britain’s East European policy than previously recognized. As commendable and important as these contributions are, there has yet to emerge a significant body of English

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language scholarship that examines the East-West exchange from the perspective of the East European actors. This is not the case, however, when examining the body of Czech scholarship on this topic.

The collapse of communism and the state’s re-engagement with the West has prompted both younger and more established Czech scholars to revisit the nature of interwar economic policy and the role of Western foreign investment in the region’s development. These works are encouraging a new approach to the field that suggests that the region was more integrated into Western economic and business concerns than previous scholarship conceded. More to the point, however, this scholarship benefits from an East European perspective and provides analysis with respect to Czechoslovak foreign policy objectives. The difficulty is that these works have a limited readership among Western audiences, but they also downplay the international component of the decision-making occurring at the time. More importantly, however, these studies are utilizing archival material that has largely been unavailable to scholars of the region.

In many respects, access to the records of the various Czechoslovak ministries and non-governmental organizations has been the greatest obstacle to more robust studies

of Czechoslovakia’s role in interwar European affairs. This increased access to archival material combined with the renewed interest among Czech scholars is a source of encouragement to Western scholars working in all aspects of Czechoslovak policy formation. The fundamental shortcomings in any scholarship dealing with East-West foreign and economic interaction has long been the limited access to East European archives that characterized the latter half of the twentieth century. This, however, has significantly changed in the past decade and a half, particularly with respect to Czech archives. This new openness with respect to accessing government records and the improved research facilities of the state are generating an opportunity to seriously re-evaluate how historians understand the issues that characterized international relations in Eastern Europe between the two World Wars.

This dissertation takes advantage of the greater access to Czechoslovak sources and addresses an important gap in the scholarship of Eastern Europe. It is also an attempt to participate in the re-evaluation of the First Czechoslovak Republic’s history that is emanating from Prague. For instance, Czech historian Vlastislav Lacina argues that Czechoslovak foreign and economic policy in the 1920s was characterized by flexibility. This assertion is challengeable. As various elements of this dissertation will illustrate, Czechoslovak policies were often more limiting than flexible.

Too little is understood about the role of Czechoslovakia in interwar East European policy-making and its connection with the U.S. business community. This is another gap in the scholarship that this dissertation addresses. While the primary thrust is on Czechoslovak policy-making, there is a need to better understand the role U.S. private industry played in the region, not only because of the special relationship that existed
between the two states, but also because of the dearth of attention given to Eastern Europe in American business and diplomatic history of the period.

Scholars of American interwar foreign policy have shown the degree to which the United States government worked with private industry to promote a mutually beneficial agenda in their overseas engagements. For instance, Melvyn Leffler’s examination of how American desires to revive the German economy as part of a European-wide economic stabilization initiative generated conflict with France’s desire for security. As later chapters of this dissertation will illustrate, similar conflicts between economic stabilization initiatives and Czechoslovak security needs generated similar friction between the East European state and its Western patrons.

Like Leffler, Michael Hogan demonstrates that U.S. foreign policy objectives in the 1920s were achieved in close cooperation with American bankers and businessmen. Hogan deliberates more on the collaboration between private industry and government than on security initiatives, and more specifically, on how it was manifest in U.S.-British relations. It is an exceptional study of how private businessmen were employed as

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17 Leffler, *Elusive Quest*.

18 Hogan, *Informal Entente*. 
unofficial agents for the state. The relationship between the United States and Czechoslovakia displayed similar traits and are explored in the later chapters of this study.

Unfortunately, most studies of American interwar foreign policy ignore Eastern Europe. A rare exception is Frank Costigliola’s study of U.S.-European relations which commendably weaves Poland, Austria, Hungary, and Bulgaria into the narrative.\(^\text{19}\) In this work, the author demonstrates that American culture, as much as foreign policy objectives, had a significant impact on relations with various European states. Costigliola ventures beyond loans and financial assistance packages and analyzes the impact that technology transfer, art, and tourism had on achieving American foreign policy objectives in the 1920s. Although not addressed in his study, Czechoslovakia was exposed to these very same influences. Technical and managerial exchange programs regularly occurred between the United States and Czechoslovakia and trade and tourism had a profound impact on the way the East European state was able to interact with the American business community.

Joan Hoff Wilson’s work on the influence of American businessmen on the formation and articulation of American foreign policy is a useful model for analyzing the impact non-governmental agents had on Czechoslovak foreign policy.\(^\text{20}\) In the early 1920s, Czechoslovak attempts to secure substantial American direct investments met with resistance from Czechoslovak industrialists and trade organizations. Wilson’s thesis that American businessmen played a limited role in shaping foreign policy resonates with

\(^{19}\) Costigliola, *Awkward Dominion.*

\(^{20}\) Wilson, *American Business and Foreign Policy.*
elements of this study. Subsequent chapters will show that while the Czechoslovak business community seldom had a voice in developing foreign and economic policy, its ability to deter policy objectives was somewhat more considerable.

Whether addressing the historiography of East European economic development or American foreign policy, several constants remain that this dissertation addresses. The first is the near total absence of the East European policy-maker’s voice. This study of U.S.-Czechoslovak interwar relations gives agency to the Czechoslovak actors who are indispensable components of the story. The second is a focus on both foreign and economic policy, with a better understanding of the symbiotic nature of the relationship, particularly from the Czechoslovak perspective. Finally, this study addresses the way in which some of the more subtle objectives of U.S. policy that Leffler, Hogan, and Constigliola detail led Czechoslovak policy-makers to inflate the special relationship they believed to exist between their state and the United States.

1.3: Causes and Rationale for U.S.-Czechoslovak Relations

The relationship between the United States and Czechoslovakia in the 1920s lends itself well to addressing the aforementioned gap in the literature because of the special relationship that developed between the two nations during the First World War. Throughout the wartime years the cause of Czechoslovak independence had enjoyed increasingly active support in the United States. This support was initially generated in the numerous Czechoslovak immigrant colonies that were scattered throughout the Midwest and parts of western Texas.\(^{21}\) As early as 1902, some members of America’s

\(^{21}\) Czechs often referred to immigrant communities abroad as colonies.
economic elite became familiar with the Czechoslovak cause as a result of Tomáš Masaryk’s visit to the United States as a visiting professor at the University of Chicago.\textsuperscript{22} When he returned to America in 1918 to plead his case for Czechoslovak independence, a network of politically active and financially established individuals had already been established and they once again gravitated toward Masaryk and his retinue. These moderately influential Americans eventually lent the support to the Czechoslovak National Council (\textit{Národní Výbor}) that was of paramount importance in generating international recognition. This support for Masaryk, \textit{Národní Výbor}, and, by war’s end, the Czechoslovak soldiers fighting their way across Siberia laid the foundation for a relationship that continued throughout the 1920s. This relationship, coupled with the geopolitical location of the new republic and its economic potential provided the foundations for what should have been a prosperous and cooperative relationship in the decade following the First World War. Instead, policy-makers in both countries engaged in activities that at times were more antagonistic than cooperative.

In the decade immediately following the First World War, the United States sought to assist troubled economies in various theaters with financial support. This dollar diplomacy funded relief and redevelopment efforts in numerous nations, including Czechoslovakia. Situated in the geographic heart of Europe this newly established state was ideally situated for trade between East and West. Furthermore, the American business community recognized the region’s potential to partially compensate for the loss of the Russian market to the Bolshevik Revolution of 1917. Czechoslovakia possessed a

\textsuperscript{22} The invitation and funds to support the visit were provided by prominent Chicago businessman Charles R. Crane. Crane’s son, Richard, would eventually become the first U.S. minister to Czechoslovakia and his daughter would marry Masaryk’s son, Jan.
rich industrial heritage and its production facilities remained largely intact following the wartime hostilities. These two factors lent credence to the opinion of many American bankers and businessmen that Czechoslovakia offered sound investment opportunities.

The region that comprised Czechoslovakia had sustained relatively minor damage to its infrastructure and industry during the war. Nevertheless the country was in need of financial assistance, and this was not unique to Czechoslovakia. High inflation plagued all of Central and Eastern Europe in the immediate postwar era. Because the United States had actively supported the young nation’s wartime bid for independence, Czechoslovakia continued to look toward the wealthier nation for financial assistance. Prior the 1919, the primary force behind U.S. support for Czechoslovakia came from the Czech and Slovak immigrant communities scattered throughout the United States. Although these communities raised significant amounts of money and created public awareness for the plight of their countrymen in Eastern Europe, their most significant contribution came from the sympathetic support for the Czechoslovak cause they were able to solicit from American politicians and businessmen. The Czechoslovak movement both in the United States and abroad, sought international legitimacy, which required the recognition of established and influential governments and it often utilized the resources of the Czech communities abroad. When, in April 1919, the United States government recognized Národní Výbor as the legitimate government of a newly established Czechoslovak Republic, the relationship between the two states was able to evolve to the next phase of financial and diplomatic cooperation.

Organized support for an independent Czech state among Czech-Americans can be traced back to the summer of 1914 with the outbreak of the First World War. At that
time many of the Czech colonies in America felt a sense of Slavic solidarity with Serbia’s struggle against Austria. For many Czech immigrants the war was perceived to be part of a larger historical struggle for Slavic freedom from Germanic oppression in Eastern Europe. These feelings were particularly strong in Chicago, Illinois, which by the turn of the twentieth century, had the largest urban population of Czechs outside of Prague.23 This sizable community quickly mobilized and became the vanguard of the Czech-American movement advocating the post-war creation of an independent Czech state. One of the early leaders of the Chicago Czech community was Josef Tvrzicky who raised public awareness for his cause by organizing rallies in support of the Serbian war effort against Austria. At one such rally, held in Chicago’s Pilsen Park on 28 July 1914, Tvrzicky articulated his belief that a successful bid for the establishment of a postwar independent Czech state relied on the “material and moral support which only the branch of American Czechs [would] be able to give.”24 The success of such rallies provided the support Tvrzicky required to establish a more organized and focused campaign for Czech national sovereignty and on 2 September 1914, the Bohemian National Alliance was founded in Chicago to support a two-fold mission.25 The first part was to solicit financial and moral support from the Czech colonies in America for an independent postwar homeland. The second was to raise public awareness in the United States of the Czech


24 Ibid., 385, 390. Pilsen Park is located on the west side of Chicago. It was the area where most of the city’s Czech immigrants resided and the neighborhood took its name from the west Bohemian town of Plzén. Today it remains a distinctive immigrant neighborhood, though its ethnic identity is now exclusively Hispanic.

25 Ibid., 392. The Bohemian National Alliance was headquartered at 3639 W. 26th St. in Chicago, Illinois.
struggle for independence. Both missions had the long-term goal of securing eventual political and diplomatic recognition from the United States government and its allies.

Although it never generated great sums of capital, the Bohemian National Alliance successfully coordinated its efforts among the Czech colonies scattered throughout the United States. By 1918 there were over 350 branches of the Alliance operating in the United States.\(^{26}\) Its greatest success was in raising the broader public’s consciousness of the Czech independence movement. Reaching beyond the limits of the Czech colonies in the United States, the Alliance succeeded in capturing the attention of several influential American politicians who became early proponents of U.S. support for Czech independence as they carried the cause to the United States Capitol.\(^{27}\)

Political support for the Czech cause in the United States became somewhat easier when the Bohemian National Alliance expanded its power base by allying itself with the parallel movement for the creation of an independent Slovak state. On 31 May 1918 the Bohemian National Alliance and the Slovak League signed what became known as the Pittsburgh Pact which merged their previously independent movements into one. The new objective was the creation of an independent Czecho-Slovak state. Leaders in both movements believed that the cultural, linguistic and geographic ties that justified this cooperation would strengthen their appeal for national sovereignty. They hoped that U.S. politicians could now support a more viable political entity in the form of a more

\(^{26}\) Ibid., 393.

ethnically homogenous Czecho-Slovak state. In June of that same year Masaryk, was granted his long sought audience with President Woodrow Wilson and on 2 September 1918 the United States government agreed to eventually recognize a Czecho-Slovak state under the presidency of Masaryk.

The impact of the events of the summer and autumn of 1918 on the U.S. decision to dismember Austria-Hungary and recognize Czechoslovakia is debatable. Regardless of the actions of the Czech and Slovak immigrants in America, by mid-1918 it was clear to the Western Powers that Austria-Hungary was on the verge of collapse. The significance of the Bohemian National Alliance and Národní Výbor was the foundation they laid for a dialogue that was critical to the postwar ambitions of the Czechoslovak state.

Masaryk’s time in the United States also bore other fruit. The first U.S. Minister to Czechoslovakia was Richard Crane, the eldest son of Chicago businessman and statesman, Charles R. Crane. Masaryk had formed a close bond with the Crane family during his time at the University of Chicago and that relationship served his cause well not just during the early years of the Czechoslovak independence movement, but through the younger Crane’s tenure as U.S. Minister in Prague.

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28 Strictly speaking, Czechoslovakia would remain an ethnically diverse state containing Slavs, Germans and Magyars. However, it was believed by the signers of the Pittsburgh Pact that by combining the Czech and Slovak bids for independence Slavs would significantly outnumber Germans and Magyars in a newly formed state.

1.4: Predator or Prey?: U.S. Financial Support for the New State

U.S. recognition of Czechoslovak national sovereignty allowed for financial support that would otherwise have been lacking. On 24 April 1917, the United States Congress approved the First Liberty Bond Act which provided for the “issue of bonds to meet the expenditures for the national security and defense, and for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes.”

Under the terms of the legislation as much as $7 billion in aid could be extended to recognized foreign governments actively aiding in the prosecution of the war. Once recognized by the United States, Czechoslovakia qualified for this aid because it also fielded an armed force and was therefore considered a belligerent. Almost from the beginning of the war, Národní Výbor had been active in organizing an army composed of Czech and Slovak prisoners-of-war captured primarily on the Eastern Front. Masaryk and other members of Národní Výbor believed their case for national sovereignty was enhanced with the formation of an army. The Czechoslovak Legion was to be organized and trained in Russia before being deployed to active fronts; however, the Russian Revolution of February 1917 changed the political landscape in which the Legion was operating. The political instability in Russia and its eventual withdrawal from the war forced Národní Výbor to develop an extraction plan for the stranded Legion. The presence of nearly 70,000 foreign soldiers on its territory was clearly a source of concern for the Revolutionary government in Russia and it readily granted the Legionnaires safe passage east along the Trans-Siberian Railway to the port city of Vladivostok.

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30 *The Liberty Loan Legislation*, compiled by the United States Treasury Department, 1921; File 860F.51/104; Records of the Department of State Relating to Internal Affairs of Czechoslovakia, 1910-1944 (DoSIAC); National Archives Microfilm Publication (NAMP) M1218, roll 8; National Archives and Records Administration (NARA), College Park, MD.
there, it was agreed that the Western Powers would transport the Legion to France. In 1917 the United States had a military presence in Russia and it was quickly pressed into the service of the Legion. Agents of the U.S. government were engaged in a joint project with the Russian government for the improvement of the Trans-Siberian Railway. President Wilson had tasked an American Expeditionary Force to safeguard the interests of the U.S. railway men and following Russia’s withdrawal from the war the force was reassigned to assist with the secure passage of the Czechoslovak Legion to Vladivostok. In addition to financing most of the Legion’s trans-Siberian withdrawal and a significant portion of the unit’s repatriation the U.S. Liquidation Commission of the War Department also sold Národní Výbor over $20 million worth of surplus war material to equip and outfit the force. 31 Without question, by 1920 there existed a special relationship between the United States and Czechoslovakia, and there was every expectation that economic and diplomatic support would continue into the future.

In the years immediately following the First World War the U.S. government’s most pressing concern with Czechoslovakia, and indeed with most of Eastern Europe, was economic stabilization. Consequently, once the war was over the dynamics of the U.S.-Czechoslovak relationship changed. Although both parties remained engaged, the Czechoslovak Republic endeavored to assert its independence and importance in regional affairs while the United States sought guarantees for repayment of wartime loans and

31 “Indebtedness to the United States on account of Advances made under the Liberty Bond Acts and credits extended by the U.S. Liquidation Commission (War Department), American Relief Administration and U.S. Grain Corporation, respectively”; SecTreas, to SecState, September 23, 1921; File 860F.51?104; DoSIAC; NAMP M1218, roll 8, NARA. The actual amount sold was $20,621,994.54. For exceptional accounts of the Czechoslovak Legion’s retreat across Siberia and the role played by agents of the United States, see Betty Miller Unterberger’s The United States, Revolutionary Russia, and the Rise of Czechoslovakia, (Chapel Hill: University of North Carolina Press, 1989) and Charles J. Decker, ed. Mission to Russia: An American Journal (New York: privately printed, 1994).
economic stability in Eastern Europe. In the early 1920s the U.S. Departments of State and Commerce embarked on a course of action to secure and rejuvenate the Czechoslovak economy. To generate interest the Department of Commerce published numerous bulletins essentially advertising what it believed to be the most promising opportunities in Czechoslovakia. The Department of State also remained engaged by monitoring the activity of U.S. bankers and maintaining a critical eye on the Czechoslovak budgets in an effort to ensure compliance with contracted repayment schedules.

The Commerce Department reports provided potential American investors with essential information regarding business opportunities in Czechoslovakia based on close inspections of its economy by American economists and government agents. The better aware the United States was of Czechoslovakia’s productive capacity and economic outlook, the more informed it was of how well equipped the Czechoslovak Republic was to repay outstanding obligations. The information gathered to produce these and other reports permitted the United States to develop a conceptual model from which to structure its policies toward Czechoslovakia.

The U.S. government had another interest in Czechoslovakia following the war that had as much to do with short-term benefits as it did with long-term desires for stability. Soon after the end of the First World War the U.S. Department of War set about selling its surplus material to its fellow belligerents in an effort to provide them with much needed raw material and supplies and at the same time to turn a quick profit. By 1920, officials from the War Department were pressuring the Czechoslovak Ministry
of Commerce (MPOŽ) and the Central Union of Czechoslovak Industrialists (ÚŠČP) to take advantage of the opportunity for low-cost raw material before it passed.

At the beginning of 1920 the Department’s Chief Assistant of Sales L.I. Harvey sent a letter to the Czechoslovak Ministry of Commerce stressing the need for the latter’s expediency and promising to deliver a contract upon his impending visit to Prague.\textsuperscript{32} Harvey insisted that the contract had to be signed by mid-February if the Czechoslovaks hoped to acquire specific railway material they required to improve their rail system. There was a bit of coercion in the letter that seemed designed to prompt an immediate Czechoslovak response. Harvey wrote,

\begin{quote}
A French mission is now landing in America and will proceed to function immediately to choose materials that France desires to purchase. A Serbian commission is expected to go shortly and I would urge you to make every effort to have this contract acted upon and signed at the earliest possible moment.\textsuperscript{33}
\end{quote}

In other words, if the Czechoslovaks delayed their final decision too long, the material they greatly desired would be claimed and sold to France and/or Serbia.

This seems to have elicited the desired response, for in early February, the Ministry of Commerce sent a memorandum to other key ministries and the Central Union of Czechoslovak Industrialists urging immediate action toward obtaining credit to purchase American surplus material.\textsuperscript{34} There was also a clear sense that Harvey was looking out for the best interests of the Czechoslovak state. His observation that desired

\textsuperscript{32} Undated letter. Ministerstvo průmyslu, obchodu, a živností (MPOŽ), karton 322, číslo 5.935\textsuperscript{20}, Státní Ústřední Archiv v Praze (SÚA), Prague.

\textsuperscript{33} Ibid.

\textsuperscript{34} Dosavadní výsledek jednání o úvěr k nákupu v Americe, č. 5935, MPOŽ, karton 322, číslo 5.935\textsuperscript{20}, SÚA, Prague.
railway material might be claimed by other national commissions may well have been misinterpreted by Czechoslovak policy-makers as a display of support for their objectives. In truth, it was little more than a U.S. official working diligently to dispose of surplus war material. This would not be the last opportunity for either Czechoslovak or American officials to misinterpret one another’s messages. Nonetheless, this transaction was typical of early U.S.-Czechoslovak economic relations.

American investment houses were as willing as the United States government to extend credit to Czechoslovakia in the early 1920s. Loans to various state and municipal agencies were not uncommon, nor was the tendency of U.S. businessmen to survey the Czechoslovak industrial landscape for promising investment opportunities. The recognition by Czechoslovak policy-makers that foreign capital was essential to their state’s economic survival seemed fairly clear from the amount of debt it accumulated. However, relying on foreign capital was one thing, selling Czechoslovak businesses to the highest foreign bidder was another thing altogether. Their struggle for independence had made Czechoslovak policy-makers sensitive to the danger of replacing Austrian political control with Western economic control. As a result American private industry would often feel the victim of mixed signal emanating from Prague. As the 1920s progressed, the economic relationship between the U.S. and Czechoslovakia was increasingly characterized by these perceived mixed signals and occasionally opposing agendas.

35 The most prominent were Dillon, Read and Company, Bertron, Griscom and Company, and F.J. Lisman and Company. More will be said about their activities in Chapter 5.
1.5: Conclusions

This dissertation examines the interplay between Czechoslovak foreign and economic policy-making in the 1920s and the impact it had on the special relationship that had developed with the United States during the course of the First World War. Both the consistencies and the contradictions between foreign and economic policy agendas contributed to an atmosphere that made cooperation difficult. Rather than taking into account those traits that distinguished American participation in Czechoslovakia from other European actors, the Czechoslovak policy-making structure applied a near uniform system of protectionist and nationalistically charged policies intended to elevate the Czechoslovak state to a position of major player in European stabilization and security.

The next chapter examines the particular structure of Czechoslovak policy-making as it evolved following its independence from the Habsburg Empire. It illustrates the importance Czechoslovak policy-makers placed on soliciting foreign capital to help stabilize and rejuvenate their economy. As part of this process, a controversial Bureau for Foreign Commerce was established to help identify sources of foreign capital participation. This included targeting American enterprises and promoting an exchange of engineers and other professionals in an attempt to emulate the best manufacturing processes of the United States. Behind this effort was the desire to convince American businessmen that Czechoslovakia was a familiar, hospitable, and profitable environment for their active participation. The contest of power within the upper echelons of Czechoslovak decision-making and the redundancy of certain agencies also illustrates the source of many of the conflicting messages American businessmen began to experience and established the roots for subsequent difficulties.
The third chapter moves into the diplomatic realm and analyzes how Czechoslovak opposition to various Western agendas for East European economic integration heightened tensions between Czechoslovakia and its Western benefactors. The Porto Rose Conference of 1921 became a platform for Czechoslovak policy-makers to project their protectionist policies to a wider audience and was the first instance where Czechoslovakia asserted its perceived right to guide regional policy. It was also the first instance Western observers had to recognize a degree of inflexibility in Czechoslovak policy and the young republic’s willingness to challenge Western agendas in the region. Porto Rose, thus became the first significant example of economic policy negatively affecting Czechoslovak foreign policy with respect to maintaining productive relations with the West.

In the fourth chapter, the story of the Standard Oil Company’s experience in the early 1920s illustrates precisely the manner in which conflicting Czechoslovak policy agendas hurt its ability to engage large-scale American businesses. More so than the Porto Rose chapter, the Standard Oil account details the nature of the mixed signals emanating from Prague and clarifies the internal sources of this miscommunication. At the same time, the Czechoslovak-Standard Oil negotiations illustrate the lack of area expertise among American businessmen and diplomats when it came to understanding the specific challenges of doing business in the emerging Czechoslovak economy. Yet again, this included a failure to appreciate the significance of broader international issues contributing to Czechoslovak decision-making.

The fifth chapter examines the fallout from both the Porto Rose and Standard Oil episodes and the impact they had on continued American business interests in
Czechoslovakia. Despite a developed interest in the region, the mixed signals and apparent absence of a cooperative spirit among Czechoslovak policy-makers, U.S. investments in Czechoslovakia declined as the 1920s progressed. This was also influenced by attempts to re-engage the German economy which came at the expense of Czechoslovak investments. When the New York stock market crashed in 1929, U.S. direct investments in Czechoslovak enterprises had already diminished significantly. The economic crisis that followed forever altered the relationship between the two states and when it resumed in the 1930s it possessed a different character altogether.

The final chapter connects the themes of the dissertation and offers relevant comparisons to more recent trends in U.S.-Czech relations. As Palouš rightly asserted at the 6th Annual Czech and Slovak Freedom Lecture, U.S.-Czech relations are far from over. Furthermore, the shape of future relations has much to gain from an honest and complete understanding of the full scale and scope of the relationship that began roughly a century ago. While some of the decision-making structures have changed in that timeframe, issues of economic nationalism, decision-making structures, and the place of Eastern Europe in international affairs remain very much the same as they did at the beginning of the last century.
2.1: Introduction – The New Czechoslovakia

During the 1920s the Czechoslovak Republic pursued an economic and foreign policy agenda that has been described as both pragmatic and flexible. While Czechoslovak policy-makers did employ a pragmatic approach to the various issues confronting them, the flexibility of their policies is less easy to support. They devised ambitious policy agendas that in the broadest sense sought to establish Czechoslovakia as the premier power in the East European theater and the preferred conduit between East and West. As a result economic policy paralleled foreign policy as both attempted to reconcile a desire for cooperation with Western governments and businesses with an instinctive need to establish highly protectionist policies designed to guard against perceived threats of foreign domination.

Czechoslovakia emerged from the devastation of the First World War as the leading industrial state in Eastern Europe. The industrial character of the state was but

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36 Lacina and Slezák, Státní hospodářská politika v ekonomickém vývoji první ČSR; Lacina, Formování československé ekonomiky, 1918-1923; Zlatá Léta: československého hospodářství, 1918-1929.
one of the legacies it inherited from the Habsburg Empire, and in truth, one of the few positive legacies. Czechoslovakia was also a state without historical precedent, multiethnic in composition, and assembled from territory that in at least two instances had more than one claimant. In 1918 it was a state in need of capital investment, trade and Western patronage. These factors combined to add complexity to an already complicated atmosphere of domestic political compromise that was a hallmark of the First Czechoslovak Republic, particularly throughout the 1920s. There were other legacies resulting from three centuries of Habsburg and Hungarian domination, however, that played a significant factor in the development of a closely aligned economic and foreign policy.

By 1918 most of the industrial capacity of the Austrian half of the Dual Monarchy was located in Bohemia, but its traditional markets were oriented toward Vienna and to a slightly lesser extent, Budapest. What had at one time been an essentially free imperial trade zone was now a politically fragmented and economically competitive Eastern Europe. To capitalize on its industrial inheritance, Czechoslovakia’s policy-makers had to orchestrate policy agendas that would do nothing less than elevate their country to a position of unrivalled authority within the region. Furthermore, it was the intention of these men to promote their state as a necessary and steady platform for Western business interests in a region awash with political and economic turmoil. Their intent was to

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37 Czechoslovakia suffered territorial disputes with Poland over the northern region of Těšín and with Hungary over southern regions in the Slovak half of the new republic.

38 Bohemia was the westernmost region of the new Czechoslovak state and shared a border with Austria, Germany and Poland.
establish Czechoslovakia as the only firm foundation available for bridging the gap between East and West in the decade following the First World War.

The very nature of the First Czechoslovak Republic lent itself to a reliance on coalition governments to lead the politically, socially and economically diverse new state through the interwar period. Between 1918 and 1929 Czechoslovakia was led by no fewer than eleven separate governments, but the one constant in every one of these was the foreign minister Edvard Beneš. A founding member of the Czechoslovak independence movement, Beneš was an ardent nationalist and arguably the most influential policy architect in the First Republic. His close association with Tomáš Garrigue Masaryk, the first president, ensured Beneš’s prominent place in the various Czechoslovak governments and his inclusion in the tight circle of influential presidential advisees known as the hrád (castle). From 1918 to 1935, when he followed Masaryk into the presidency, Beneš served as foreign minister and was, for all intents and purposes, the sole director of Czechoslovak foreign and economic policy.

Beneš was an ambitious and well educated individual with a clear understanding of Czechoslovakia’s reliance on large state support for its continued success as an

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39 In truth, there were other similarities between the various government coalitions that help explain the relative stability of the Czechoslovak polity, but the only individual to hold a position in every government was Beneš. Other consistencies between the government coalitions of the 1920s are discussed in greater detail later in the text.

40 The hrád was an informal think tank and quasi-constitutional body comprised of the leading political actors in the First Czechoslovak Republic. They took their name from the Hradčany (Prague Castle) that was the seat of the Czechoslovak presidency. Acting outside the framework of parliament, they were widely acknowledged as the real force in Czechoslovak politics, directing policy from behind the scenes. The hrád essentially served the function of an unofficial cabinet, but at times was also considered an oligarchy challenging Czechoslovakia’s claim to be the only true democracy in the region.

41 Before the outbreak of the First World War he had earned two doctorates, one in law from the University of Dijon in France and a second in philosophy at the Charles University in Prague. Richard Frucht, ed.,
independent democracy in Eastern Europe. Beneš’s ascent to the upper echelons of Czechoslovak power began when his graduate studies brought him into ever closer contact with Masaryk, then a professor of sociology and philosophy at Charles University as well as a member of the Young Czech (Mladočeši) political party and a leader in the Czech nationalist movement. With its roots in the late nineteenth century, the Young Czech political party advocated Czech national autonomy, economic development and widespread civil liberties, but as the First World War ground on, Masaryk and other like-minded nationalists recognized the opportunity to promote full-scale independence. This influence had a profound impact on Beneš who had worked closely with Masaryk to articulate an agenda for the growing Czech independence movement in the years before the First World War.

When war engulfed Europe in 1914, Beneš joined Masaryk in exile in the West where both vigorously campaigned for Western recognition of an independent Czech state. While Masaryk traveled to London and toured the United States to drum up support for the movement, Beneš remained in Paris. It was during these crucial war years that Beneš distinguished himself as a leading member of the nationalist movement and established the diplomatic connections with Western politicians that he would come to rely upon in the interwar decades. Working closely with another leading (Slovak) nationalist, Milan Štefánek, Beneš served as secretary of Národní Výbor in Paris seeking recognition as the Czechoslovak government in exile. This organization also worked closely with other elements of the nationalist movement that had remained in Prague under the leadership of other prominent nationalists such as Karel Kramář, Antonín

Švehla and Alois Rašín. By 1918 Beneš was an indispensable member of a small cadre of individuals who would take leading roles in the new government, shaping both its domestic and foreign policies in the crucial first decade following independence.

In 1918 Czechoslovakia emerged from the wreckage of the Habsburg Monarchy as a constitutional democracy with a bicameral parliament elected by direct, proportional representation. The political structures of both the United States and France heavily influenced the First Czechoslovak Republic and were just several of the many influences derived from Beneš’s and Masaryk’s time abroad. Czechoslovak politics also benefited from the existence of the Bohemian Diet which had allowed for the development of a political tradition in the Czech Lands under Austrian domination. The structure of Czechoslovak politics emphasized the importance of the party apparatus. Citizens voted for a party platform and the parties winning representation then selected members of parliament from their ranks. One of the results of this system was that legislators were as beholden to their party as they were to their constituents. Party discipline became paramount. Furthermore, the abundance of political parties in the early years of the republic all but ensured the existence of coalition governments. The key parties dominating Czechoslovak politics in the 1920s were the Czechoslovak Social Democratic

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43 The parliament consisted of a lower house, the Chamber of Deputies (Poslanecká Sněmovna), and an upper house, the Senate (Senát).

44 The spectrum of political parties in the First Czechoslovak Republic was as telling an indicator of the social, ethnic, and economic diversity of the state as anything else.
Party (Československá Sociální Demokracie, ČSD) headed by Vlastimil Tusar, the Czechoslovak Agrarian Party (Československá Agrární Strana, ČAS) headed by Švehla, the National Democratic Party (Národní Demokracie Strana, NDS) headed by Kramář, the Czechoslovak National Socialist Party (Československá Národně Socialistická Strana, ČNS) of which Beneš would eventually become a member, and two populist parties, the Czech People’s Party (Českoslovenká Lidová Strana, ČLS) and Andrej Hlinka’s Slovak People’s Party (Slovenská L’udová Strana, SLS). Additionally, in May 1921, the Communist Party of Czechoslovakia (Československá Komunistická Strana, ČKS) was formed as a break-away element of the ČSD.45

What becomes apparent from this diversity is that members in the early nationalist movements quickly splintered into a variety of political parties, each competing to promote its own vision of the new Czechoslovak state. Although the coalition nature of the governments forced them to continue to work closely together political differences often created tension among leading policy-makers. In 1918 Masaryk’s popularity and international reputation allowed him to be easily elected president and with his considerable influence Beneš assumed the role of foreign minister. Rašín, a member of the NDS, assumed the position of Finance Minister and immediately set to work protecting the Czechoslovak economy from the runaway inflation plaguing postwar Central and Eastern Europe.46 Kramář was elected prime minister and Švehla continued


to play an important role as a member of the hrâd and shortly thereafter, the shadowy governing organization known as the pětka. Kramář quickly proved to be an ineffective head of government and was soon replaced. What followed was a number of coalition governments formed in quick succession before the political scene stabilized to some degree under Švehla and his Agrarian/Republican party in October 1922. This was the politically volatile domestic environment in which Beneš and the other leading policymakers of the young state began articulating their policy objectives.

2.2: Foreign and Economic Policy

Beneš’s foreign policy had several objectives which regularly contained both diplomatic and economic components. His policies were designed to promote the patronage of larger powers, such as France, Great Britain, the United States and even Russia while at the same time guarding against German and Hungarian revanchism. His policy objectives also relied heavily on the Little Entente to promote Czechoslovak territorial and economic security within its own neighborhood, particularly with respect to Austria and Hungary. Both pillars had strong economic components associated with them and this is not surprising given the mutually reinforcing relationship Beneš understood to exist between a protective economic policy and a proactive foreign policy.

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47 This was another semi-constitutional body that operated outside the framework of the parliament. It was created in September 1920 to help guide a government afflicted by partisanship and under the leadership of the bureaucrat Jan Černý. The pětka, which means five in Czech, consisted of five members from the leading political parties who operated along the principle that they agreed to agree. Its initial members were Antoň Švehla (ČAS), Alois Rašín (NDS), Rudolf Bechyne (ČSD), Jiří Štribrný (ČNS), and Jan Šrámek (ČPP). Crampton, Eastern Europe in the Twentieth Century-and After, 62.

48 Between the collapse of the Kramář government in July 1919 and the establishment of the first Švehla government in October 1922, two Tusar, one Černý and one Beneš government held power. Carol Skalnik Leff’s The Czech and Slovak Republics: Nation versus State (Oxford: Westview Press, 1998) and Věra Olivová’s Dějiny první Republiky offer detailed analysis of the politics of the First Czechoslovak Republic.
agenda. However, in attempting to coordinate these policy objectives, Czechoslovak policy-makers often sent mixed signals to both the diplomatic and business communities in the West, and this was especially true with regard to the United States.

When addressing the particular character of Czechoslovak foreign policy, Beneš often incorporated economic agendas as illustrated in one of his early speeches before the Czechoslovak Chamber of Deputies. In reasserting Czechoslovak intentions to uphold the principles of the Treaties of St. Germain and Trianon, Beneš commented, “It stands to reason that such a political agreement must be reinforced by actual economic interests and by cooperation in the field of finance and trade.”

Foreign policies are usually driven by the desire and need for security in international dealings. Beneš realized that for Czechoslovakia to operate from a position of strength his state required a stable economy. Securing the Czechoslovak economy from outside threats was paramount in the creation of this stability. What resulted was a protective economic policy that was not just driven by foreign policy objectives, but also supported these broader reaching goals. It was not a question of whether foreign policy drove economic policy or vice versa. Rather it was the case that economic policy was a natural tool in the implementation of foreign policy. It was a symbiotic relationship in which economic and foreign policies mutually reinforced themselves. Beneš required a protective foreign policy in the face of historically aggressive neighbors and potentially disengaging Western allies. This foreign policy required a sound domestic economy that would facilitate a greater degree of confidence from the international community. To secure this domestic economy,

certain protective measures had to be put in place that would protect vitally important industries from foreign competition during the crucial early years of the new republic. When these economic policies were applied to foreign investors and creditors it had an impact on foreign policy. The cycle came full circle. In this fashion Beneš very much had a stake in the decision-making process that produced Czechoslovakia’s foreign economic policy, particularly in the early 1920s.

Czechoslovakia’s foreign economic policy-making lacked a counterpart to Beneš at the helm of its diplomacy. This is not to say, however, that the realm of economic decision-making lacked thoughtful and determined figures. Certainly men such as Alois Rašín and Karel Engliš deserve a great deal of credit for the initial success of the Czechoslovak economy, but neither achieved the longevity and therefore the long-term influence of Beneš, nor did they bring to the arena of economic affairs the consistency that was a hallmark of Beneš’s tenure as Foreign Minister.

Rašín, as the first Finance Minister of the Czechoslovak Republic, made a name for himself with his much hailed actions toward stabilizing the Czechoslovak currency immediately following the war. While most Successor States to the former Austro-Hungarian Empire suffered high inflation as a result of their use of Habsburg currency, Rašín took bold steps to avoid a similar fate. In 1919 he had the borders sealed and opened currency stations where Czechoslovak citizens could take their Habsburg notes to have a Czechoslovak stamp applied. Thereafter only notes left in circulation and with the

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50 Alois Rašín was Finance Minister from November 1918 to June 1919 and again from October 1922 to February 1923.
new stamp were considered legal tender in Czechoslovakia and the “new” Czechoslovak

crown avoided the initial inflation that plagued its neighbors. However, Rašín did far
more than apply stamps to old currency.

Rašín was an ardent nationalist whose political activism predated the First World
War. Following his studies in the law faculty at Charles University he served in the
Austrian parliament. During the war he was arrested and sentenced to death for his
involvement with the Czechoslovak separatist movement. His sentence was commuted in
1917, thus allowing him to participate in the establishment of the new Czechoslovak
state. While he was also a firm proponent of foreign capital investment he believed it
should not be acquired at the expense of key Czechoslovak industries. He advocated a
strong stable currency that would allow his state to engage foreign trade and capital on an
even playing field.

In his two terms as Finance Minister, Rašín did much to contribute to the
stabilization of the Czechoslovak economy and he gained the attention of the U.S.
business community. Rašín seemed to inspire confidence in the Czechoslovak economy
and his policies were closely watched by potential U.S. investors. He was commissioned
by the Carnegie Endowment for International Peace to contribute to a series on the cost
of the First World War and the subsequent reconstruction of Europe. Rašín’s *Financial
Problems and Policy of Czechoslovakia During the First Year of Its History* was well
received by the Carnegie Endowment and became the topic of correspondence between
Rašín and several U.S. businessmen.\footnote{Pozůstalostí Alois Rašín, karton 5, číslo 226 and 253 and karton 6, číslo 389, Archiv Národní Muzeum v
Praze (ANM), Prague.}

Articles regarding his accomplishments also

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appeared in such U.S. trade magazines as *Credit Monthly* with titles such as “The Sane Man in Prague: How Rasin Rebuilt Prague” that praised the minister’s efforts to make Czechoslovakia safe for foreign trade and investment. Rašín’s ability to promote confidence among U.S. businessmen aside, he was also a leading member of the NDS as well as a member of the influential *pětka*. This gave weight to his actions and opinions among foreign observers. Tragically, his broader contributions to Czechoslovak economic policy, particularly in the realm of banking, were cut short by his assassination at the hands of an anarchist on 18 February 1923.

Karel Engliš was another strong Finance Minister with close ties to Masaryk. A member of the hrád, he also left a significant mark on the direction of Czechoslovak economic policy in the 1920s. Engliš was another graduate of Charles University’s law faculty. Upon completing his studies he entered the Austrian civil service, serving first in the regional statistics office in Prague before moving to Vienna to take a post with Ministry of Trade’s statistics office. In 1910 he became a senior lecturer in national economics at the Czech Technical School in Brno, the administrative capital of Moravia. By 1917 he was a full professor and had established himself as a leading economist in region. During the First World War he joined the independence movement and became a member of the National Committee in Prague.

Following the war he joined the NDS and served twice as a Member of Parliament and three times as Finance Minister. In these positions he advocated currency

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52 Ministerstvo Finance I, Praha (MFI), karton 176, číslo 12.522, SÚA, Prague. *Credit Monthly* was the official organ of the National Association of Credit Men. The article appeared in the October 1922 issue.

53 Rašín’s was the only political assassination in interwar Czechoslovakia, yet another distinction that set the country apart from its East European neighbors.
stabilization, but was often at odds with Rašín over the best way to achieve this goal. This difference of opinion also contributed to the sometimes conflicting messages emanating from the Finance Ministry in the 1920s. Engliš’ contributions to the financial and economic direction of the Czechoslovak Republic went beyond the Finance Ministry. He contributed to the establishment of the Czechoslovak National Bank (Československo Národní Banka, ČNB) and in 1934 became its governor and a strong advocate for a strong centralized institution. He also contributed to a new direction in economic science as a professor of economics at Masaryk University in Brno.\textsuperscript{54}

In their roles as Finance Minister both Rašín and Engliš contributed greatly to the protective mentality of Czechoslovak policy, particularly when it came to interaction with foreign entities. Rašín, and to a lesser extent, Engliš are central figures in most studies focusing of Czechoslovak economics in the interwar period. Nonetheless, on the more practical level it was the activity of the Ministry of Industry, Commerce, and Trade (Ministerstvo Průmyslu, Obchodu, a Živností, MPOŽ) and the Bureau for Foreign Commerce (Úřadu pro Zahrančního Obchodu, ÚPZO) as well as the men who directed these agencies’ activities that most clearly defined the initial scope and nature of Czechoslovak policy toward foreign participants. Dr. Rudolf Hotowetz, in particular, was a prominent figure in this context who did a great deal early on to encourage and coordinate foreign trade and investment in Czechoslovakia’s economy.

Hotowetz was a career civil servant with a law degree from Charles University. He began his career in the Austrian civil administration of the Czech Lands and by 1917 was the managing director of the Prague Chamber of Commerce. For a brief time in that

\textsuperscript{54} It was in this capacity that he developed his much hailed teleological economic method.
same year he headed the management of the Živnostenská Banka one of the largest Czech banking institutions. Following the declaration of Czechoslovak independence in October 1918 he was named chairman of the Czechoslovak Export and Import Commission where he began working closely with foreign enterprises and the implementation of Czechoslovak economic policy. His developed proficiency in this arena led to his tenure first as Minister for Foreign Commerce and then Minister of Commerce in 1920 and 1921. It was in this capacity that he would have his most direct impact on the character of Czechoslovak economic policy.

Before turning to the specifics of Hotowetz’s contribution to Czechoslovak foreign economic policy, it is necessary to place it in a broader context. Like the links of a chain, several initiatives were put into place that illustrate the direction Czechoslovak policy was headed. Many of these initiatives were concerned with protecting various elements of the Czechoslovak economy from Austrian and Hungarian influence. However, these policies were often applied broadly and therefore impacted more than just the initially intended audience.

The first systematically applied and openly protectionist economic policy that had implications for foreign interests in Czechoslovakia came about almost immediately after the formation of the Kramář government. A series of nostrification laws were passed in 1919 requiring companies operating within Czechoslovakia but headquartered in foreign cities, particularly Vienna and Budapest, to re-locate their corporate offices to

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55 Following his association with the Commerce Ministry he became chairman of the state’s General Pension Bureau. In 1928 he assumed the chairmanship of the Oriental Institute in Prague, the position from which he would enter retirement.
Czechoslovak territory and re-register as Czechoslovak enterprises.\textsuperscript{56} Failure to do so resulted in the loss of their legal status within the new republic. This was an obvious attempt to exert control over major financial institutions and key enterprises and eliminate rivals from Vienna, Budapest or other foreign capitals. The nostrification laws produced perhaps their most notable affects in the area of banking.\textsuperscript{57} Specifically, these laws had the effect of strengthening the position of the Živnostenska Banka (Trade Bank) within Czechoslovak financial circles. Živnostenska Banka became the largest Czechoslovak bank following independence and the initiatives to negate the significant role played by Viennese institutions only strengthened its position.

The nostrification laws left the Austrian institutions looking for ways to maintain their interests in the territory of Czechoslovakia and this was initially accomplished through credit links with Czechoslovak banks, particularly Živnostenska Banka. However, as the nostrification laws became more restrictive, Viennese and other foreign banks found it equally advantageous to merge their enterprises in an effort to maintain market shares. In 1919 the Czechoslovak branch offices of the Kreditanstalt of Vienna merged with the German Böhmishe Escompte Bank of Prague to form the Czechoslovak bank Böhmishe Escompte Banka und Kreditanstalt (Česká Escompi Banka a Úvрní

\textsuperscript{56} Nostrification refers to the process of recertifying under new standards. The Latin root of the word, noster, meaning "our" illustrates the Czechoslovak desire to nationalize key financial institutions and corporations.

Ustav), 52 percent of which was owned by the Živnostenska Banka.\textsuperscript{58} In addition to controlling a considerable amount of capital and a sizable number of subsidiary enterprises, the new banking entity represented a new trend in relationships between Czechoslovak and foreign banks, the mixed bank. These were essentially joint ventures between ethnically German and ethnically Czech or Slovak lending institutions that greatly reduced any friction associated with moving foreign capital into Czechoslovakia, especially from German interests.\textsuperscript{59}

The impact of nostrification laws on the banking industry is well documented in a number of studies that focus on Czechoslovak banking in the 1920s.\textsuperscript{60} These laws illustrate the increasingly restrictive and protectionist policies emanating from Prague, which had a profound impact on foreign participation in the Czechoslovak economy, as well as on the willingness of foreign enterprises to consider a potentially risky investment in a still relatively underappreciated region of Europe.

The Ministry of Industry, Commerce and Trade kept extensive records throughout the 1920s related to the nostrification process which in many cases simply amounted to maintaining lists of the companies affected by these measures. These records included forms containing the name of the enterprise, the location of its main and branch offices, the amount of capital possessed by the enterprise, the amount of foreign capital, the

\textsuperscript{58} Lacina, “Banking System Changes after the Establishment of the Independent Czechoslovak Republic,” 133.

\textsuperscript{59} Ibid., 134.

\textsuperscript{60} Ibid.; Lacina and Slezák, Státní hospodářská politika v ekonomickém vývoji první ČSR; Lacina, "Nostrifikace Podniků a Bank v Prvním Desetiletí Československé Republiky."
nature of the business, and the name of the individual running the enterprise.\textsuperscript{61}

Occasionally, there was also detailed information concerning the financial situation of this individual. These records provide insight not only into the new state’s concerns over the origin and role of foreign capital in its markets, but also into the anomalies of its laws. Often, the only thing that changed as a result of the nostrification process was a “Czechifying” of the enterprise’s name. For instance, the Westböhmischer Bergbau-Aktien Verein became the Západočeský Bankský Akciovy Spolek and the Mährische Bergbauer Gesellschaft m.b.H. became the Moravské Těžařská Společnost s.r.o. and the headquarter locations moved from Vienna to Prague.\textsuperscript{62} In other words, these were largely cosmetic changes, but they were cosmetic changes intended to send a message to foreign enterprises and to establish Czechoslovak control of its own economy. The nostrification laws also provided a mechanism that could be interpreted by foreign observers as a nuisance designed to hamper or discourage foreign direct involvement in the Czechoslovak economy. This was the ghost that Czechoslovak economic and foreign policy combated throughout the 1920s. On the one hand there was the desire and need to maintain strong relations with Western governments, but on the other the tendency to engage in overly protectionist policies that often discouraged cooperation and goodwill.

The nostrification laws also had an indirect impact on foreign policy, particularly aimed at reversing centuries of Germanic and Hungarian influence with respect to

\textsuperscript{61} MPOŽ, karton 363, číslo 367/21, SÚA, Prague.

\textsuperscript{62} MPOŽ, karton 363, číslo 367/21, SÚA, Prague.
Austria, Germany and Hungary. By its very nature nostrification targeted foreign enterprises with an already established presence in the region. With very rare exceptions, they did not apply to U.S. interests.

2.3: The Bureau for Foreign Commerce - A Controversial Experiment, 1920-1922

From the beginning of its independence the Czechoslovak government set about soliciting foreign capital and trade to help stabilize its economy. This involved not just loans from foreign governments but also from private institutions and direct capital investment from foreign firms hoping to either re-engage in the region or establish a new presence. Trade was another important component in Czechoslovakia’s economic stabilization process. To attract foreign participation, particularly the type that was generated through private business transactions, the Czechoslovak government established a Bureau for Foreign Commerce (ÚPZO). On the surface, this appears to be a reasonable and even logical development for a state emphasizing the importance of foreign capital and commerce to its political viability.

Surprisingly, the creation of the Bureau for Foreign Commerce became a hot topic for both ministerial and public debate. These debates surrounding the creation of this agency provide some indication of just how vital certain Czechoslovak policymakers viewed foreign capital participation. In meetings of the Council of Ministers the nature, extent, and role of foreign aid was regularly debated. The concerns around which these debates centered, initially, were related to who, or rather, which agency would be charged with the responsibility for directing such commerce and investment. Issues concerning how vigorously these activities were to be pursued and, assuming success,
how the capital would be used to promote Czechoslovak economic prosperity and diplomatic security were to form the core of the debate over the Bureau’s creation.

The first such debate to enter the official record occurred on 23 February 1920 in a meeting of the Council of Ministers. It is perhaps also worth noting that this was a meeting that President Masaryk attended, which was by no means a regular occurrence. Masaryk was a hard-line proponent of international cooperation and intimately understood the benefit derived from the patronage of interested U.S. businessmen.

This meeting was significant for more than its inclusion of Masaryk, however; because it introduced the key issues that would become increasingly important in shaping the debate and eventual character of Czechoslovak policy as it related to coordinating specific economic policies with a broader foreign policy. While the actors changed some with the changing governments, the issues that dominated the debate throughout the 1920s remained the same and were, in large measure, introduced in this four-hour-long meeting. Furthermore, the meeting minutes communicate a tension surrounding the extent to which Czechoslovakia should become reliant on foreign investment.

Minister of Finance Kuneš Sonntag began the meeting with a substantial report on the financial situation of the state that included commentary on the value of Czechoslovak credit on foreign markets. Following this accounting the Minister of Commerce Dr. Ferdinand Heidler announced that his analysis of the financial situation of the state agreed, in part, with Sonntag’s conclusions. Heidler stated that without further

63 Protokol o ministerské radě, konané v pondělí, na 23. února 1920 o 4. hod. odpol. na hradě, PMR, karton 4365, číslo 2994, SÚA, Prague.

64 Ibid.
loans, the government would have difficulty meeting its obligations to such programs as social security.\footnote{Ibid.} He proposed a plan that called for the Ministry of Commerce (i.e., MPOŽ) to take a leading role in attracting the capital funds the state required to meet its various obligations, including the repayment of already existing loans.\footnote{The ability of Czechoslovakia to repay its wartime assistance loans became a particularly contentious issue with the United States, particularly in the early to mid-1920s.} Minister of Posts František Staněk then initiated a debate about the direction which economic and financial policy should take. The majority of those ministers who engaged in the discussion appeared to favor a leading role for the Ministry of Commerce in attracting foreign capital.\footnote{Protokol o ministerské radě, konané v pondělí, na 23. února 1920 o 4. hod. odpol. na hradě, PMR, karton 4365, číslo 2994, SÚA, Prague.} The debate concluded with the general agreement that the Ministry of Commerce was better suited to the task than the Finance Ministry. However, the issues raised in this debate resurfaced a short time later when the creation of a Bureau for Foreign Commerce was proposed. For some, it seemed ludicrous that after determining the leading role of the Commerce Ministry an additional agency would then be created. It seemed particularly troubling to Beneš who faced the potential of yet another minister and bureaucratic apparatus to contend with in the implementation of his economically oriented foreign policy. The meeting ended without a resolution on the issue of a new agency, but the seed had indeed been planted. The instability of the Kramář government that gave way to the Tusar governments of 1920 would only allow the issue to flourish further.
On 25 May 1920 the second of two Red-Green Coalitions (Rudozelená Koalice) under the stewardship of Social Democrat Vlastimil Tusar took control of the government in Prague with a newly confirmed confidence resulting from the success of the Social Democrats and Republicans/Agrarians in the April 1920 elections. Among the new cabinet members was Dr. Rudolf Hotowetz who assumed the newly created position of Minister for Foreign Commerce. In a 2 June 1920 meeting of the Council of Ministers he delivered a lengthy report that informed those present of the basic structure and responsibility of the Bureau for Foreign Commerce. His five-part report provided detailed information about the nature of the agreement that had created the Bureau, the Bureau’s relationship to other ministries, its responsibilities with respect to imports and exports, and a program of activity for the Bureau.

Hotowetz began by presenting the bill that was intended to officially create the Bureau he was slated to command and according to the minutes of the meeting, this included a summary of the rationale for the Bureau’s formation. He reported that he and Minister of Finance Engliš agreed that the Bureau for Foreign Commerce not be extended the powers to regulate the importation or exportation of objects protected under state sanctioned monopolies. In other words, the new agency could pursue foreign commercial agreements and solicit foreign capital investment, but it could not engage in activity that might hurt those industries deemed vital to Czechoslovak economic security.

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68 The first Red-Green Coalition took control of the government on 8 July 1919 in the face of widespread discontent with the Kramař government. There were minor ministerial changes between the two Red-Green Coalitions.

69 Protokol o ministerské rady, konané ve středu, dne 2. června 1920 o 3. hod. odpol. v poslanecké sněmovně, PMR, karton 4366, číslo 2994, SÚA, Prague.

70 Ibid.
The Bureau was, in this way, limited in the independent actions it could pursue with foreign entities. The nature of Hotowetz’s comments on this issue do not suggest he deemed this to be a debilitating restriction; however, it opened the door for other ministers to question the extent of the new agency’s authority.

What began as a report on an essentially concluded agreement erupted into a lengthy debate (obšírná debata) that involved most of the ministers present at the meeting.\(^{71}\) The most contentious element of the debate concerned the meaning or sense of Section 3 of the bill that created the agency. This section specifically addressed the authority with which the Bureau for Foreign Commerce could engage foreign states and enterprises. The general concern was that the wording was too vague which could lead to unnecessary or disruptive redundancy in policy articulation. The end result of the debate was the unanimous acceptance of a reworded Section 3. The newly worded section gave the Bureau the authority to negotiate contracts for the purchase and sale of goods with foreign states as well as prepare new customs tariffs and commercial agreements, but restricted its authority to alter already existing measures. It concluded with the affirmation that the bill, so worded, be put into law with the full consent of all the ministries.\(^{72}\)

\(^{71}\) Ibid. Drs. Beneš (Minister of Foreign Affairs), Šrobár (Minister of Public Health and Minister of Unification), and Derér (Minister for the Administration of Slovakia) were absent from this particular meeting.

\(^{72}\) Protokol o ministerské rady, konané ve středu, dne 2. června 1920 o 3. hod. odpol. v poslanecké sněmovně, PMR, karton 4366, číslo 2994, SÚA, Prague.
Immediately following the conclusion of the debate on the wording of Section 3, Minister of Public Works Dr. Bohuslav Vrbenský (National Socialist) entered into the record that his Ministry fundamentally understood the need for the Bureau and so long as a unified policy in foreign commerce was applied, he had no objection to the creation of the Bureau. However, he also wanted it recorded that the Bureau for Foreign Commerce was not to engage in activity related to key industries that were within the domain of the Ministry of Public Works. Specifically, Vrbenský wanted it understood that the new Bureau would have no authority in matters related to the coal, mineral oil, iron, mining production, and building material industries. As will be shown later, the concern over mineral oil would take on different dimensions, particularly with respect to the negotiations with Standard Oil for mineral oil rights in Czechoslovakia. At that particular moment, however, Vrbenský was most concerned with coal mining. He demanded that the bill establishing the Bureau for Foreign Commerce specifically state that all import and export issues related to coal mining remain the sole purview of the Coal Mining Department within the Ministry of Public Works. So long as this was recognized, his ministry had no objection to the creation of the new agency. Hotowetz expressed his agreement with Vrbenský, and the Council of Ministers worded the agreement to indicate that the limitations of the Bureau for Foreign Commerce in matters related to coal mining were agreed upon by both Minister Hotowetz and Minister Vrbenský.

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73 Vrbenský was one of only two National Socialists in the coalition, the other being Minister of Mining Jiří Stříbrný (Beneš did not join the party until 1923). Vrbenský was, to say the least, a minority voice in this particular government.

74 Protokol o ministerské rady, konané ve středu, dne 2. června 1920 o 3. hod. odpol. v poslanecké sněmovně, PMR, karton 4366, číslo 2994, SÚA, Prague.

75 Ibid.
Aside from the concerns voiced by Vrbenský, the record does not indicate the specific concerns of any of the other Ministers who participated in the debate. Nor does the record suggest that the debate occurred strictly along party lines. The Social Democrats and Republicans, alike, each had their preferred spheres of influence with respect to the various government ministries, and the pětka attempted to maintain this understanding in order to prevent a complete collapse of political cooperation.\textsuperscript{76} As a result, it does not seem surprising that the debate was devoid of clear lines of partisan division as there would have been an understanding by all present. More interesting from the broader standpoint of foreign and economic policy interaction was the concluding comment in the reworded Section 3. The record was to indicate that the bill creating the Bureau for Foreign Commerce was put into law with the full consent of all the ministries.

Beneš (a member of neither of the coalition parties) was notably absent from this meeting. This new Bureau arguably posed more of an obstacle to his portfolio than any of the other ministries. There is little in the written record concerning Beneš’s views on the creation of this agency, but in January 1922, during his only tenure as both Foreign Minister and Prime Minister, he dissolved the Bureau for Foreign Commerce. Frank Hadler has suggested that Beneš did so as part of his campaign to dismantle “those areas of ministerial competence which encroached on the realm of foreign policy.”\textsuperscript{77}


Nonetheless, for almost two years this bureau, born out of contentious and exhaustive debate, set about fostering commercial arrangements with foreign states.

With the establishment of the Bureau for Foreign Commerce came the obvious need to staff the agency. In this same 2 June ministerial meeting Hotowetz announced his intention to draw his recruits from the corps of civil servants employed by the Ministries of Commerce, Finance, Public Works, Mining, Supply, and Foreign Affairs. In his opinion, these individual would already be knowledgeable about the relevant issues confronting his new agency and would reduce the learning curve associated with its startup. The targeted ministries also provide an early insight into the type of foreign investment and trade Hotowetz was interested in attracting. Public works projects such as hydro-electric development, forestry and mining were areas to which U.S. investors were drawn. Hotowetz also spent a great deal of time trying to negotiate trade agreements for agricultural products such as flour, grain and sugar. Hotowetz kept such details to himself in that June meeting and there was no objection to Hotowetz’s proposed recruitment plan. Perhaps the Ministers were exhausted from the debate over the agency’s jurisdiction, perhaps they recognized the logic in the plan, or perhaps they were simply content to wait until the recruits were more specifically identified. In any event, this element of the Bureau’s creation was the least contentious of the afternoon.

The recruitment of personnel for the Bureau resurfaced in the Council of Ministers’ meeting on 13 July 1920. Hotowetz’s concern at this point was the appropriate salary for the employees of his new Bureau. He argued that the nature of the

78 Protokol o ministerské rady, konané ve středu, dne 2. června 1920 o 3. hod. odpol. v poslanecké sněmovně, PMR, karton 4366, číslo 2994, SÚA, Prague.
Bureau’s work would lend itself to a high degree of temptation for corruption or the solicitation of bribes to award state contracts. The only manner in which to combat this eventuality was to sufficiently pay the civil servants who formed the core of his agency and to articulate a low threshold of toleration for corruption within the Bureau for Foreign Commerce. Hotowetz’s perspective as a career civil servant certainly placed him in a position to understand, first hand, the problem of corruption at the bureaucratic level. He was also drawing, no doubt, on his experience with the Export and Import Commission and had no desire for allegations of misconduct to distract his agency from its designated task. In any event, he received little objection from the other ministers and following this meeting, there is no mention of staffing the Bureau, only reports and discussion related to its pursuit of foreign capital.

With the organizational structure and scope of authority firmly established by early summer 1920, the Bureau for Foreign Commerce immediately set about soliciting foreign participation in the Czechoslovak economy. What is interesting is the emphasis Hotowetz seemed to place on attracting the interest of U.S. businessmen. In almost every one of his reports to the Council of Ministers from mid-1920 to mid-1921 he mentioned efforts to open channels with various U.S. entities. What makes this all the more intriguing for the purposes of this project is the fact that he rarely reports on similar activities with respect to other foreign states despite the fact that the Czechoslovak government also sought to open up trade and commerce with several European states.

79 Protokol o ministerské rady, 13. července 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.

80 There is much evidence and volumes of scholarly work dedicated to the economic relationship between the First Czechoslovak Republic and other European states; however, Hotowetz’s reports to the PMR do not indicate that this was a priority of the Bureau for Foreign Commerce.
When he does mention activity related to other states it is almost always Great Britain or France, and very rarely Central or East European states which were the more traditional and natural markets for Czechoslovak goods. There is no indication in the records as to why Hotowetz placed such primacy on U.S. investments other than the fact that he reports on these initiatives to the near exclusion of others. This is not entirely surprising since the United States replaced Great Britain as the world’s leading creditor following the First World War. Furthermore, Hotowetz’s focus on the United States supports the thesis offered here that American businessmen were courted by Czechoslovak policymakers, particularly in the early 1920s, in order to build upon the interest Czechoslovak affairs generated in the United States during the First World War.

During the first week of August 1920, Hotowetz reported to the Council of Ministers that he had negotiated a 5-6 month loan with the Czechoslovak-American Corporation of New York to be used for the purchase of flour and grain from U.S. suppliers. The loan was negotiated at 8 percent interest and guaranteed not to exceed 10 percent. 81 This is the first mention by the Bureau for Foreign Commerce of its efforts to secure any type of loan from the United States. By February 1921 Hotowetz reported that the Czechoslovak American Corporation had offered to supply an additional amount of flour on credit. 82 The terms of the credit extension were approximately the same as they had been the previous year, but these negotiations appear to be more detailed in their arrangements for transport through the Hamburg port facilities. Port arrangements were

81 Protokol o ministerské rady, 3. srpna 1920, PMR, karton 4367, číslo 2994, SÚA, Praha. Protokol o ministerské rady, 6. srpna 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.

82 Protokol o ministerské rady, 9. února 1921, PMR, karton 4368, číslo 2994, SÚA, Prague.
significant because Czechoslovakia was a landlocked country and relied on the Elbe River and Hamburg port in Germany for most of its international trade. By all accounts of the deal brokered with the Czechoslovak American Corporation, Hotowetz and the Bureau for Foreign Commerce were achieving success in engaging U.S. participation in the Czechoslovak economy. While the Czechoslovak American Corporation served as a clearing house for U.S. commodities en route to Czechoslovakia, Hotowetz was also soliciting loans from other U.S. sources.

Hotowetz presented in the previously referenced 3 August 1920 meeting news that the Morgan Financial Group in the United States had agreed to release a loan to the Czechoslovak state for as much as $200 million (approximately 10 million Kč). This loan was not intended for any specific purpose, such as the purchase of cereal goods as had been the case with the credit negotiated earlier with the Czechoslovak American Corporation. While this loan offer referenced only Czechoslovak import and export commodities, it did stipulate as one of the conditions for the credit extension that the same terms applied by the Mineral Import and Export Department also be applied to this loan and all other Czechoslovak import and export commodities. The ministers discussed the usefulness and potential benefit of such a large extension of U.S. credit. They agreed that long-term credit extensions were desirable, but remained concerned about the degree of control that would be exercised by a foreign entity. The Czechoslovak government recognized the fine line it was walking between surrendering oversight control of foreign capital and frightening away the participation of, in this case,

83 Protokol o ministerské rady, 3. srpna 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.
84 Ibid.
American capital.\textsuperscript{85} The lure of such a large loan from an American firm, however, seemed to hold more sway and Hotowetz was given the go ahead to negotiate with the Morgan Financial Group with the instruction that the loan be acquired at as low an interest rate as possible, preferably 6 percent.\textsuperscript{86}

In addition to seeking loans and capital investments, the Bureau for Foreign Commerce was also active in pursuing trade agreements with various elements of the U.S. economy. On 28 September 1920, Hotowetz reported on two negotiated agreements with American firms. Under the terms of the first agreement the North Atlantic Merchandise Company and Ernest Brewer and Company, both of New York City, provided a $3 million credit to the Czechoslovak government for the purchase of raw materials. The credit was offered at a 7 percent interest rate and a 2 percent commission.\textsuperscript{87} The other agreement discussed in this meeting dealt with a trade agreement between the Czechoslovak government and the Meridian Trading Corporation of New York. Hotowetz reported that, in agreement with the Ministry of Finance, the Meridian Trading Corporation would be allowed to import refined cotton, wool and other raw materials duty-free. The U.S. firm would be required only to pay a one half percent import and security fee necessary to release the goods from the port facilities.\textsuperscript{88} This latter agreement is referenced again December of that same year when Hotowetz indicated that there had been a minor alteration to the contract. At that time the contract

\textsuperscript{85} Ibid.

\textsuperscript{86} Ibid.

\textsuperscript{87} Protokol o ministerské rady, 28. září 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.

\textsuperscript{88} Ibid.
with the Meridian Trading Corporation as well as an identical contract with the Haas
Brothers Fabrics Corporation in New York was amended with regard to the cancellation
clause. The original clause had allowed any of the parties to provide six months
notification prior to canceling the contract. In December, the contract was amended to
state that no such cancellation could be initiated prior to 31 August 1921, essentially
locking in the negotiated agreement for one year.89

The year 1921 witnessed the continued momentum of Hotowetz’s attempts to
capture the interest and contractual obligations of the American business community. In
January the Bureau for Foreign Commerce negotiated another credit extension for the
purchase of “several thousand tons” of grains and flour from American markets.90 The
very next month, Hotowetz delivered a lengthy report on the contract with the
Czechoslovak American Corporation for the purchase, on credit, of flour from mills the
firm represented in the United States. He informed the Council of Ministers that he had
telephoned the director of the state’s Grain Bureau in London two days earlier with
instructions to negotiate the contract with the approval of the Council of Ministers.91
Hotowetz reported he had received a telegram that afternoon confirming that the bureau’s
director had concluded the agreement, the terms of which are given at great length. In
fact, the terms of the agreement appeared to be the most involved Hotowetz and his
agency had arranged to date.

89 Protokol o ministerské rady, 9. prosince 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.

90 Protokol o ministerské rady, 15. ledna 1921, PMR, karton 4368, číslo 2994, SÚA, Prague. The credit
was extended by Schick and Katz for a period of 3 to 9 months at 8 percent interest.

91 Protokol o ministerské rady, 9. února 1921, PMR, karton 4368, číslo 2994, SÚA, Prague.
The agreement called for the purchase of vast quantities of wheat, flour, and other grains from the American market that were to be delivered via the port facilities in Hamburg. Half of the negotiated amount was to be shipped immediately with the other half arriving six months later. All of this was to be guaranteed by the Czechoslovak government and a consortium of (unnamed) Czechoslovak banks at 12 percent interest. The debtor of record would remain the State Grain Bureau. Collateral for the credit was to be the sugar stores in the Czechoslovak warehouses in Hamburg which would be held until the official agreement was signed by the Czechoslovak government and banking consortium. The bureau’s director had arranged for all of this to be overseen by the Czechoslovak American Corporation in Paris.\textsuperscript{92}

The arrangement became slightly more interesting when the London banking group Erlanger became involved in this arrangement. Písek reported that Erlanger had approached him with an offer to loan the Czechoslovak government between 80,000 and 100,000 pounds for the purpose of financing the aforementioned credit extension to purchase U.S. goods. Erlanger was informed that it would take several days for an official response to arrive from Prague. In the meantime, Hotowetz worked to convince the Council of Ministers that the Erlanger loan could be put to immediate use; for he had also received news from Heidler\textsuperscript{93} regarding another foreign goods purchase. Heidler was at that time negotiating a deal between the Czechoslovak government and the Müller Company in the Hague for the purchase of 24,000 wagons of wheat. The terms of the

\textsuperscript{92} Protokol o ministerské rady, 9. února 1921, PMR, karton 4368, číslo 2994, SÚA, Prague.

\textsuperscript{93} Recall that Heidler had been the Minister of Commerce under the first Tusar (Red-Green) government from July 1919 to May 1920.
deal were that half the amount be paid up front in cash with the rest purchased on a three month credit. The Müller Company would also accept as partial reimbursement for the credit extension 150,000 tons of Czechoslovak sugar devoid of the storage and commission fees. Hotowetz urged the Council of Ministers to approve this agreement in order to take advantage of what he believed to be favorable credit extensions.94

The various deals were, in fact, completed and Czechoslovakia was able to acquire the U.S. goods it desired. More importantly, the Bureau for Foreign Commerce was proving that it was capable of attracting foreign trade and capital. Furthermore, the foreign credit extensions demonstrate a degree of confidence on the part of U.S. and British lending institutions in the type of economic reforms and stabilization initiatives being implemented by men such as Rašín and Engliš in the early 1920s. This relative success gave Hotowetz the momentum he needed to continue his pursuit of U.S. involvement in the Czechoslovak economy.

The Bureau for Foreign Commerce approached its mandate from several directions in 1920 and 1921. Aside from negotiating the kind of trade and credit agreements mentioned above, the agency also sought to attract the attention of U.S. firms interested in making more tangible investments in the Czechoslovak economy. Toward that end, the Bureau sponsored a number of professional exchanges that entailed sending delegations of Czechoslovak engineers to the United States to study American manufacturing practices. In September 1920, Hotowetz reported that a delegation organized and sponsored by the Bureau for Foreign Commerce was being sent to the United States to study industrial and labor techniques as well as to “study the

94 Protokol o ministerské rady, 9. února 1921, PMR, karton 4368, číslo 2994, SÚA, Prague.
manufacturing, commercial and financial situation in North America with regard to their
economic relations with the Czechoslovak Republic." In a report later that same month,
Hotowetz reported on the specific activity of one of the individual delegates, Engineer
Jan Dvořák whose observations of U.S. manufacturing techniques were being recorded
and sent back to Prague for review and implementation by the appropriate industries.
Hotowetz believed this would provide the U.S. business community with a greater degree
of confidence that the Czechoslovak economy was a place in which to invest and conduct
trade. For this reason, he asked the Council of Ministers to consider broadening the
program to allow more such representatives to tour facilities in the United States. As is
shown below, similar initiatives were being sponsored by non-governmental agencies
with a vested interest in capturing U.S. trade and capital.

With the apparent success of the Bureau for Foreign Commerce in attracting
foreign economic participation, particularly from the United States, it is surprising to note
that as early as September 1920 the necessity of having a Foreign Commerce Bureau as
well as a Ministry of Commerce began to enter the public debate with the publication of
several articles in the local Prague press. On 20 September 1920 Tribuna published the
article “Dvě ministerstva a jeden obchod” (“Two Ministries and One Commerce”).
Two days later Národní Politika published its own article. The German language press

95 Protokol o ministerské rady, 2. září 1920, PMR, karton 4367, číslo 2994, SÚA, Prague. It was common
during the 1920s for Czechoslovak officials to refer to the United States as the United States of North
America. Consequently, references made to North America were synonymous with the United States.

96 Protokol o ministerské rady, 28. září 1920, PMR, karton 4367, číslo 2994, SÚA, Prague.

97 MPOŽ, karton 12, číslo 571120, SÚA, Prague.

98 Ibid.
even reported on the issue on 25 September in Bohemia.\(^9^9\) The commentary offered in these articles mirrors the debate that had occurred earlier in the year among policymakers in the Council of Ministers. The issue of redundancy was emphasized as were the related concerns about efficiency and the potential of competing agendas to arise from perceived power struggles within government structures.

As was the case with the February 1920 inter-ministerial debate, the subject of the press articles did not concern the legitimacy of pursuing foreign trade and capital as part of an integrated economic and foreign policy. The issue for the various newspapers was whether the establishment of an independent Bureau for Foreign Commerce made sense, particularly for the long run. Both the Tribuna and Národní Politika articles raised concerns that a redundant agency created the potential for mixed signals to be sent to potential investors and trade partners. Even if this turned out not to be true, certainly the addition of another bureaucratic agency would complicate already delicate international trade and investment procedures. Despite the fact that the Bureau for Foreign Commerce was an ultimately short-lived agency, the articles were somewhat prophetic in predicting the frustration foreign enterprises, particularly those from the United States, would experience in attempting to navigate Czechoslovak channels of trade and investment.

Regardless of the success experienced by Hotowetz and the Bureau for Foreign Commerce, the larger issue was the perceived obstacles to participation that it began to represent to foreign businessmen. Even after the Bureau’s dissolution by Beneš in January 1922, the legacy of mixed signals and multiple layers of ministerial approval and oversight remained. Beneš dissolved the agency as part of an effort to streamline

\(^9^9\) Ibid.
government and cement his complete control over issues connected with foreign policy and this included foreign trade and capital participation. This episode in Czechoslovak policy-making illustrates the continual struggle within the various ministries for soliciting foreign aid and protecting domestic industries. Later chapters will demonstrate how the issues related to the work of the Bureau for Foreign Commerce specifically affected U.S. trade and investment in the Czechoslovak economy. However, it is equally important to recognize the influence the non-governmental sector exerted over Czechoslovak policy-making and policy perception before turning to the specific episodes that came to characterize U.S.-Czechoslovak relations in the 1920s.

2.4: The Non-Governmental Sector (ÚSČP)

One of the most significant non-governmental agencies that had a profound impact on the direction of Czechoslovak economic policy, particularly as it related to the participation of foreign entities was the Central Union of Czechoslovak Industrialists (Ústřední Svazu Československu Průmyslu, ÚSČP). This was an organization representing both heavy and light industry within Czechoslovakia and it was politically connected to some of the most influential policy-makers throughout the 1920s.

On 10 May 1919 at three o’clock in the afternoon the first regular plenary session of the ÚSČP was called to order in the large hall of the Žofín Palace on Slavonic Island (Slovansý Ostrov) in Prague’s New Town district.100 The opening speech delivered beneath vaulted murals by ÚSČP president Dr. František Malinský praised “the enormous change which occurred over the short period of several months” to bring together all the

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100 Stenografický protokol, valné hromady Ústřední svazu Československých průmyslníků ve Praze, konané dne 10. května 1919 o 3 h. odp. ve velkém sale na Žofíně, ÚSČP, karton 10, SÚA, Prague.
constituent organizations that had existed under the Habsburg Monarchy to represent the industrial concerns of the Czech Lands. The tone of the opening remarks helps perhaps to explain the location of the meeting. It was there that several Pan-Slavic Congresses had met during the last half of the nineteenth and early years of the twentieth centuries. The building, and indeed the name of this small island in the Vltava, evoked an atmosphere of a shared heritage and cooperation in a collective struggle against common external threats. In fact, the tone of many of the addresses that took place during that meeting focused on the need for the ÚSČP to immediately begin working on an agenda that would protect Czechoslovak industries and the Czechoslovak labor force from undue influence of foreign interests. At times, the meeting became emotionally charged with shouts of encouragement and wild applause. The first such indication of this emotion, and indeed the significance of the meeting itself, occurred when President Masaryk was introduced and delivered comments.

Early in his address to the ÚSČP Masaryk encouraged the delegates to remember that there still existed on the world market a Czechoslovak industrial legacy and that it was the next arena where great service to the state was desired. His remarks evoked shouts of “Výborné!” (Excellent!) from the audience and there is a clear sense of the significance of his presence at this meeting. Masaryk also took the opportunity to temper the enthusiasm for an overly xenophobic economic policy by reminding those gathered that compromise would be essential in fostering long-term relations with foreign states.

101 Ibid.
102 Ibid. It is also interesting to note that by May 1919 there was already a concerted effort to create a “Czechoslovak” industrial legacy which often entailed reminding foreign vendors that what at one time been labeled “Made in Austria” had in reality always been “Made in Czechoslovakia”.

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In so doing, he informed them that what might be considered “relaxed” commercial agreements had already been made with Italy, England, and the United States so as to “rebuild former and enter into new commercial relations with foreign states.”103 This would continue to be the challenge of both the Czechoslovak government and the ÚSČP throughout the 1920s, to negotiate the fine line between international cooperation, particularly with the West, and protectionist policies, particularly oriented toward its immediate neighbors.

Following Masaryk’s comments the program included numerous addresses that dealt with issues associated with almost every element of Czechoslovak industry and commerce, from foodstuffs, to raw material supplies, to manufactured goods. Many of these speeches were delivered by factory directors from these varied sectors of the economy and two things become readily apparent. The first is the emphasis placed on American participation and the second is an apprehension of too much foreign economic participation, which Masaryk’s comments sought to address.

America figured prominently in the minds of many ÚSČP members in 1919. In his address to the assembly of the first plenary session Dr. Václav Schuster declared, “We must reorient our policies – it is legitimate to do so – and the direction is to the West, in the direction of America. We know that without the help of America we are unable to start even the 100 largest segments of our industry.”104 While Schuster spoke strongly for an American policy he also echoed sentiments popular among Czechoslovak

103 Stenografický protokol, valmé hromady Ústřední svazu Československých průmyslníků ve Praze, konané dne 10. května 1919 o 3 h. odp. ve velkém sale na Žofíně, ÚSČP, karton 10, SÚA, Prague.

104 Ibid. Schuster was a state secretary and his introduction had been met with “thunderous applause” (bouřlivým potleskem).
politicians and industrialists that Czechoslovakia’s economic future lay in the markets of the West and not in their traditional East European markets. He stated that while the traditional markets of the “former land empire of the Balkans and the Orient” were important to the Czechoslovak economy, they had to recognize that they were in “an intensive struggle” with Germany that necessitated restored relations with the West.\textsuperscript{105} This, he continued, required increased commercial relations with France, whose national spirit “we, and especially me, so ardently love and admire.”\textsuperscript{106} These opening comments were greeted with continued applause and shouts of “Výborně!” from the assembled delegates. His lengthy remarks extolled the virtues of increased economic relations with not just West European states, but also the United States whose advanced industrial practices could assist the recovering Czechoslovak economy. As with Beneš, Schuster was promoting the idea that Czechoslovakia’s security was tied to its ability to establish itself as the leading industrial state in Eastern Europe, a state capable of rivaling German interests in the area.

This concern with Germany was shared by more than just Schuster. In addition to German interest in East European markets, there was also concern among members of the ÚSČP over German inroads into the U.S. market. The address delivered by the factory director Pytlík cautioned that Czechoslovakia risked becoming subordinate to German financial institutions because as they had “read in the newspaper [that day] there were already German commissions in America establishing relations and soliciting financial

\textsuperscript{105} Stenografický protokol, valmé hromady Ústřední svazu Československých průmyslníků ve Praze, konané dne 10. května 1919 o 3 h. odp. ve velkém sale na Žofíně, ÚSČP, karton 10, SÚA, Prague.

\textsuperscript{106} Ibid.
resources for large German firms while we sit by.” The tone communicated a sense of urgency and a concern on the part of Czechoslovak industrialists over a new form of German economic aggression: the fear that Germany might supplant Czechoslovak interests in the U.S. market. However, this was a somewhat misleading concern in 1919, considering the fact that Czechoslovak industrialists were not “sitting by.” In fact, the managing director of the ÚSČP, Dr. František Hodač was, at that time, actively courting U.S. business interests.

Hodáč, while directing the ÚSČP throughout the 1920s, remained politically active with the National Democratic party which was closely associated with the manufacturing and financial concerns of the First Czechoslovak Republic. Politically well connected, he was therefore in a position to promote the agenda of the ÚSČP within government circles, especially where it concerned foreign participation in the Czechoslovak economy. Hodáč was among the initial Czechoslovak representatives who visited the United States following the First World War to observe manufacturing practices and strengthen business connections. His meetings with leading industrialists and businessmen included one with Harold McCormick, president of International Harvester. Hodáč not only sought market opportunities for Czechoslovak manufactured goods, but discussed issues of trade, raw material supply, low-interest loans and investment opportunities for U.S. enterprises. The relative success of this early

107 Ibid. This as some resonance with Harvey’s insistence that Czechoslovak officials move quickly to acquire U.S. war surplus that was discussed in the previous chapter.

108 He served as General Secretary of the organization from 1918 to 1933 and was also Vice-Chairman from 1928 to 1934. Josef Tomeš, Slovník k Politickým Dějinám Československa, 1918-1992 [Dictionary of Czechoslovak Political History, 1918-1922] (Prague: Nakladatelství Budka, 1994), 73.

109 ÚSČP, karton 21, číslo 0/2/1, SÚA, Prague.
trip to promote Czechoslovak industry to U.S. investors was testified to by the farewell
dinner hosted for Hodač at the Waldorf Astoria in New York City to commemorate the
end of his visit, which was attended by a number of prominent U.S. businessmen and
diplomats.\textsuperscript{110}

As Hodač’s visit suggests, the ÚSČP sought early on to affect Czechoslovak
industrial relations with the United States by promoting an exchange of professional
practices and knowledge. Like Hotowetz’s similar initiatives, those taken by the ÚSČP
sought to take advantage of the relatively close ties with the United States that had been
fostered during the First World War to acquire new methods of manufacturing techniques
and the latest in industrial knowledge-ware. In 1919 and 1920 several Czechoslovak
missions were sent to the United States to observe the application of the most advanced
manufacturing techniques. The intent was to bring these techniques back to
Czechoslovak manufacturing facilities in order to bring them up to par with the most
advanced industrial practices of the day. But there was also an obvious secondary
objective of this initiative, which was namely to strengthen ties between the
manufacturing communities of these two republics. More than knowledge transfer, the
ability to create a network of associates in the United States held the promise of closer
economic ties.\textsuperscript{111} Such missions were not unique to the United States as Czechoslovak
manufacturers and engineers also toured British and French facilities, but the advantage
of the U.S. contact was potentially far more promising. To begin with, industrial ties
with the United States contained none of the apprehensions that were historically

\textsuperscript{110} Ibid.

\textsuperscript{111} This will be addressed in more detail in Chapter 5.
associated with European, particularly German, industrial activity in Czechoslovak territory. Closely related to this issue was the fact that U.S. enterprises lacked the strong historical presence in the region that other European businesses enjoyed. As a result, it was all the more important to establish those contacts with the U.S. business community, especially in the wake of such strong support for the Czechoslovak cause that flowed out of the First World War.

Members of the ÚSČP and Czechoslovak policy-makers alike understood the value of building and maintaining U.S. business interests in the Czechoslovak market. Aside from the manufacturing techniques that could be learned, Czechoslovak industrialists recognized that much sought after loans would not be forthcoming without confidence among U.S. investors in the stability and profitability of the Czechoslovak market. Encouraging U.S. participation in the Czechoslovak market facilitated continued economic assistance in the form of loans and bonds. As a result, there were often parallels between the activity of the ÚSČP and the various government ministries. The Bureau for Foreign Commerce and the ÚSČP both found value in sending delegates abroad to learn the latest manufacturing techniques and to ride the wave of interest shown by the American business community in the early 1920s. The difficulty would arise when the objectives of the ÚSČP and other segments of the Czechoslovak economy did not parallel the objectives of Beneš and the other government ministers or conflicted with American business proposals. Later chapters explore specific cases where competing agendas complicated, and in many respects sabotaged, objectives that were shared in a broader understanding of Czechoslovak foreign economic policy.
2.5: Conclusions

Two things become clear from a study of Czechoslovak policy-making in the early 1920s. The first is that the political wrangling and compromises that occurred in the stabilization of the Czechoslovak democracy injected a degree of redundancy into decision-making organs. This was particularly true in the field of foreign economic interaction and will be illustrated again in Chapter 4 with the Standard Oil case. The second was that Czechoslovak policy-makers both within and without the government articulated a desire to maintain a strong and perhaps necessary relationship with the United States. This desire to maintain relations with the non-European patron of a democratic Eastern Europe was evident in the activities of Hotowetz and his Bureau for Foreign Commerce as well as various members of the ÚSČP. The special relationship that had grown between these two states during the years of the First World War inspired Czechoslovak policy-makers to build upon the positive feelings that flowed with relative ease back and forth across the Atlantic in the early years of the 1920s. Czechoslovak representatives had earned a degree of diplomatic capital during those wartime years and there was every reason to expect that this could be translated into financial capital to help stabilize the Czechoslovak economy.

The mechanics that were put into place and the protectionist attitudes that were apparent in the speeches of the ÚSČP would make it increasingly difficult for U.S. businessmen to achieve the desired return on investment that they understandably expected from their extension of trade and capital. It also makes it difficult to support the assertion that Czechoslovak foreign and economic policy was flexible. Anxious to protect the domestic economy from revanchism and foreign domination, leading
Czechoslovak policy-makers created barriers to entry that were uniformly applied to all foreign enterprises operating within the newly independent republic. Furthermore, the conflicting message of actively soliciting Western patronage while simultaneously forcefully asserting independence and parity with the West made it difficult for U.S. businessmen to navigate the waters of Czechoslovak investment opportunities. When it came to U.S. trade and capital, Prague expected them on its terms, as if forgetting, or choosing to ignore, the client-patron relationship that at other times it so clearly articulated.

Subsequent chapters will look at specific moments and negotiations that did more than send a mixed signal to U.S. businessmen and diplomats. These incidents spent the capital or goodwill that Czechoslovakia had accumulated early on in its relationship with the United States. Increasingly frustrated with the obstacles and mixed signals experienced when engaging with the Czechoslovak economy, U.S. businessmen gradually lost interest in investing in Czechoslovakia and settled into a pattern of limited trade that characterized the latter part of the 1920s. Diminishing capital resulted from the inability of Czechoslovak policy-makers to infuse some degree of flexibility and creativity into their foreign economic policies. This pattern began to emerge in the build-up to the 1921 Porto Rose conference which is the subject of the following chapter.
CHAPTER 3

LION’S PRIDE:

CZECHOSLOVAKIA AT THE PORTO ROSE CONFERENCE

3.1: Introduction – A New Forum for Foreign Economic Policy

The first opportunity for Czechoslovak foreign economic policy to significantly influence its relationship with the United States, as well as with Great Britain and France, came in the autumn of 1921. While Hotowetz and his Bureau for Foreign Commerce engaged the interest of U.S. businessmen, Beneš pursued a course of action that proved irksome to American, British, and French diplomats. In late October 1921 the Successor States of the Austro-Hungarian Empire convened a conference in the Adriatic resort town of Porto Rose for the purpose of negotiating the details of commercial relations amongst themselves and to determine the broader economic character of the Danubian region.112 For Czechoslovakia, the conference presented a new opportunity to promote Beneš’s foreign economic agenda. As detailed in the previous chapter, this agenda sought nothing less than to establish Czechoslovakia as the premier power in Eastern Europe.

112 Porto Rose is a small town just south of the major port city of Trieste. In 1921 the town was part of Italy. Today Portorož is part of Slovenia’s 46.6 km (28.9 mi) coastline. The conference, hosted by Italy, also included delegates from Czechoslovakia, Poland, Yugoslavia, Austria, Hungary, and Romania as well as observers from the United States, Great Britain, and France.
While the Porto Rose Conference was intended to resolve many of the technical dimensions of commercial relations among the Successor States and to promote a shared American, British, and French interest in greater economic cooperation in the East European theater, the conference also provided a unique platform for Czechoslovakia to exercise its foreign economic policy on an international stage. Approached as such, the conference becomes a lens through which to study the early manifestations of Czechoslovak foreign economic policy and its impact on relations with its neighbors and Western patrons.

The Porto Rose Conference remains largely unexplored by historians. With the exception of one book dedicated to the conference, most scholars of interwar diplomacy in Eastern Europe devote no more than a few pages to the month-long conference. Among the brief treatments of this conference, scholars provide an array of interpretations. Some historians have considered it “the first important attempt to establish better economic relations among the Danubian States.” Still others have used the conference to illustrate the effectiveness of the Little Entente by demonstrating how the desire to oppose the ratification of the protocols consolidated the cooperation between

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Czechoslovakia, Yugoslavia, and Romania. However, most scholars who mention the conference focus on its inability to produce the intended Danubian Confederation and therefore represent the conference as a significant setback in the foreign policy aspirations of the Western Powers for the region. The Porto Rose Conference has thus been relegated to that category of historical events more notable for its inability to live up to its expectations than for its successes. It is portrayed as either a supporting character in the larger story of interwar conference diplomacy or one more example of controversial actions taken by members of the Little Entente in the 1920s. It has, however, never been examined as an example of one of Czechoslovakia’s first foreign policy successes. Neither has the conference been studied with regard to its negative impact on U.S.-Czechoslovak relations in the 1920s.

There are two approaches for understanding the significance of the Porto Rose Conference in this respect. The first originates in the West and deals with the objectives of the Porto Rose Conference for the United States, Great Britain and France. These powers, while not official participants in the proceedings, were instrumental in bringing the conference to fruition and the observers they sent were important behind the scenes actors. The second approach originates in Prague and provides insights into Czechoslovakia’s foreign economic agenda in Eastern Europe. It also brings to light the increasing friction that was being generated between Czechoslovakia and its western partners.

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117 Success in this instance is a matter of interpretation. In the immediate aftermath of the conference, Czechoslovak policy-makers considered their actions successful, but as this chapter will suggest, the longer-term impact of these actions on U.S.-Czechoslovak relations proved otherwise.
patrons as a result of its inflexible foreign economic policy. The fallout of the conference in Porto Rose would contribute to a declining interest within the U.S. diplomatic community for opportunities in Czechoslovakia.

The legacy of the Porto Rose Conference, therefore, gains greater significance when it is rescued from the shadows of interwar conference diplomacy and given a fuller treatment in the broader context of Czechoslovak foreign policy in the 1920s. If it is to be interpreted as the fateful event that failed to meet its expectations, then it must also be viewed as the first of many moves made by Czechoslovakia to establish itself as the economic center of Eastern Europe. This more robust analysis illustrates the broader accomplishments and failures of Czechoslovak foreign economic policy as it was first articulated at Porto Rose.

3.2: Great Expectations: The Desire for a Danubian Confederation

The devastation of the First World War and the subsequent reshuffling of the East European map necessitated significant economic assistance from the Western Powers. The political, economic, and social conflicts ushered in by decades of nationalist aspirations were compounded by the war and were of particular urgency in Eastern Europe. The region, precariously suspended between defeated Germany and Bolshevik Russia, could little afford long-term instability. For this reason, the United States, Great Britain and France were interested in stabilizing the region economically and politically. Whether interested in such stabilization in order to justify withdrawal from the region, as was the case with the United States and Great Britain, or because the region then factored prominently in a new foreign policy agenda, as was the case with France, the Western
Powers sought an atmosphere of cooperation in Eastern Europe. Toward that end, they promoted the idea of an economic confederation of the Successor States. Since Porto Rose was intended to address the more technical aspects of economic cooperation in the region, aspects whose details seemed best left to the actors in the region themselves, the Western Powers billed the conference as an opportunity for these fledgling states to demonstrate their ability to stand on their own, regulate their own affairs, and support Western visions for the region.  

Because of their increased loans and assistance and their desire to avoid conflict in the region, the Western governments sought a solution to the economic disunity of the Successor States. They argued that while the political union of the Austro-Hungarian Empire had proved problematic, the economic union had been largely successful. Prior to the war the region had developed as an integrated economic unit and it was now split into seven, separate and competing units. The nature of the transportation and communication networks, banking systems, and market relationships had once been closely integrated. Western powers feared that “balkanization” would threaten economic stability in the Danubian basin and plunge the region further into chaos and armed conflict. Consequently, an economic confederation of the Successor States seemed a reasonable solution. Such a Danubian Confederation would economically bind these East

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118 These technical aspects included such details as the distribution of rolling stock, telegraph and post regulations, navigation along the Danube River, and customs barriers between former imperial cousins.

European states together thereby fostering smoother trade relations, enhanced investment opportunities, and greater regional cooperation. The creation of this union was the goal of the Western observers who arrived in Porto Rose in the autumn of 1921.

The Western Powers agreed on the necessity for a Danubian Confederation, but were less unified with respect to the scope and nature of such an entity. Prior to the cessation of hostilities and well before the Porto Rose Conference was even conceived, Western interests were concerned with the new shape of Eastern Europe. While some politicians and diplomats had recognized the need to remold the map of Eastern Europe along ethnic/nationalist lines, others contemplated the necessity of maintaining a unified customs arrangement in the region, regardless of the eventual political and national divisions. One such example of how these issues were addressed occurred in October 1918 when the Committee for the Federation of Mid-European States hosted a luncheon at the Washington Hotel in Washington, DC. In attendance were a number of dignitaries, including U.S. Senator Hitchcock (D-NE), the Greek and Portuguese Ministers to the United States, the Counselor of the Japanese Embassy, several unnamed officers from the U.S. military intelligence community, representatives from many of the East European national movements, and the future U.S. minister to Czechoslovakia, Richard Crane.120

Participants in the luncheon heard a speech by the committee’s director, Professor Herbert Adolphus Miller, in which he outlined the importance of federated cooperation

120 Memorandum, Department of State, Office of the Secretary, October 3, 1918; The Richard Crane (I) Collection (RCCI), Box 2, Folder 13; Georgetown University Library Special Collections Division (GULSCD), Washington, DC.
among the future Successor States of the Austro-Hungarian Empire.\textsuperscript{121} The artificial nature of the Dual Monarchy, he argued, had created dissatisfaction along national and ethnic lines. Furthermore, this dissatisfaction promised to remain until political independence was granted to the various nations of the empire. He countered the prevailing fear that “the creation of new small states [meant] a spread of the chaotic and volcanic conditions that prevailed in the Balkans” by optimistically asserting the belief that once free, the new states would willingly cooperate with one another.\textsuperscript{122}

These optimistic predictions may well have been influenced by the various national committees present at that time in the United States, such as Czechoslovakia’s \textit{Národní Výbor}. Despite this possible influence, it is significant to note the attendance of a U.S. senator and the future U.S. minister to Czechoslovakia. Furthermore, Crane, already a member of the State Department, reported his attendance in a memorandum to the Office of the Secretary of State. In the memorandum he summarized his observations by stating that “it would seem as if any agreement arrived at by them [the Czechs, Poles, and Yugo-Slavs] would have considerable bearing on the many vexatious questions which disturb this part of the world.”\textsuperscript{123} Thus, before the First World War was even concluded U.S. officials who later served as influential observers in Eastern Europe were exposed to ideas that formulated their political and economic aspirations for the Danubian region.

\textsuperscript{121} “The Bulwark of Freedom” by Herbert Adolphus Miller, Professor of Sociology, Oberlin College; RCCI, Box 2, Folder 13; GULSCD, Washington, DC.

\textsuperscript{122} Ibid., 4.

\textsuperscript{123} Memorandum, Department of State, Office of the Secretary, October 3, 1918; RCCI, Box 2, Folder 13; GULSCD, Washington, DC.
To the extent that the United States had a defined vision of a Danubian Confederation it considered Prague the natural hub. Its relatively strong economy, developed industrial complex, and proximity to the West, both in terms of geography and diplomacy, made it the natural choice for American observers. As already discussed, Czechoslovakia’s president was well known to U.S., British, and French officials and its foreign policy was directed by Beneš, an accomplished and accepted member of the European diplomatic corps. The policy of the United States towards Eastern Europe, indeed all of Europe, was stabilization. Economic stabilization was essential to political stability and a peaceful and secure continent. Furthermore, a stable economy presented American businessmen with the best possible environment for investment and ensured the ability of the Czechoslovak Republic to repay its wartime debts to the United States.

However, the position of the United States differed from that of Great Britain and France in that the latter two had a more defined vision for a Danubian Confederation. The United States desired economic stabilization of the region and supported the idea of an economic union, but never articulated anything that approximated the designs of Great Britain or France. This was due in part to the fact that Eastern Europe was closer to Britain and France, and therefore of more immediate concern to their policies. Furthermore, British and French officials had been living with East European issues longer than the Americans and perhaps had a better appreciation for the tendency toward strife in the region. Nevertheless, the United States maintained an active interest in the region, whether providing surplus war material, administering assistance though the

124 Pease. *Poland, the United States, and the Stabilization of Europe.*
American Relief Association or, as subsequent chapters illustrate, promoting business and investment opportunities. All these initiatives would benefit from a stable and cooperative East European economy.

British designs for an economic confederation in Eastern Europe were substantially more defined than those of the United States. In essence, British policy sought more or less to reconstruct the Habsburg state by facilitating an axis of cooperation among Austria, Czechoslovakia, and Hungary, and premised on the notion that such a union would be centered on Vienna. Within the confines of this East European strategy a Danubian Confederation would strengthen the links between these three states and allow them to exercise collective control over the broader region. Despite the emphasis of Austro-Hungarian-Czech cooperation, British policy quickly gravitated toward Vienna during the 1920s. This inclination toward the former imperial center had a number of root causes. One was a familiarity that seemed to exist between British and Austrian diplomatic circles. Longstanding relations between London and Vienna coupled with similar aristocratic traditions contributed to this level of comfort, but so did the recognition that the region’s banking institutions radiated out from Vienna. The British diplomats who were initially stationed in Prague displayed a level of contempt for the state and its people that was far from veiled and complicated long-term British objectives in the region. British officials also quickly tired of Beneš and Bátonyi.

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125 Bányai, *Britain and Central Europe, 1918-1933*. This excellent monograph provides a detailed account of British objectives in Eastern Europe, particularly where they concerned Czechoslovakia, Austria, and Hungary. However, it relies almost exclusively on British sources at the expense of truly capturing Czechoslovak, Austrian, or Hungarian reactions to these policies.


127 Ibid.
considered him to be obstructionist when it came to creating their desired East European axis. In fact, British observers characterized Beneš’s diplomacy as “profoundly Germanophobe and anti-Hungarian” and thus increasingly disruptive to their objectives. Consequently, British visions of a Danubian Confederation minimized Prague’s role to the benefit of Vienna.

The concept of a Danubian Confederation perhaps weighed more on the minds of French policy-makers than on those in the United States or even Great Britain. Eastern Europe figured prominently in the foreign policy of France following the end of the First World War as French policy-makers saw the region as a necessary buffer against the dual threats of German and Soviet Russian expansion. The French Foreign Ministry developed conflicting objectives in the Danubian region during the early 1920s as it too attempted to form a cooperative bloc of states otherwise harboring varying degrees of hostility toward one another. Czechoslovak-Polish tensions proved troublesome to French diplomats, but so too did Czechoslovak-Hungarian relations. The latter proved more disruptive to a Danubian Confederation since French foreign policy-makers envisioned an economic union centered on Budapest, which they intended to draw into the French sphere of influence. The addition of Hungary to a sphere that already included Poland and Czechoslovakia was intended to solidify France’s East European buffer zone. As will be shown shortly, France’s focus on Hungary created considerable concern among Czechoslovak policy-makers, especially Beneš.

128 Ibid., 155.
129 Wandycz, France and Her Eastern Allies, 186-207.

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The issues intended for resolution at the Porto Rose Conference may well have been technical in nature and related to the more practical and day-to-day transactions of the Danubian region, but for the Western Powers the conference clearly represented an opportunity to shape the region to their respective advantages. Broadly conceived, American and British agendas were concerned with Eastern Europe becoming self-sufficient, or at the very least, capable of self-regulation. Regional stabilization permitted disengagement, at least on the diplomatic level. The French sought regional cooperation, economic and otherwise, to ensure security. For Czechoslovakia it was a moment of promise because whether or not it was center stage in the various agendas, Western diplomats and statesmen expected Czechoslovak cooperation. Beneš and his cohorts had the opportunity to demonstrate both the flexibility of Czechoslovak foreign and economic policy and their ability to influence regional agendas to their own benefit as well as to the benefit of their Western benefactors.

3.3: The Lion’s Roar: Czechoslovakia’s Danubian Policy

As stated in the previous chapter, Beneš and other Czechoslovak policy-makers were inclined toward a foreign economic policy that was heavily protectionist and highly nationalistic. This policy was further characterized by its emphatic rejection of the notion of a Danubian Confederation or any form of regional economic union as it was articulated by the Western governments. Beneš understood that for an economic union to properly function in the region it would need to rely on, at the very least, a loose political structure. This, he insisted, would threaten the newly achieved political and economic

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130 As subsequent chapters will illustrate stabilization translated into a more desirable operating environment for the U.S. business and investment community.
sovereignty of Czechoslovakia and the other Successor States, particularly if centered on either Vienna or Budapest. Under those scenarios Czechoslovakia faced the possibility of reverting to a position subservient to its former imperial master.

In particular, Beneš was disturbed by the conception of a Danubian Confederation centered on Budapest. While the British had quickly abandoned Budapest in favor of Vienna, the French maintained an active interest in Hungary. In Beneš’s estimation, Hungary represented the most clear and present danger to the Czechoslovak state. Hungary was vocal about its dissatisfaction with the postwar territorial settlement that ceded some of its territory and a significant Hungarian minority to the new Czechoslovak state. Furthermore, Hungary was the location where Karl Habsburg, claimant to the deserted throne, twice made an unsuccessful attempt to restore the fallen monarchy. The fact that France, considered to be Czechoslovakia’s staunchest European ally, sought a closer alliance with Hungary was more than disconcerting to Beneš.

The mounting tension between Czechoslovakia and France was further complicated by the formation of the Little Entente. The loose alliance of Czechoslovakia, Yugoslavia, and Romania, was designed to surround and isolate Hungary as a safeguard against further aggressive action. France’s continued alliance with Czechoslovakia implied an acceptance of the Little Entente although it posed an

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131 Bátonyi, *Britain and Central Europe*.

132 Karl Habsburg made his attempts to reclaim the Hungarian throne first in March and then again in October 1921.

obstacle to the French concept of a Danubian Confederation. Historians have illustrated how the combined efforts of the Little Entente not only prevented the creation of a Danubian Confederation but also thwarted the long-term success of the Porto Rose Conference. Beneš’s objection to the Danubian Confederation was not solely based upon the tighter French-Hungarian relations it implied; Beneš also objected to the implication that Czechoslovakia was anything other than the economic center of the Danubian region. The French concept of a Danubian Confederation robbed Czechoslovakia of this role upon which Beneš’s foreign policy rested.

For the reasons just outlined, the issues of the Danubian Confederation and the Little Entente became intertwined with respect to the Porto Rose Conference. In January 1921 The American Journal of International Law printed an editorial comment that illustrated how vehemently some Western observers opposed Beneš’s obstructionist policy toward the Danubian Confederation. The author of the editorial cited an interview given by Beneš in Le Matin in which the Czechoslovak minister stated that,

It has been our wish to prove to Europe that the former Austria-Hungary is no longer necessary to Europe, and that even the idea of any kind of Danube Confederation may be quietly and permanently abandoned, because we ourselves can unite in a group and establish order and close cooperation without the creation of political and economic unity which would injure the various States concerned.


136 Ibid., 67. This quote, which appeared in Le Matin on 30 August 1920, was originally quoted on page 722 of the November 1920 issue of Contemporary Review.
In response, the editorialist stated, “There is something pathetic in his attempt to argue that there is nothing inherently sound in the economic solidarity that existed between the various component parts of the old Empire.”\(^{137}\) The author was furthermore unwilling to separate Czechoslovakia’s opposition to a Danubian Confederation from its leading role in the Little Entente and devoted the remainder of the piece to a rebuke of France’s willingness to accept the legitimacy of the organization.

It became increasingly clear by 1921 that the economic element of Czechoslovakia’s foreign policy ran contrary to what most Western observers intended for the region. Beneš’s policy was not an abstract notion that he articulated in press interviews and passively hoped would come about in his favor. He actively lobbied against the creation of any regional union that would limit the sovereignty and diplomatic maneuverability of Czechoslovakia. He did so, in part, by organizing the Little Entente and using it as a bargaining chip when confronting French foreign policy objectives in Eastern Europe. But he also did so with a campaign in the press, as the *Le Matin* article illustrated.\(^{138}\)

A close analysis of Beneš’s speeches, writings, and interviews with the press and foreign diplomats provides a vivid picture of his views on East European politics and Czechoslovakia’s role in shaping the region’s character. During the immediate post-war period Czechoslovakia’s importance to East European security and its centrality to regional stability were common themes in Beneš’s public statements. As early as

\(^{137}\) Ibid., 68.

\(^{138}\) Another illustration is a London *Times* article published on March 28, 1921 entitled, “Danube Federation Feelers” in which the correspondent questioned Dr. Beneš exclusively on the efforts “being made in some quarters to press the idea of a Danube Federation.”
December 1919, Beneš began framing his foreign policy in opposition to political or economic unions that might threaten the sovereignty of Czechoslovakia. In an article for the Prague newspaper, České Slovo (Czech Word), Beneš made it clear that Czechoslovakia “must refuse any unions and confederations, whether of a political or economic character” and that the state “must remain fully independent.”\(^{139}\) This mention of economic unions or confederations was an unmistakably clear reference to the proposals of the British and French governments to reconstruct a customs union in the region of the former Habsburg Empire. As far as Beneš was concerned, such a union could not be interpreted as anything shy of an attempt to lay the foundations for a resurrected monarchy.

At the end of January 1921, Beneš stood before the Czechoslovak Chamber of Deputies (Poslanecká Sněmovna) and delivered a comprehensive outline of the state’s foreign policy.\(^ {140}\) This address, which opened with remarks dismissing accusations from domestic critics that he was conducting “secret diplomacy” (tajné diplomacii),\(^ {141}\) became one of the earliest and clearest articulations of Beneš’s foreign policy objectives in the opening years of the First Czechoslovak Republic. It was in this speech that Beneš once again conveyed his opposition to the concept of a Danubian Confederation, or any other form of union among the Successor States. After briefly discussing the importance of

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141 Ibid.
Czechoslovakia’s Western benefactors, Beneš turned his attention to the “Austrian problem” and launched a headlong attack on the idea of a Danubian Confederation. The “Austrian problem” to which he referred was Western pressure on Czechoslovakia to provide financial assistance to its sister republic. For Beneš the issues of loans to Austria and the creation of a Danubian Confederation were linked, as they opened the door to restored Austrian hegemony. Financial assistance for Austria might be acceptable, but supporters of an economic confederation, he argued, could not “be taken seriously” because they failed to understand the complexity of the political relationships in Eastern Europe. For Czechoslovakia, as well as the other East European states, such an entity represented a direct challenge to newly won sovereignty. He emphasized regional solidarity over economic union and assured the legislators that Yugoslavia and Romania viewed the situation in a similar fashion. History, he asserted, proved the Austro-Hungarian construction flawed and artificial. In language that could not be misinterpreted, Beneš clearly stated that Czechoslovakia

would fight against [the Danubian Confederation] to the last moment with every means in its power both in the political and in the economic sphere. Czechoslovakia would never in any circumstances nor in any direction surrender its absolute sovereignty political or economical.

His intentions were clear, his language unequivocal. No one aware of this speech could have misinterpreted Czechoslovakia’s position with regard to an economic union in the Danubian basin.

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142 The Foreign Policy of Czechoslovakia, 8.

143 Ibid., 9.

144 Ibid.
Beneš went on to state that the Porto Rose Conference scheduled for later that year was too ambitious in its proposed attempt to address all the factors associated with economic and political stability in the Danubian region. The conference, as he envisioned, was well suited to resolve issues related to communication, navigation of the Danube River, shipping, and rolling stock, issues that, in fact, found some resolution at the conference. By his own admission, the “mere fact of agreement in the question of transport alone would do more in England, in America and in France, both for us and all our neighbors than all the propaganda imaginable.”  

Beneš clearly understood the connection between cooperation at Porto Rose and continued relations with the Western Powers. Nevertheless, he believed that there were “primal questions…[that] it [the conference] cannot definitively solve.”  

While the tone of his address was generally one of cooperation and tolerance in foreign affairs, it was also one of determination. In the final analysis of the speech, its message and its significance to this particular topic are perhaps best summed up in Beneš’s own words: “The Czechoslovak Government believes that the Central European problem as it arose during the War and as it stands today is a matter which is eminently the concern of the Czechoslovak Republic. *We are the actual center of Europe.*”  

Discussion among the deputies in the next day’s meeting dealt with Czechoslovakia’s policy toward its Danubian neighbors, particularly its former imperial master, Austria. While the need to offer some form of economic assistance to Vienna

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145 Ibid., 14.
146 Ibid.
147 Ibid. “*Jsme skutečným centrem Evropy.*” (Emphasis mine).
was recognized, references to Beneš’s speech indicate that Czechoslovak law-makers remained wary of offering too much assistance. It was one thing to extend loans to Austria to help stabilize the region and to appease the wishes of the Western Powers seeking greater cooperation and unity within the region, but it was quite another to encourage a return to the old system. As one deputy cautioned, Czechoslovak efforts to help Vienna onto its feet might result in eventual Austrian control over the Czechoslovak economy. He feared Vienna might become an “old idol newly painted” (*starý bůžek nově natřený*).  

This sentiment lay at the heart of Czechoslovak concerns over Porto Rose. What Czechoslovakia most feared was a loss of status in the region and a return to an economic and political structure similar to the one from which it had so recently emerged. As indicated above, this was not an unfounded concern. Both Great Britain and France envisioned an economic union of the region that relied on Czechoslovak participation, but centered either on Vienna or Budapest. For Beneš and other Czechoslovak policy-makers, this was unacceptable. Not only would it precipitate a loss of control in the region, but it would represent a withdrawal of British and French support for the Czechoslovak cause. The fact that the United States also exhibited an interest in an economic conference as an outcome of the Porto Rose Conference only raised the level of anxiety among Czechoslovak policy-makers. Little more than two years after its establishment, Czechoslovakia appeared to be losing the support of its staunch Western patrons.

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Approximately a month after Beneš appeared before the Chamber of Deputies, Hotowetz sent a memorandum to the Ministry of Industry, Commerce, and Trade indicating that the Czechoslovak delegate in the Austrian section of the reparations committee had been approached by his Italian counterpart and informed of Lord Curzon’s interest in the economic conference to be held in Porto Rose.\(^{149}\) According to the source the British government desired that the conference of Successor States be modeled after the conference in Rome, resolving similar technical issues and demonstrating a willingness to cooperate in the stabilization of Europe. Hotowetz made a point of the fact that according to Article 265 of the Treaty of St. Germain, the settlement of the issues Curzon and other Western statesmen wanted resolved at Porto Rose were reserved strictly for the Successor States. According to his interpretation of the clause this excluded the participation of Great Britain, France and the United States in the conference. Hotowetz was apparently sensitive to the fact that Curzon felt that Porto Rose was of the “highest importance” (“rozhodnuta nejvyšší”) in Paris and should therefore have representatives of the Great Powers in attendance.\(^{150}\) The memorandum further illustrated British interest in the economic stabilization of Eastern Europe and the pressure it brought to bear on achieving success, as defined by Great Britain.

Returning from a February trip to Rome, Paris, and London, Beneš was questioned by members of the Czechoslovak parliament about economic arrangements he

\(^{149}\) Ministerstvo Zahraničních Věcí Československé Republiky, Obchod. politická sekce, č.j. 2038/21 obch., v Praze, dne 24 února 1921, Hospodářská konference v Porto-Rose, MPOŽ, karton 44, 11996\(^{23}\), SÚA, Prague.

\(^{150}\) Ibid.
was making with other East European states. In his summary remarks to this audience, he reiterated his foreign policy objectives. The primary goal of his foreign policy, he said, was to “restore normal political, economic, and commercial relations…so as to build up together economic partnership between the nations of Central Europe.”

What Beneš meant by “normal” economic relations and an “economic partnership” in the region were concepts he deliberately left vague, particularly as he continued to engage his Western patrons. British and French officials clearly believed an economic confederation in the Danubian region was the “normal” state of affairs. The Habsburg Empire had acted as a regional customs union for centuries and by most rational standards was a better measurement of normalcy than the fractured political landscape created by the peace settlements following the war. It is equally clear that Beneš was endeavoring to redefine “normal,” especially as it related to economic relations in the region.

For Beneš, “normal” was Prague replacing Vienna as the economic center of Eastern Europe. He said as much in his speech before the Chamber of Deputies. It was, after all, a logical assumption in many respects. Czechoslovakia’s economy remained one of the strongest in the region, especially when compared with Austria. For Beneš, “normal” also meant the traditional flow of goods to markets. Bilateral commercial agreements afforded Czechoslovakia the best means to re-establish those market relations with the best possible advantage for the country. When Beneš stated that he wanted to “restore normal political, economic and commercial relations” he meant that he wanted to re-negotiate commercial agreements in order to avert this backward slide from economic

151 “Dr. Beneš on Czechoslovak Foreign Policy,” The Czechoslovak Review 5, no. 5 (May 1921): 142-143.
152 Ibid., 142.
sovereignty and to place Czechoslovak industries in the most advantageous position possible. By entering into a series of bilateral commercial treaties with neighboring states, Beneš also hoped to secure Czechoslovakia’s position at the helm of East European relations and at the same time dispense with the need for an economic confederation. Czechoslovakia could thus maintain tighter control over the conditions regulating its own commercial relations while at the same time influencing the broader economic character of the region to its own advantage.

In March, Beneš was called before the Senát to once again address the foreign policy agenda he had been pursuing on his increasingly frequent trips abroad. As had been the case a month and a half earlier when he appeared before the lower legislative house, Beneš was addressing specific concerns about his foreign policy. In particular, the Senát wanted details about Beneš’s recent negotiations with Austria and the flow of war material between various states. Beneš dismissed the latter issue, arguing it was in keeping with the international rule of law allowing individual countries to negotiate such transfers.\footnote{Narodní shromazdení republiky Československe, 1920-1925, Senát, stenoprotokoly, 46. schůze, Úterý 8. března 1921, Digitální knihovna, NS RČS 1920-1925, http://www.psp.cz/eknih/1920ns/se/stenprot/046schuz/s046003.htm, (accessed 20 September 2005).}

With respect to the Austrian question, the focus of Beneš’s comments was economic assistance. He stated that in meetings with the Austrian Chancellor, as well as in those with the Polish Foreign Minister and representatives of the Italian and French governments, he had communicated a willingness to cooperate. Czechoslovakia’s policy toward Austria, however, remained virtually unchanged from the previous year.\footnote{Ibid.} Beneš meant that Czechoslovakia would not accept a “restoration of the former relations in the

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154 Ibid.
territory that was previously Austria-Hungary."\textsuperscript{155} However, he reserved his greatest
degree of concern and skepticism for Hungary. While he stressed his desire to peaceably
resolve the tension between the two states, he was adamant that Czechoslovakia would
not lose ground in the power struggle. Austria was a state Beneš was willing to work
with, but Hungary was a state Beneš intended to isolate. It was also clear from his
remarks that Beneš intended to use the proceedings at Porto Rose to ensure that
Czechoslovakia’s position on this matter was adopted by the other East European states,
thereby negating the possibility of an economic union or at the very least, minimizing
Hungary’s role in such a union.

By the spring of 1921, the agenda for the Porto Rose Conference had been
established with some degree of detail\textsuperscript{156} and Beneš stepped up his efforts to negotiate
bilateral commercial agreements he hoped would favor his own agenda for the
conference. By May of that year, Czechoslovakia had agreements with both Italy and
Austria that extended to the end of 1925.\textsuperscript{157} Agreements with both nations eased
restrictions on imports and exports, but left the tariff clauses open for revision for the first
year. With Italy, Czechoslovakia also gained transit rights in the Adriatic port of
Trieste.\textsuperscript{158} Accounts of the agreement with Austria suggest that more caution was
exercised on the part of Czechoslovakia, especially with regard to frontier relationships.

\textsuperscript{155} Ibid.

\textsuperscript{156} Ministerstvo Zahraničních Věcí Československé Republiky, Obchod. politická sekce., v Praze, dne 11
května 1921, Konference v Porto-Rose, program, MPOŽ, karton 44, 11996\textsuperscript{23}, SÚA, Prague.

\textsuperscript{157} “Czechoslovak Commercial Agreements With Italy and Austria,” \textit{The Czechoslovak Review} 5, no. 6
(June 1921): 183.

\textsuperscript{158} Ibid..
While the basic framework of the agreement was produced by May, negotiations continued into the summer months on some of the finer points of the commercial treaty.\textsuperscript{159} By the end of 1921, Czechoslovakia had concluded trade agreements with all of its neighbors, except Hungary, as well as with Yugoslavia, Bulgaria, Italy, and France.\textsuperscript{160} Beneš’s strategy was to arrive at the Porto Rose Conference with these completed bilateral commercial agreements in order to downplay the need for an economic union. Beneš could then shift the focus to the more technical aspects of economic relations in the Danubian basin, on the grounds that an economic union would be redundant and potentially complicate these commercial agreements.

In late August, Crane, by then U.S. minister in Prague, met with Beneš and gained valuable insight concerning the latter’s views on the impending Porto Rose Conference.\textsuperscript{161} Crane observed that Czechoslovakia had been busy “following its original plan” which was understood to be “direct negotiation with individual states the benefits of which it was hoped Porto Rose would bring about.”\textsuperscript{162} This reference to an “original plan” suggests that Crane had previous conversations with Beneš that confirmed the Czechoslovak strategy to finalize bilateral commercial agreements with other Successor States. It certainly implied an understanding of Beneš’s more immediate goal of strategically placing Czechoslovakia at the center of all East European affairs. The

\textsuperscript{159} Ibid.

\textsuperscript{160} Pasvolsky, \textit{Economic Nationalism of the Danubian States}, 279.

\textsuperscript{161} Rough Draft of Despatch No. 589 from Richard Crane to the U.S. State Department concerning a conversation held at the Prague embassy with Edvard Beneš on 27 August 1921 about the Porto Rose Conference; RCCI, Box 6, Folder 40; GULSCD, Washington, DC.

\textsuperscript{162} Ibid.
other element of the conversation that Crane noted was Beneš’s impression that the United States would reward a successful conference with additional financial aid to the region. 163

Beneš and Crane met again in early October and, as might be expected, the conversation returned to the topic of the Porto Rose Conference. This time Beneš expressed concerns over the impact of the Burgenland affair on the conference. 164 Crane agreed that the territorial dispute over a region of western Hungary that Austria also claimed had “aroused antagonism,” but was confident that diplomatic success was possible and would be “regarded with favor.” 165 This statement did nothing to dissuade the Czechoslovak hope that further U.S. financial assistance was a possible outcome of a successful conference. 166

Language played a significant role in the perceived expectations for the conference. The term “successful” was batted around between Beneš and Crane in such a manner that it was left open to interpretation. By focusing his conversations with Crane only on the issues of rolling stock and other country’s territorial disputes with one another Beneš avoided any mention of the economic union that Western observers had

163 Ibid.
164 Rough Draft of Despatch No. 590 from Richard Crane to the U.S. State Department concerning a conversation held at the Prague embassy with Edvard Beneš on 11 October 1921 about the Porto Rose Conference; RCCI, Box 6, Folder 41; GULSCD, Washington, DC.
165 Rough Draft of Despatch No. 589 from Richard Crane to the U.S. State Department concerning a conversation held at the Prague embassy with Edvard Beneš on 27 August 1921 about the Porto Rose Conference; RCCI, Box 6, Folder 40; GULSCD, Washington, DC.
166 It may be worth noting that there is no evidence in the U.S. Department of State Records Relating to the Internal Affairs of Czechoslovakia that the U.S. State Department instructed Crane in any way on this issue.
hoped would result from the conference.\textsuperscript{167} The significance, therefore, lay in what Beneš did not say. The October meeting with Crane occurred less than a month before the conference convened and Beneš remained meticulously vague when he communicated his aims for the conference. It is difficult to tell how successful Beneš’s smokescreen was with respect to Crane. Crane’s memoranda back to Washington indicated that he was aware of Beneš’s “original plan,” but he made no effort to push the Czechoslovak foreign minister on the topic. The United States sent an observer to the conference and followed the proceedings closely, viewing the outcome as an indication of just how cooperative Czechoslovakia intended to be in its continued pursuit of U.S. patronage.\textsuperscript{168}

While working diligently to secure commercial agreements and shuttling back and forth in meetings with various foreign dignitaries, Beneš was coming under increasing political attack at home. Members of the \textit{pětka} and other leading politicians, such as Kramář, opposed Beneš’s almost exclusive focus on Western Europe. They argued that the Bolshevik threat in Russia must first be removed before Czechoslovakia could consolidate its position in Eastern Europe.\textsuperscript{169} Kramář complained that Beneš took on “a few tasks too many” and was consequently jeopardizing the country’s international

\textsuperscript{167} For instance, Beneš never mentioned Czechoslovakia’s territorial disputes with Poland or Hungary in these meetings with Crane.

\textsuperscript{168} Col. Clarence Browning Smith was the U.S. observer at the conference and later published his observations, thus providing a valuable resource for research into this topic.

\textsuperscript{169} Hadler, “Czechoslovakia and the Reconstruction of Post-War Europe.” It should also be noted that in 1921 members of the Czechoslovak Legion were still engaged against the Bolsheviks in the Russian Civil War. For more on that subject, see Unterberger’s \textit{The United States, Revolutionary Russia, and the Rise of Czechoslovakia}. 

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position. Beneš had responded to such claims in his February remarks before the parliament. At that time he defended his foreign policy as one that “cultivated accord with the West” and “prepared for the period when Germany and Russia [would] again take their full share in international politics.” At the heart of the dispute between Beneš and Kramář was the premiership. Kramář and members of the pěťka hoped to discredit Beneš, a close and long-time friend of Masaryk, so that they could capture control of the government, and especially foreign policy. The attempt ultimately failed and in October, Beneš became prime minister of Czechoslovakia as well as retaining his post as foreign minister. His ability to direct Czechoslovak foreign policy was all but unchecked as he prepared to depart for Porto Rose.

3.4: A Moment of Promise: The Porto Rose Conference

The Porto Rose Conference began in late October and continued until the end of November 1921. East European representatives and Western observers gathered at the Palace Hotel in the small Adriatic resort to confront the technical issues associated with the economic dismemberment of Austria-Hungary and the region’s potential economic

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170 Ibid., 434.

171 “Czechoslovak Commercial Agreements With Italy and Austria,” The Czechoslovak Review 5, no. 6 (June 1921): 183.


174 The conference was originally scheduled to take place in Bratislava, Czechoslovakia earlier that year but was delayed and later moved to Porto Rose, Italy.
re-unification. Although official observers from the American, British, and French governments were present for the proceedings, it is important to note that the Porto Rose Conference was neither organized nor sponsored by the League of Nations. Thus, contemporary observers hailed the event as a momentous step on the part of the fledgling states of Eastern Europe to settle, amongst themselves, a series of detailed issues that greatly concerned the economic stability of the region. It was essentially an East European conference for East European states and the was first time these newly independent states came together in such a manner. Nevertheless, the fact that the delegates’ aspirations did not exactly correspond with those of the official observers was not lost on anyone.

Representatives of the Successor States came to the conference with the very practical aim of settling issues of tariff barriers and resolving the still contentious issue of rolling stock. They understood that issues related to tariffs and the transportation of goods were important components of economic stability in the region. One example of the type of technical problems encountered by these East European states dealt with the distribution of the rolling stock of the former Austro-Hungarian Empire. Rolling stock was an essential component in the movement of raw material and finished goods. Following the First World War it often lay paralyzed on the tracks of seven Successor States, and each state claimed, at the minimum, ownership of what resided in their territory at the time hostilities subsided. Provisions in many of the postwar settlements

175 These technical issues dealt with the distribution of rolling stock, telecommunication and postal standards, and tariff regulations. By the end of the conference, it was hoped that these newly forged states would demonstrate to their Western benefactors their ability to resolve issues that had proved troublesome to the League of Nations commissions charged with similar concerns.
called for the division of property, including rolling stock, to be made in accord with agreements to be independently negotiated by the East European states. Understandably, these agreements proved difficult to conclude.

An indication of the problem rolling stock ownership posed was illustrated when goods traveling across newly established international borders were off-loaded from one train and transferred to another so that no train car actually crossed the border. Commerce subsequently suffered from the very real fear that once a train entered a neighboring state, it might be appropriated and lost. This cumbersome procedure created unnecessary delays and added considerable costs to the movement of goods throughout the region.176 Closely related to this problem was the issue of the borders themselves. East European commercial traffic now crossed international rather than internal borders and therefore had to contend with an entirely new set of tariffs and customs regulations. These customs regulations also hindered the transportation and exchange of goods and materials throughout the formerly unified region.

The Czechoslovak representatives to the conference were sent with very specific instructions concerning the resolution of technical issues regulating commerce in the Danubian basin.177 The greatest single concern that repeatedly surfaced in inter-ministerial communications immediately prior to the conference was the issue of rolling stock. Representatives from the Union of Czechoslovak Mineral Oil Refineries wanted assurances from Ministry of Industry, Commerce, and Trade that railcar wagons to which

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177 MPOŽ, karton 44, číslo 11.99621, SÚA, Prague. The Czechoslovak delegation included Dr. O. Růžicky, Dr. Z. Fafl, and Inž. J. Dvořák who were technical experts tasked with resolving the specifics of rolling stock, tariffs, and other commercial minutia. Beneš and Hotowitz also attended.
they laid claim were returned to them as a condition of any agreement resulting from Porto Rose.\textsuperscript{178} It was thus, this issue rather than the Danubian Confederation that occupied the concerns of Czechoslovak policy-makers, including Hotowetz, in the months leading up to Porto Rose. At least among his fellow statesmen Beneš seems to have succeeded in removing an economic union from the realm of possibility. Czechoslovak ministers and conference representatives were focused on the technical issues that Beneš hoped would sideline discussion of Danubian Confederations.

On 23 November 1921 the Porto Rose Conference ended and the participating nations produced a series of protocols dealing with various components of commercial relations and the transportation of goods, but did not include any mention of the controversial Danubian Confederation or any other form of economic union. The vast majority of the protocols were technical in nature and did, in fact, resolve the issue of rolling stock in addition to establishing telecommunication and postal standards. The rather straightforward and relatively simple solution to the matter of railway stock was hailed by the Western observers as one of the more notable achievements of the conference.\textsuperscript{179} The agreements concerning telecommunications and posts were far less dramatic and far less interesting, largely because it was an issue of standardization rather

\textsuperscript{178} Velmi nutné! Důvěrné! oběžník (Very Important! Confidential! memorandum) č. 12.141/51/obch. svolání konference v Porto Rose. 30 září 1921. MPOŽ, karton 44, číslo 11.996\textsuperscript{22}, SÚA, Prague.

\textsuperscript{179} For instance, the rolling stock disputed among the Successor States was rather easily resolved. The issue concerned an estimated 30,000-40,000 freight cars belonging to Hungary that Romania had confiscated in 1919. Under the provisions of the Porto Rose Protocols Romania was allowed to place provisional markings on all its rolling stock until the ownership dispute was settled. In the meantime the signatory nations agreed to allow all rolling stock to circulate freely throughout the region without fear of confiscation. Additionally, a method for the repair and upkeep of the rolling stock was arranged so that unserviceable cars could return to and remain in service “The Porto Rose Conference,” \textit{International Conciliation}, no. 176 (July 1922) (Greenwich, CT: American Association for International Conciliation), 12-13.
The element of the Porto Rose Protocols that was most relevant to the topic at hand, however, was the section dealing with commercial relations. This was the one area where the concept of the Danubian Confederation had been expected to surface and yet did not.

Rather than the creation of an economic union, the delegates negotiated a framework for a new tariff structure in the region. The agreements on commercial relations rested upon four basic elements. First, the Successor States agreed to abolish all import prohibitions by 1 July 1922. Second, export prohibitions would be abolished, but the date by which this was to be accomplished was left open to future negotiations. Third, following the abolition of both the import and the export prohibitions, they could only be reinstated if permitted by commercial treaties which had existed prior to the war. Fourth, prohibitions could be allowed with respect to commercial agreements with non-Successor States; however, when this occurred, they were to be designed with “the least possible difficulty for commerce between the [Successor] States.”

Furthermore, in the transition period leading up to the elimination of these prohibitions no new prohibitions were to be enacted.

In addition to these four basic elements the Successor States agreed to confer most-favored-nation status upon one another. They also agreed to conclude commercial

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180 This segment of the protocols adopted Article IV of the International Telegraphic Convention of St. Petersburg. In essence, this meant that the Successor States would continue to conduct telegraphic and telephonic communication along existing networks, but would begin construction of new lines in accord with the new international standard. With respect to the postal service, the Successor States agreed upon fees for interstate letters and postcards. “The Porto Rose Conference,” 13-15.

181 This was an interesting exception given the fact that the majority of the Successor States had not enjoyed an independent existence prior to the war.

treaties with one another based on the principles of free trade by 1 July 1922.\textsuperscript{183} These protocols eliminated the need for an economic confederation that had oversight authority for interstate commercial agreements. As Beneš had insisted upon prior to the conference, national economic and political sovereignty was maintained. Each nation was free, in fact obliged, to enter into bilateral commercial agreements with one another. The only restrictions were those broadly laid out in the protocols. Furthermore, there was no mention of penalties or consequences of any kind should the protocols not be followed when conducting commercial agreements. By all appearances Beneš had achieved his goals for the conference.

As would occur at the Genoa Conference the following year, the issue of a Danubian Confederation divided the delegates along traditional lines.\textsuperscript{184} Austria, Hungary, and Italy sought a free trade zone among the Successor States which, not surprisingly, was opposed by the members of the Little Entente. British and French observers were also divided on the issue and assumed their now familiar supporting roles. Earlier in the year France had accepted the futility of its opposition to the Little Entente, realizing that the isolation of Czechoslovakia, Yugoslavia, and Romania was too great a price to pay for more amicable relations with Hungary.\textsuperscript{185} As a result, France supported its Eastern allies’ opposition to an economic union of the region while England continued to support the free trade zone favored by Austria, Hungary, and Italy.\textsuperscript{186} The United

\textsuperscript{183} Ibid., 11-12.

\textsuperscript{184} Fink, The Genoa Conference, 247-48.

\textsuperscript{185} See Wandycz, France and Her Eastern Allies for a detailed study of this issue.

\textsuperscript{186} Fink, The Genoa Conference, 247-48.
States remained more concerned with the lack of cooperation exhibited by Beneš than with the fact that the bid for a Danubian Confederation proved unsuccessful.

The final conference protocols were prepared in French and Italian and signed by the representatives of the seven Successor States. A copy of the protocols was deposited in the archives of the Kingdom of Italy and authenticated copies returned with the delegates to the governments of the powers represented at the conference. 187 Representatives, especially those of the non-Succession States, agreed that “substantial progress was made … to recreate and reopen channels of trade and commerce.” 188 Writing on the economic condition of Austria shortly after the conference, one scholar observed, “Portorose was one of the most useful, though least advertised of all the Conferences which have been held in Europe since the Armistice.” 189 The Porto Rose Protocols were never ratified by any of the represented governments.

3.5: Conclusions

The lessons and significance of the Porto Rose Conference depend upon the lens through which the event is studied. When analyzed from the perspective of the U.S., British, and French governments, the conference’s inability to produce a Danubian Confederation represented a setback to their foreign policy aspirations in the region and scholars might understandably label Porto Rose a failure. From the viewpoint of

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187 “The Porto Rose Conference,” 28. Representatives and observers from the non-Succession States (the United States, Britain, and France) also received copies. The U.S. copy is located in the U.S. Department of State Library at 2201 C Street NW, Washington, DC.


Czechoslovak policy-makers in 1921, however, the Porto Rose Conference represented a significant success. Beneš had taken a leading role in opposing the creation of a Danubian Confederation. He carefully and consistently articulated his policy goals with regard to Czechoslovakia’s position in the region and he effectively used the Little Entente as a means of gaining French support for a policy that ran counter to its initial policy goals in Eastern Europe. However, a more long-term analysis of the impact of Porto Rose suggests that the outcome was less favorable to Czechoslovak objectives than initially believed in 1921.

Beneš desired a foreign policy that protected Czechoslovakia from outside pressures and positioned the country as a necessary component of Western policies toward Eastern Europe. The concept of a Danubian Confederation challenged these goals, not least because it threatened to remove an element of decision-making control from Czechoslovak policy-makers. An economic union of Successor States required interdependence and exposed the Czechoslovak economy to the relative weakness of its neighbors. Beneš’s position, therefore, was consistent with a major theme in his foreign policy agenda. However, the inflexibility of Beneš on this issue ran counter to another theme in his policy agenda, which was fostering closer ties with the West.

The inflexibility of the Czechoslovak position with respect to the Danubian Confederation was indicative a growing trend in its foreign and economic policy. In the early 1920s, Czechoslovak policy-makers sought to move their state from the shadow of a minor state in a peripheral region into the full light of European power politics. There was a perceived effort to refashion the Czechoslovak image. Rather than being viewed as statesmen of an oppressed nationality arriving hat-in-hand to beg for Western patronage,
Czechoslovak policy-makers desired consideration as equals at the conference and
bargaining tables of Europe. Beneš became dissatisfied with jockeying his state into
various positions in accordance with Western agendas. Czechoslovakia was the center of
Europe, he thought, and deserved to be approached as an equal.

Beneš’s position was understandable, if not premature. Indeed, Czechoslovakia
had much to offer U.S., British, and French statesmen. As a model of a new democracy
with a relatively stable economy, it offered investment opportunities and the potential to
serve as a stabilizing force in the region. However, Czechoslovakia moved too soon to
assert parity with the West, failing to truly capture vested interests before appearing
inflexible and obstructionist. This was perceived in the build-up to Porto Rose and was
manifest in the resulting protocols, but as the next chapter illustrates, this tendency in
Czechoslovak policy was only beginning.

Beneš weathered opposition both at home and abroad, never wavering from his
stance that a Danubian Confederation was detrimental to his country’s economic position
in Eastern Europe. In his speeches and public addresses he appropriated the language of
national self-determination made popular by the Western governments at the end of the
First World War and stressed the centrality of his state to the stability of Eastern Europe.
In so doing, he challenged rather than cooperated with Western governments. In 1921,
this was not enough to significantly harm Czechoslovak foreign and economic policies,
but the perception of a prideful and inflexible state would increasingly hamper
Czechoslovakia’s longer-term objectives to foster a close working relationship with the
United States, Great Britain, and France. In laying claim to its East European pride and demanding parity with the West, the Czechoslovak lion began to estrange itself from the very benefactors it sought to embrace.
CHAPTER 4

INSIDE THE LION’S DEN:

STANDARD OIL’S EXPERIENCE IN CZECHOSLOVAKIA

4.1: American Forays into the Czechoslovak Economy

The Porto Rose Conference may have strained diplomatic relations between Czechoslovakia and the Western Powers, but relations with the American business community remained unaffected by the fallout. This chapter and the next will illustrate how U.S. businessmen, encouraged by the effects of Hotowetz and his Bureau for Foreign Commerce, continued to engage the Czechoslovak state. However, the experience of Standard Oil in Czechoslovakia would become marred by mixed signals, domestic political wrangling, and competing agendas before it eventually came to an end. More than Porto Rose, which represented an unwelcome rather than mixed signal, the Standard Oil episode hurt Czechoslovakia’s ability to maintain the special relationship it had been so carefully cultivating since the First World War.

As already discussed, Hotowetz had proved successful in attracting American credit for the purchase of much needed raw material and supplies. Initially, this aid had manifest itself in the form of Liberty loans and the sale of surplus war material and other desired commodities. Another major component of Hotowetz’s agenda was the attraction of foreign direct investment in Czechoslovak enterprises. Here he walked a fine line
between Masaryk’s calls to embrace compromise with respect to foreign assistance, Beneš’s protectionist policies, and the nationalist tendencies of industrialist concerns and other non-governmental organizations. In this respect, Hotowetz’s balancing act was every bit as difficult as the one Beneš performed on a regular basis. Hotowetz and his colleagues at the Bureau for Foreign Commerce sought American involvement in some of Czechoslovakia’s key industrial sectors, but hesitated to sell too much to foreign entities. In some sectors, however, there were few options available to Czechoslovak policy-makers.

Foreign oil firms were particularly well suited in this regard because Czechoslovakia recognized its need for self-sufficiency in certain raw material resources to supply its key industrial concerns. U.S. oil firms were as interested as any other U.S. enterprise in the opportunities this new state offered. Vacuum Oil Company had long operated a subsidiary in Central and Eastern Europe and promptly sought to re-establish its markets in the immediate post-war period. Standard Oil had also operated in Eastern Europe prior to the war and sought to extend its foothold in the region in order to compete with other international oil firms such as Royal Dutch Shell and the Anglo-Persian Oil Company.¹⁹⁰ The First World War had confirmed the importance of petroleum to future industrial and military success. It was increasingly necessary in the operation of industrial operations and it was literally the driving force behind the world’s

¹⁹⁰ In this study I use the term Standard Oil to refer to Standard Oil of New Jersey (SONJ) in keeping with the practice of Czechoslovak policy-makers and members of the press in the 1920s. Following the 1911 breakup of Standard Oil, many of the smaller companies that resulted also employed ‘Standard Oil’ in their corporate titles, such as Standard Oil of New York (Socony). Since none of these firms was active in the region and time period of this study simplicity dictates the use of Standard Oil to mean SONJ.
leading armies and navies. Standard Oil was not the first to recognize the profit potential in drilling and refining petroleum and it was by no means the only international firm to attempt to capture as much of the global map as possible.

4.2: Standard Oil - Why Czechoslovakia?

Competition with its chief international rivals in the early 1920s drove Standard Oil’s attempts to expand its worldwide operations. This was certainly the case in the East European theater where the U.S. oil giant already had operations in Romania and Poland. Efforts to expand these operations and to identify new opportunities in the region were coordinated out of a Paris office. In 1920 Standard Oil and the Banque de Paris created the Compagnie Standard Franco-Américaine, a joint-stock company intended to represent Standard Oil’s interests in the European theater. On 5 August 1920 Standard Oil and the Banque de Paris et Les Pays-Bas agreed to form Standard Franco-Américaine for the purpose of producing petroleum in France, its protectorates and “any other part of the world.”

When the company was formed on 20 October 1920, Standard Oil contributed 4,900,000 francs and received 49 percent of the stock along with the right to purchase up to 20 percent of the capital stock of two leading French oil concerns, L’Économique Société Anonyme de Distribution de Pétrole et Essence, and the Société Commerciale des Produites Pétrolifières.
Standard Franco-Américaine became the official organ of Standard Oil in many of its negotiations in Eastern Europe, particularly when it began to seek confirmation of untapped oil fields throughout the region.\textsuperscript{193} This included attempts to secure the relatively untouched Czechoslovak market. As shown below, activities in Czechoslovakia would produce few profits for Standard Oil, but, as one corporate historian noted, its attempts were “well justified … from a defensive viewpoint.”\textsuperscript{194} Standard Oil’s strategy in the 1920s was to place its flag in as many oil rich regions as possible. This strategy often involved the practice of claim first, explore later in an effort to deny competitors the same opportunity. In Eastern Europe this strategy was employed in Czechoslovakia where oil fields were only suspected, but not yet confirmed. However, Standard Oil had another closely related objective in Eastern Europe which involved expanding its already established presence in Romania and Poland and potentially tying Czechoslovakia into this network.

Standard Oil’s experience in Romania was complicated, however, by the fact that it had operated in the region prior to the First World War and, therefore, sought compensation for damages and losses incurred during the war. Additionally, it endeavored to expand its operations at the expense of domestic and international competitors. Romania’s efforts to curb Standard Oil’s expansion serve to illustrate that Czechoslovakia did not necessarily act beyond the norm for the region when it came to

\begin{flushright}
Austin, TX. Banque de Paris contributed the remaining 5,100,000 francs of the company’s initial capital. The company was issued a 99 year charter.
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\textsuperscript{194} Ibid., 319.
manifesting economic nationalism and checking aggressive foreign capital. Romanian policy-makers, much like their Czechoslovak counterparts, contemplated concessions on state-owned lands in exchange for loans or capital investments, but were met with domestic opposition from those who opposed foreign capital participation. More significant, however, were the mining laws passed in July 1924 that nationalized the subsoil and banned the granting of concessions on state lands to foreign enterprises. In a move similar to Czechoslovakia’s nostrification laws, Romania encouraged foreign operations to nationalize by selling at least 55 percent of their stock to Romanian citizens. While the Romanian case shared some similarities with the Czechoslovak case, the difference largely resided in the fact that Standard Oil had already been operating in the significantly more oil-rich nation to the southeast; and though it was unable to expand its postwar operations, it was able to extract some profit from its operations there.

Similar difficulties arose with Standard Oil’s attempt to consolidate its operations in Poland. Again, these centered on operations that it had operated prior to the First World War and therefore generated a different collection of problems than those experienced in either Czechoslovakia or Romania. The issue to keep in mind with respect to Standard Oil’s foray into Eastern Europe is that Czechoslovakia represented a

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195 Ibid.
196 Ibid., 320.
197 Ibid. As will be shown later, this bears some similarity to the Standard Oil-Czechoslovak contract that required the establishment of a Czechoslovak company with significant Czechoslovak stock ownership.
198 Ibid., 323-28.
case of clearly stated desire for foreign capital participation in its economy. Standard 
Oil’s interest in that state derived not from previous holding in the region, but on direct 
invitation from the Czechoslovak government.

4.3: Czechoslovakia - Why Standard Oil?

Czechoslovakia’s industrial character and desire for foreign capital participation 
to further stabilize its economy have been addressed in previous chapters. Despite the 
success of many of the initiatives to capture this desired foreign capital, Czechoslovakia 
experienced an economic crisis in 1921, primarily due to its inability to secure markets 
for its industrial output. The American Consul in Prague reported that Czechoslovak 
policy-makers believed the crisis was, in part, accelerated by the failures of the Western 
business communities. Alois Rašín reportedly stated, “the Allies do not seem to 
appreciate the importance to them of the Central European market, and to what extent 
they are failing to make the most of the opportunity.”

All evidence to the contrary, some elements of the Czechoslovak policy leadership evidently did not believe that the 
Western Powers were doing enough to support their economy. Some, on the other hand, 
felt they were doing too much, but that it was predatory rather than constructive. 
Although the former position may have been valid with regard to the openness of 
Western markets to Czechoslovak finished goods, it was a difficult argument to support 
with respect to foreign credit extensions and capital investments.

199 Investments in Czechoslovak Industries, compiled by C.S. Winans, American Consul in Prague, 31 May 
1921; File 860F.60/2; DoSIAC; NAMP M1218, roll 11; NARA, College Park, MD.
This sentiment ran counter to an observation Beneš had made in December 1919 in which he stated, “The politicians, financiers, and merchants of the Allies must not come to our state as if it were a colony or a state which has no national economic tradition at all, but they should come to us as our collaborators, who have a larger experience, a wider scope, and who wish to help us reach that position which will not only benefit us but also them.” This statement was bold and somewhat presumptuous given the degree of aid the Western Powers provided Czechoslovakia on its road toward independence. Nevertheless, the issue at the heart of Beneš’s statement remained a significant undercurrent in the business relations between U.S. investors and Czechoslovak enterprises throughout the 1920s. This was the stage onto which U.S. oil interests stepped when, in 1921, they entered negotiations with the Czechoslovak government for petroleum and mineral oil concessions in the region.

In 1921 the Czechoslovak government invited large foreign oil companies to compete for oil concessions. The Vacuum Oil Company of New York and the Standard Oil Company were the two U.S. firms that answered the call. The Czechoslovak government was interested in granting concessions for the extraction of petroleum and other mineral oils believed to reside within the state. Czechoslovakia was not an oil-rich country and this fact became a serious national liability in the immediate aftermath of the First World War. Prior to independence, Czechoslovakia had enjoyed access to the domestic oil reserves of the Austro-Hungarian Empire and even developed a substantial refining industry. However, in the 1920s Czechoslovakia was suddenly dependent on

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200 Letter, Richard Crane, American Minister in Czechoslovakia, to SecState, 12 December 1919; File 860F.50/1; DoSIAC; NAMP M1218, roll 7; NARA, College Park, MD.
Poland, Romania, and to a lesser extent, the United States for the importation of petroleum and various mineral oils vital to its industrial manufacturing complex.\textsuperscript{201} While the formation of the Little Entente would eventually help normalize commercial relations with Romania, tensions between Czechoslovakia and Poland made reliance on Polish oil a dangerous gamble. In an attempt to diminish its dependence on foreign supplies, the Czechoslovak Ministry of Public Works sought confirmation of suspected petroleum and mineral oil deposits in the country’s central and eastern regions of Moravia, Slovakia and Sub-Carpathia. The difficulty lay in the fact that the Ministry lacked the finances and resources necessary to test for and subsequently extract these potential oil reserves.\textsuperscript{202} Therefore, the Ministry approached foreign investors for the necessary funding and found favorable interest exhibited by the Royal Dutch Shell group, the Anglo-Persian Oil Company, the Vacuum Oil Company and the Standard Oil Company.\textsuperscript{203} The Standard Oil Company quickly became the frontrunner in the contest to win rights for the exploration and exploitation of the suspected oil reserves and its participation provides the greatest insight into the type of issues with which Czechoslovak policy-makers had to contend when actively soliciting U.S. participation in their nationalistic and protective economy.

Because Standard Oil’s negotiations for concessions in Czechoslovakia represent the largest and most high-profile case of U.S. investment in Czechoslovakia in the 1920s the experience of the huge American company had a significant impact on the mood of

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\textsuperscript{201} Production of Petroleum in Czechoslovakia, compiled by C.S. Winans, American Consul in Prague, 25 May 1921; File 860F.6363/-; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.
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\textsuperscript{202} Ibid.
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\textsuperscript{203} Letter, F.M. Dearing, Dept. of State, to Richard Crane, American Minister in Czechoslovakia, 26 September 1921; File 860F.6363/-; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.
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other U.S. investors. The interaction between this U.S. firm and the Czechoslovak government illustrated many of the key issues that came to characterize the relationship between the United States and Czechoslovakia in the 1920s and arguably led to the eventual change in U.S.-Czechoslovak economic relations in the latter half of the decade.

The first few months of 1921 witnessed an increase in the Czechoslovak Council of Ministers’ interest in the finer points of their government’s negotiation with foreign enterprises for oil concessions. Toward the end of February the Minister of Public Works, Dr. Kovařík reported to the Council that bids had been requested from both Standard Oil and the Royal Dutch Company for the exploitation of petroleum and bitumen deposits located throughout the Czechoslovak state. Once the bids had been received, it was Kovařík’s plan to have a representative of the Czechoslovak government, Dr. Osuský, review the proposals and submit his findings to the Council of Ministers for their further review.204 A few weeks later Kovařík sent a letter to Osuský informing him of concerns expressed by the Council of Ministers with regard to the bids being tendered by Standard Oil and other large petroleum concerns. Specifically, the ministers were anxious to learn if the bids sought to secure exclusive rights for the drilling of petroleum and other natural gasses in the whole of Czechoslovakia, or in select regions of the country.205

This is the first time that the problematic issue regarding the scope of the concessions was raised. The fact that the bids, and the eventual contract, involved

204 Presidium Ministerské Rady, číslo 7349, od ministerské rady, konané dne 24.II.1921, Těžení živic na území čs. republiky, PMR, karton 414, číslo 1008734921, SÚA, Prague.

205 Ministerstvo Veřejných Prací, číslo 2026 Ú.sp./21, 3. března, 1921, Těžení živic na území čs. republiky. Společnost Standard franco americaine, PMR, karton 414, číslo 1008734921, SÚA, Prague.
concessions for the entire country generated a sense of foreboding that a critical national resource was being handed over to a foreign enterprise without consideration of the longer term consequences. This was further demonstrated by an inter-ministerial survey that was conducted at the end of March and beginning of April, the purpose for which was to determine the position of the various ministers on the issue of granting oil concessions to a foreign firm.\textsuperscript{206}

In April the Czechoslovak Branch of the Foreign Press Service reported on a \textit{Národní Listy} interview with Dr. Kovařík.\textsuperscript{207} The Minister was asked to comment on the government’s position with regard to Czechoslovak petroleum deposits to which he responded, “the most ideal solution of this question would be, that the state itself should carry out systematic geographical researches …We have experts enough for this purpose, but again, we have not the financial means … we shall be forced to allow foreign companies coming in naturally only such, as are not our enemies.”\textsuperscript{208}

This was the foundation upon which Czechoslovak negotiations with Standard Oil and other large and internationally competitive oil companies rested in the early 1920s. The comment also demonstrated that some in the Czechoslovak government felt \textit{forced} into the situation. While some policy-makers envisioned such an arrangement as a way to attract foreign interest, and thereby foreign support, others began to take a more protective stance. Here, too, one can see the difficulties that lay ahead for Standard Oil

\textsuperscript{206} Presidium Ministerské Rady, číslo 11495, ministerské radě, konané dne 30. března 1921, Těžení živic na území čs. republiky, PMR, karton 414, číslo 1008734921, SÚA, Prague.

\textsuperscript{207} The Foreign Press Service, Czechoslovak Branch, Week Ending April 9\textsuperscript{th}, 1921, Ser. 56. Interview with Dr. Kovařík, Minister of Public Works. RCCI, Box 6, Folder 29, GULSCD, Washington, DC.

\textsuperscript{208} Ibid.
as indicated by the reference to enemies in relation to foreign investment. Presumably this referred to German or Hungarian interests, but as no such firm sought oil concessions, this is left open to interpretation. Some would eventually equate Standard Oil’s desires to German aggression.

As the previous chapter illustrated, Czechoslovak policy-makers constantly wrestled with the need to attract foreign aid and support while at the same time remaining wary of threats to Czechoslovakia’s newly won sovereignty. The rather loose concept of what constituted a threat meant that by the mid-1920s, many U.S. businessmen found it increasingly difficult to determine if they were considered friend or foe by Czechoslovak business interests. Kovařík concluded the interview by observing that his state’s ability to finance the desired petroleum exploration and drilling did “not offer sufficient practical guarantee … therefore it seem[ed] the only way [was] to permit participation of foreign capital. It would be the case here of an American company or of an Anglo-Dutch company.”

Once again, the wording of the statement spoke volumes. The sentiment was that foreign capital participation was not so much desired as it was needed and while this was the practical reality of certain international relations, it was certainly not the most attractive invitation to invest in what was at the time a relatively untested state. In May of that same year the U.S. Consul in Prague, C.S. Winans, reported to Washington that the Czechoslovak government was interested in developing a domestic oil industry based

209 Ibid.
upon oil reserves “known to exist in Moravia, Slovakia, and Subcarpathian Russia.” In essence, the report communicated no more than the Foreign Press release which was in all probability Winans’ source. It confirmed, however, the Czechoslovak need for foreign participation to help establish a critical industry for the state. Winans indicated in the same report that the majority of the Republic’s oil was imported from Poland, Romania and the United States. It is therefore understandable that Czechoslovak officials were desirous of developing a domestic oil industry, given the strong suspicion of untapped oil reserves in the eastern and southern reaches of the state.

By June the negotiations between the Czechoslovak government and the Standard Oil Company had accelerated to the point that they were beginning to enter the public domain. At the end of that month the Council of Ministers received and discussed correspondence from two private entities both of which expressed grave concerns over the impending arrangement between Standard Oil and the Czechoslovak government. The first correspondence was a seven-page letter from Banka Československych Legii (Legiobanka) and it had a rather forceful tone as it dealt with the extremely important place of petroleum, benzene and all other mineral oils to the peace and prosperity of the Czechoslovak economy. The letter cited the crucial role of such natural resources in

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210 Production of Petroleum in Czechoslovakia, Compiled by C.S. Winans, American Consul, Prague, Czechoslovakia, May 25, 1921; 860F.6363; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.

211 Presidium Ministerské Rady, číslo 20.970/21, od Olejosvazu, 28. června 1921, Exploitace petroleje v republice československé, PMR, karton 414, číslo 1008734921, SÚA, Prague.

212 Letter, Banka Československych Legii, číslo B./T. 30.931, 22. června 1921 to Ministerské radě československé republiky. PMR, karton 414, číslo 1008734921, SÚA, Prague. Banka Československých Legii was a bank, headquartered in Prague, that represented the business interests of the Czechoslovak Legion. Early on it became engaged with foreign interests, especially with respect to the trade in raw materials.
heating and industrial lighting. Furthermore, Legiobanka reminded the government that as the recent war had illustrated, mineral oils such as petroleum and benzene were essential to military industries. For these reason, the bank was shocked that the government would consider granting a concession to such a vital natural resource to the Standard Oil Company, which it considered “menacing” (hrozivou).\textsuperscript{213} It was clear that, at that point in time, the primary concern of Legiobanka was not so much the reliance on foreign enterprises for the development of Czechoslovak oil resources as is was a concern over the participation of Standard Oil. The letter highlighted the many concerns it had over the operation of Standard Oil in Czechoslovakia and at one point indicated that the company was as dangerous to Czechoslovak interests as the Germans. In no uncertain terms, Legiobanka informed the Council of Ministers that the purpose of their letter was a defense against the Standard Oil Company.\textsuperscript{214}

“Our petroleum must be Czechoslovak petroleum.”\textsuperscript{215} The letter was emphatic that Standard Oil posed a national threat and that the government had to remain more vigilant against such ruthless foreign trusts (bezhledného trustu cizího). An interesting issue was also alluded to in this formal protest. Legiobanka argued that the Czechoslovak government could fool itself into believing the oil concessions were being negotiated with a French firm, but the fact that Standard Franco-Américaine’s headquarters were located on the Champs Élysées did not negate the fact that the real

\textsuperscript{213} Ibid.

\textsuperscript{214} Ibid. “Hlavním účelem tohoto nařízení jest obrana proti Standard Oil Co.”

\textsuperscript{215} Ibid. “Náš petrolej musí být petrolejem československým.” (Their emphasis).
decisions would be made in the New York boardrooms of Standard Oil.\textsuperscript{216} This is intriguing because the issue of whether or not the oil concessions were being granted to an American or a French interest never entered into the ministerial debates. In fact, to the extent that nationality was ever associated with the concessions, the Czechoslovak government referred to Standard Oil as an American firm, regardless of whether they cited Standard Oil or Standard Franco-Américaine. It is also intriguing that Legiobanka would consider the distinction important. Both the United States and France were considered strong allies of the Czechoslovak state. Both had supported its wartime independence initiatives and the business communities of both actively engaged the Czechoslovak economy. Furthermore, Legiobanka had been established to support the economic needs of the Czechoslovak Legion, a force that had been supported by both the United States and France as early as 1918. Many of the funds handled by Legiobanka in its early days originated in the United States. The sudden animosity toward New York financial circles communicated in its protest of the Standard Oil contract stands in strict contrast to this earlier relationship. Despite this rather aggressive reference to Standard Franco-Américaine’s veiled nationality, it did not become an issue in the broader debate, which makes the isolated comment all the more intriguing. There was no overt indication that the Ministry of Public Works, or any other organ of the Czechoslovak government, used nationality as a determining factor in the decision to deal with Standard Oil as opposed to Royal Dutch Shell or the Anglo-Persian Oil Company.\textsuperscript{217}

\textsuperscript{216} Ibid.

\textsuperscript{217} It is certainly worth considering that nationality was an underlying factor to the extent that Czechoslovakia was interested in promoting relations with large western patrons. The fact that the large oil
Six days after Legiobanka submitted its protest Oleosvaz, a cooperative representing a union of large mineral oil producers in the state, sent an equally adamant letter to the Council of Ministers politely informing the government of its “sharpest protest and warning” against granting concessions to Standard Oil. Oleosvaz highlighted many of the same points that Legiobanka had made in its letter of protest. In fact, many of the passages contained similar, if not identical points, such as the insistence that “Our petroleum must be Czechoslovak petroleum.” Aside from the protective and quasi-nationalist sentiment communicated with this remark, Oleosvaz communicated an apprehension about the long-term impact of granting oil concessions to Standard Oil. This concern was based less on a sense of nationalist pride and more on a recognition of how Standard Oil operated, particularly when it entered a new market. Oleosvaz was one of the first Czechoslovak enterprises to articulate the fear that Standard Oil would not long remain satisfied with drilling rights, but would eventually seek control over the considerable refining operations within the Czechoslovak state. The history of Standard Oil lent credibility to such concerns as did its operations in neighboring Romania and Poland. For this reason the Czechoslovak refining industry became the most vocal opponent of granting Standard Oil concessions to state resources.

In the face of such strenuous opposition, the Council of Ministers requested that

concerns were all tied to wealthy states attractive to Czechoslovak policy-makers may have simply negated the need to state the obvious, thus explaining the absence of nationality references.

218 Letter, Oleosvaz to Ministerské radě republiky československé, 28. června 1921, PMR, karton 414, číslo 1008734921, SÚA, Prague. Like Legiobanka, Oleosvaz was headquartered in Prague.

219 Ibid.
enterprises and report back to the Council. In July, Kovařík responded by agreeing that further investigation into the negotiations with Standard Oil was warranted, but cautioned against reacting too brashly. The concerns voiced by Legiobanka and Oleosvaz were targeted specifically against the perceived threat posed by Standard Oil. Kovařík reminded the Ministers that other foreign enterprises had been invited to submit bids and suggested that Standard Oil’s bid be considered in relation to the other offers.

In other words, the issues raised by the bank and the cooperative might not be the cost of doing business with Standard Oil, but rather, might be the cost of doing business with any foreign oil company interested in helping Czechoslovakia develop its domestic oil industry.

At the same time that the Czechoslovak government was beginning to receive input from domestic concerns, the U.S. government also became aware of American oil interests in Czechoslovakia. The Vacuum Oil Company informed the State Department that it had been in negotiations with the Czechoslovak government for the rights to drill and exploit oil in the region. Vacuum Oil reminded the State Department that it had operated in the former Austro-Hungarian state and had re-organized itself following the war so as to maintain its interests in a market that had for several years represented

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220 Presidium Ministerské Rady, číslo 20.970/21, od Olejosvazu, 28. června 1921, Exploitač petroleje v republice československé, PMR, karton 414, číslo 1008734921, SÚA, Prague. It also requested that the Ministries of Foreign Affairs, National Defense, Metals, Commerce, Finance, and the Bureau for Foreign Commerce be kept apprised of the inquiry. Presumably because these were the portfolios with the most interest in the outcome of these proceedings.

221 Presidium Ministerstva Veřejných Prací, číslo 5169/pres.ai.1921, 11. července 1921, Exploitač min. oljev republice československé, PMR, karton 414, číslo 1008734921, SÚA, Prague.
“substantial business.” Consequently, it was pursuing the oil concessions Czechoslovakia was offering to foreign oil interests. As far as company officials understood, this would entail the creation of a Czechoslovak company in which local dealers and distributors would have substantial interest. The letter went on to state that the negotiations were complicated by the desire of the Czechoslovak government to also participate in the company. A month later, following a face-to-face meeting between Vacuum Oil’s Charles Moser and representatives of the State Department, a clearer picture emerged regarding the exact nature of the negotiations between the oil firm and the Czechoslovak government. Moser was quite open about the fact that his company “did not feel that it would be a paying venture,” but given the Czechoslovak government’s desire to explore its potential oil resources, Moser hoped that the company would be “compensated by the consolidation of its position in Czechoslovakia.” It was also discussed at this meeting that Vacuum Oil would not hold a monopoly concession. Rather, a portion of the territory found to have oil reserves would be developed by Vacuum Oil while the rest of the territory was opened to other companies. Furthermore, the Czechoslovak government would hold the majority shares in any company organized

222 Letter, C. Moser, Vacuum Oil Company to Dr. W.W. Cumberland, U.S. Department of State, June 24, 1921; File 860F.6363/1; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.

223 Memorandum of a Conference at 11 A.M. on July 19, 1921 attended by Mr. Dearing, Dr. Cumberland, Mr. Castle, Mr. Millsapgh of the State Department and Mr. Moser and Mr. McGhee of the Vacuum Oil Company, Department of State, Office of the Foreign Trade Advisor; File 860F.6363/4; DoSIAC; NAMP M 1218, roll 12; NARA, College Park, MD.
by Vacuum Oil. That company would then be granted exclusive rights to importing oil to the exclusion of Royal Dutch and the Anglo-Persian companies.\textsuperscript{224}

There were several significant elements to this communication between the Vacuum Oil Company and the U.S. government. First, Vacuum Oil had no connection in 1921 to Standard Oil with which it was competing for the oil concessions in Czechoslovakia.\textsuperscript{225} It therefore re-enforces the fact that several large U.S. corporations saw an advantage in pursing Czechoslovak investment opportunities. The Czechoslovak market was of interest to more than small-to-medium sized entrepreneurs and banking houses which typically comprised the story of U.S. involvement in interwar Eastern Europe. Secondly, because Standard Oil initially communicated very little about the nature of its negotiations with the Czechoslovak government back to the U.S. government, Vacuum Oil provided a window into the Czechoslovak oil concessions that the State Department would otherwise have failed to obtain. For the State Department, the fact that, unlike Standard Oil, Vacuum Oil had kept it apprised of its activity in Czechoslovakia became a minor irritant in October 1921. At that time \textit{Oil News} reported what it believed to be apparent inconsistencies in U.S. government policy with regard to oil concessions in Czechoslovakia. An internal State Department memo referencing the article noted that as a matter of policy, neither Vacuum nor Standard was required to keep

\textsuperscript{224} Ibid. It is never made clear what the difference between exclusive and monopolistic rights are with respect to the importation of oil which is surprising given Vacuum Oil’s insistence to the State Department that it was not being granted monopolistic concessions.

\textsuperscript{225} In 1931 Vacuum Oil merged with Standard Oil of New York (Socony) which was one of several oil companies that resulted from the 1911 trust bust of the Standard Oil Company and which regularly competed with Standard Oil of New Jersey (SONJ). Ironically, with the Exxon-Mobil merger of 1998 Socony and SONJ once again came under the same corporate structure.
any element of the U.S. government informed of its actions in Czechoslovakia. The official felt this position had been made clear earlier in the year in a State Department memo concerning possible monopolies in Czechoslovakia that clearly stated, “I do not see how the Department can object to a legitimate business undertaking on the part of an American company in a foreign country.” The Oil News article erroneously alleged that monopolistic concessions had already been granted to Standard Franco-Américaine, with the full knowledge and approval of the U.S. government. The issue for the State Department was not that Vacuum Oil had kept it informed and that Standard Oil had not, but rather the impression created that the U.S. government was following an inconsistent policy or worse yet, favoring one firm over another. Despite the State Department’s denial of any knowledge of the deal brokered between Standard Oil and the Czechoslovak government, the fact remained that, through Vacuum Oil, the U.S. government had been kept informed of the details of the proposed oil concessions in Czechoslovakia.

It is not altogether strange that this issue arose within State Department corridors, for as historian Michael Hogan illustrated, it was well known that the State Department worked closely with U.S. oil firms extending their reach abroad. The department had been deeply involved in Standard Oil’s competition, and later cooperation, with British oil concerns in Latin America and the Middle East. The heavy hands of Commerce

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226 Memorandum, A.C.M., Department of State, Office of the Foreign Trade Advisor, November 7, 1921; File 860F.6363/4; DoSIAC, NAMP M1218, roll 12; NARA, College Park, MD.

227 Memorandum, A.C.M., Department of State, Office of the Foreign Trade Advisor, July 6, 1921; File 860F.6363/1; DoSIAC, NAMP M1218, roll 12; NARA, College Park, MD.

228 Hogan, Informal Entente, 159-85.
Secretary Hoover and Secretary of State Hughes were readily felt in U.S. attempts to gain access to oil fields in these two regions. Despite the willingness of these two departments to facilitate international oil agreements, it was a generally accepted “doctrine of neutrality [that] refused to support one American faction at the expense of another.”\textsuperscript{229} The State Department did not want to be seen as favoring Standard Oil at the expense of Vacuum Oil as the \textit{Oil News} article implied and, in truth, there appeared little evidence to support such an accusation.

The third issue associated with the Vacuum Oil communications was the fact that the company was dismissed early on in the oil negotiations, which is very clear from its near absence in the Czechoslovak records. This fact further supports the assertion made in earlier chapters that Czechoslovak economic policies sent conflicting messages to American investors. Vacuum Oil had operated in the Austro-Hungarian Empire since the 1880s and was therefore subject to the nostrification laws that required foreign joint-stock companies with assets in Czechoslovakia to reorganize as Czechoslovak enterprises in order to maintain their legal status. While Vacuum Oil complied with these laws, it appeared to have suffered from its former association with Vienna. In November 1921 Deputy Josef Najman warned his colleagues of the evils of doing business with Standard Oil and in the same breath decried Vacuum Oil as a mechanism that had already tried to gain a monopoly at the expense of the territory’s commercial well being.\textsuperscript{230} Vacuum Oil

\textsuperscript{229} Ibid., 164.

\textsuperscript{230} Poslanecká sněmovna – stenoprotokoly, 95. schůze, pondělí, 21. listopadu 1921, Digitální knihovna, NS RČS 1920-1925, http://www.psp.cz/eknih/1920ns/ps/stenoprot/095schuz/s095004.htm (accessed 13 May 2005). Najman considered this to be a valid comment since Vacuum Oil had at one time been part of the Standard Oil Trust (added in 1879); however, in 1921 it was in no way associated with the Standard Oil firm competing for the oil concessions. Aside from the animosity directed at Standard Oil, the comment also illustrates the distrust for a foreign company that had been granted rights by Vienna.
was never the serious contender for the Czechoslovak oil concessions that it communicated to the State Department. Nevertheless, the insight it provided and the perception that it had been a serious contender add dimension to the story of U.S. investment in interwar Czechoslovakia.

4.4: The Contested Contract

At the same time the U.S. State Department was busy with Vacuum Oil and the annoyance associated with what it believed to be a misleading report in *Oil News*, the Czechoslovak Ministry of Public Works presented its update on the negotiations with foreign oil concerns to the Ministry of Finance in August 1921. Attached to the correspondence was a draft copy of the proposed agreement to be offered to the foreign enterprises. The Ministry of Finance was asked to look over the proposal in preparation for a meeting to be held one week later concerning oil concessions. Four days later the Ministry of Public Works informed the same Trade Chief within the Ministry of Finance that negotiations for the “systematic exploration and exploitation of mineral oils in the territory of the Czechoslovak Republic had been arranged with a representative of Standard Franco-Américaine.” On 25 August the proposed contract was presented to an inter-ministerial committee for review and recommendations.

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231 Letter, Ministr Veřejných Prací, Slovutný pane odborový přednostě, ministerstva financí v Praze, 22. srpna 1921, MFI, karton 3, číslo 198921, SÚA, Prague.


The contract was to be made between the Czechoslovak government represented by the Ministry of Public Works and the Standard Franco-Américaine Company represented by H.E. Bedford. The contract contained twenty-seven clauses, the first of which called on the Czechoslovak government and Standard Oil to create a joint-stock company in compliance with Czechoslovak incorporation laws. The company would initially be established for a period of 30 years and tasked with carrying out the aims of the contract. Article VIII granted this newly established company exclusive rights to explore and extract crude oil (naphtha) and all mineral and bitumen products in the Czechoslovak Republic with the sole exception of bitumen coal. This joint-stock company was to have an initial capital start up of 100,000,000 Kč of which 30,000,000 Kč (30 percent) were to be held by the Czechoslovak government, 48,000,000 Kč (48 percent) were to be held by Standard Oil and the remaining 22,000,000 Kč (22 percent) were to be offered first to the Czechoslovak government. However, if within 90 days of the company’s start-up the government was unable to come up with the funds, Standard Oil would have the right to purchase the outstanding shares and thereby become the majority shareholder. The contract also stipulated that the 48 percent initially controlled by Standard Oil and the outstanding 22 percent were to be valued at 25 percent of the nominal price which, if challenged, would be resolved by the board of directors. This

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234 Ministerstvo Veřejných Prací, číslo 6568/pres – 21, 7. září 1921, Zásobení republiky čs. minerálními oleji. Schválení smlouvy se Standard Franco Americaine., PMR, karton 414, číslo 1008734921, SÚA, Prague. Recall that during the debate over the formation of the Bureau for Foreign Commerce the Ministry of Public Works lent its support so long as it was understood that the new agency would not involve itself in issues related to drilling, mining, or exploiting mineral resources of the Czechoslovak state. This was to remain solely in the hands of the Ministry of Public Works.

235 Ibid. Naphtha is a form of crude mineral oil. The term was used as a catch-all phrase in reference to bitumen and mineral oils in the documents of the Czechoslovak government.
same clause affirmed the fact that regardless of purchase price, all stockholders would have equal voting rights.\textsuperscript{236} The contract further stipulated that the president and at least half (\textit{nejméně polovice}) of the board of directors had to be Czechoslovak nationals. Furthermore, the official language of the company was to be Czechoslovak.\textsuperscript{237} Personnel in the company were to be citizens of Czechoslovakia and only special departments would be allowed to employ a limited number of foreigners. This number was restricted to no more than 10 percent of those paid a daily wage and no more than 20 percent of those paid a monthly wage.\textsuperscript{238} The company was also obligated to report its activity, especially its technical work, to the Ministry of Public Works. Standard Oil may have fronted the vast majority of the capital and equipment for this venture, but this was to be a Czechoslovak company, at least on paper.

The contract also outlined the tax structure to which the company would be held. The sale of all mined resources up to 100,000 tons per year would be taxed 5 percent of the crude oil or its equivalent market value. Sales of mined resources in excess of 100,000 tons per year would be charged a tax of 10 percent of the extracted crude oil or its equivalent market value. The contract further required that all extracted crude oil, natural gasses and bitumen first be offered for sale to domestic concerns before consideration for sale as export. Closely related to this was the stipulation that any materials and supplies required by the company had to be purchased from Czechoslovak

\textsuperscript{236} Ibid.

\textsuperscript{237} Ibid. Strictly speaking, there is no Czechoslovak language. Czech and Slovak are two similar, yet distinct, languages. However, during the First Republic references to a Czechoslovak language were one of many attempts to stress the common identity shared by Czechs and Slovaks.

\textsuperscript{238} Ibid.
suppliers if they were deemed equal in price and quality to foreign merchandise.\textsuperscript{239} The contract further obliged the Czechoslovak government to solicit a letter of consent from the company before establishing any monopoly or granting any exclusive rights for the extraction, sale or refining of petroleum, naphtha products, its derivatives and by-products.\textsuperscript{240} In other words, Standard Oil, through the joint-stock company, was granted exclusive (monopolistic) rights to all oil in the Czechoslovak state.

The fact that this company was conceived with such an overt Czechoslovak character speaks to both the economic nationalism that Czechoslovak policy-makers had been displaying from the inception of their state and to the xenophobic fears of the non-governmental organizations such as Legiobanka and Oleosvaz. Several elements of the contract do indicate that Czechoslovak policy-makers, particularly those within the Ministry of Public Works, worked to ensure that the long-term result of the deal with Standard Oil would be a domestic oil industry capable of supplying its own needs and exporting to the surrounding region. Article XIV stipulated that “all crude oil, natural gas and other bitumen substances mined would in the first place be restricted to the needs of domestic consumption.”\textsuperscript{241} Since the refining industry was owned by either private Czechoslovak concerns or the government, the domestic refining industry would receive a steady flow of domestic crude supplies. As yet no one knew the extent of the oil fields, but the language of the contract assumed enough to support various domestic industries with enough remaining for export profits.

\textsuperscript{239} Ibid.

\textsuperscript{240} Ibid.

\textsuperscript{241} Ibid.
On 7 September 1921 the Council of Ministers met to discuss the merits of the contract the Ministry of Public Works had worked out with Standard Oil. After reasserting that the Ministry of Public Works would function as the representative of the Czechoslovak government in all dealings with Standard Oil and reminding the gathered ministers that they had all had previous opportunities to discuss the contract laid out before them, Kovařík launched into an official justification for the need to engage the services of a foreign oil enterprise. The Minister emphatically stated that it was absolutely crucial to the best interests of the Czechoslovak state that it explore every avenue of becoming self-sufficient in the supply of mineral oils. As earlier communications to the government had already emphasized, Czechoslovak industry and national defense rested upon a constant and secure supply of mineral oil products. While there was speculation that untapped oil reserves existed in the southern and easternmost regions of Czechoslovakia, the state lacked the resources to fund the necessary geological exploration. Furthermore, no domestic enterprise was in a position to provide the “required millions in investment without guarantees of success.” As a result, the government was obliged to engage foreign oil concerns which were already interested in the region as a result of their global competition to secure oil resources. Moreover, the financial risks associated with the substantial investments required simply to explore the region meant that the government had to be prepared to grant significant concessions to Standard Oil. These concessions included rights to explore and extract oil from the entire region.

242 Predsednictvo Ministerske Rady, číslo 27180, 7. září 1921, od ministerstva veřejných prací, Zásobení Čsl. republiky minerálními oleji a schválení smlouvy se Standard Franco Americaine, PMR, karton 414, číslo 1008734921, SÚA, Prague. The fact that this justification was often repeated illustrates the continued and fractious debate within the Czechoslovak government concerning negotiations with foreign oil companies. This repetition is a characteristic of the Standard Oil chapter of Czechoslovak interwar business affairs.
country to the exclusion of other foreign firm such as Royal Dutch Shell. The rest of
this twenty-seven part address summarized the process of accepting bids and finally
settling on Standard Oil which included the observation that Standard Oil was the leading
international oil firm with the added advantage of also being a U.S. firm.

The very next day the Czechoslovak newspaper Tribuna reported on the
concession granted to Standard Oil with an article entitled “Dangerous Commercial
Monopoly for Petroleum.” The title of the article correctly conveyed the tone of its
content. Reporting on the government’s move to extend a monopolistic concession to a
foreign oil enterprise, it emphasized the fact that the contract gave the oil company
exclusive rights to explore and extract oil in the entirety of the country. This concern
over the extent of the concession echoed, in part, the chief complaint of Legiobanka and
Oleosvaz in so far as it alluded to a well-founded apprehension that a monopoly in the
hands of Standard Oil spelled certain demise for all elements of the domestic oil industry,
whether they drilled, refined, sold or exported. In other words, the monopoly over
drilling rights in the country would soon enough become a monopoly over the entire oil
industry of the country which, in fact, defeated one of the chief justifications for
extending the contract in the first place. The Ministry of Public Works had repeatedly
relied on the justification that Czechoslovakia must take every opportunity to become
self-sufficient in the supply of mineral oil products. While Standard Oil was represented

243 This has some resemblance to the concessions that Vacuum Oil had described in its communications to
the U.S. Department of State.

244 The full title of the article that ran on 8 September was “Dangerous Commercial Monopoly for
Petroleum. Monopoly requested for drilling in the entire republic – Also commercial monopoly in the
hands of proposed company.” “Nebezpečí obchodního monopolu petrolejového. Monopolní zadání těžby v
celé republice. - Také obchodní monopol do rukou teze společnosti.” Tribuna, 8 September 1921, PMR,
karton 414, číslo 1008734921, SUA, Prague.
as offering an avenue for achieving this goal, there was a growing number of Czechoslovaks both within and without the government who began to suspect otherwise. On 26 September another Czechoslovak newspaper, *Lidové Noviny* also ran an article on the government oil concessions being granted to Standard Oil. There was less bias in its report as it presented more or less the known details of the agreement. These details included initial capital investments and percentage of ownership in the Czechoslovak company to be created for conducting the operations. The article lacked the alarmist language found in earlier public accounts of the oil contract, but did nothing to necessarily portray it as a benefit to the Czechoslovak economy.

These articles and the public opinion mounting against the deal with Standard Oil that they suggest seemed to have little impact on the process in Prague, as it stood in September 1921. The same month, the U.S. press also reported the contract between the large U.S. firm and the Czechoslovak government. The *New York Times* reported on the negotiations, stating that the Czechoslovak government was “welcoming such an arrangement, as the Standard would provide such capital as would be required to carry out the development program.” The article did report, however, that rumors of a monopolistic concession were being denied by company officials. A week later the trade journal *Oil, Paint and Drug Reporter* reported on the pending agreement, but failed to mention Standard Oil by name. Furthermore, it reported the denial that a share of the

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245 *Lidové Noviny*, 26 September 1921, MPOŽ, karton 423, číslo 3948921, SÚA, Prague.

246 *New York Times*, 13 September 1921. File 860F.6363/-; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.
oil monopoly was to go to the Czechoslovak government. While the details of the reports were somewhat inconsistent, two things became immediately clear. First, every journalistic account, whether Czechoslovak or American, referred to an oil monopoly. This point is interesting only because Standard Oil officials repeatedly denied that monopolistic concessions were ever part of the contract negotiations and because this was the largest point of contention for non-government interests in Czechoslovakia.

Second, the fact that the two U.S. articles were included in an internal memo of the State Department again illustrates the fact that despite its desire to remain on the sideline the U.S. government still observed the game with interest.

Following the publication of the *Lidové Noviny* article, the volume of communication within the Council of Ministers increased. It is important to recognize that in September 1921 there was a general consensus among the various ministries that the contract with Standard Oil was necessary. The issue increasingly became addressing charges that the monopolistic nature of the oil concessions granted to Standard Oil was detrimental to the national well-being of the Czechoslovak Republic. It is also interesting to note that the Czechoslovak side of this story never denied the monopolistic nature of the oil concessions. To be sure, it was an issue, but Standard Oil repeatedly denied, as did Vacuum Oil, that its arrangement with the Czechoslovak state involved a monopoly. This concern remained even after the State Department stated that it did not feel it could object to monopolies granted to U.S. firms on foreign soil. Nevertheless, Standard Oil

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247 *Oil, Paint and Drug Reporter*, 19 September 1921. File 860F.6363/-; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.

248 When Vacuum Oil believed it might be awarded the oil concessions it, too, denied the monopolistic nature of the contract.
appeared sensitive to perceptions that it was engaging in the type of activity that had led to the 1911 breakup of its parent. This fear was communicated by non-governmental Czechoslovak entities opposed to the monopolistic concessions. Regardless, it was clear that the Czechoslovak ministries were going to have to address the issue before moving forward with the Standard Oil contract.

As might be expected, the issues so vehemently raised by Legiobanka and Oleosvaz and echoed in the press regarding the dangers of granting a foreign company a monopoly over such a vitally important natural resource increasingly penetrated the inter-ministerial proceedings. On 10 September, the Ministry of Posts and Telegraphs communicated its concerns to the Prime Minister regarding the element of the contract that dealt with the sale of oil extracted in Czechoslovakia. Citing the resource’s importance to both the domestic automobile industry and the Czechoslovak military, the ministry wanted assurances that the state’s needs for oil would be met before any was exported for sale. After all, if the point was to enable Czechoslovakia’s self-sufficiency in the realm of oil, it was illogical to allow exports that might require the purchase of oil from foreign states in a future time of need. Apparently, the ministry felt the wording of

249 Memorandum, Department of State, Office of the Foreign Trade Advisor, 6 July 1921. “I am not sure the Department should object to such a monopoly acquired by an American Company abroad, or even if the Department expressly approved such a monopoly, whether such approval would be inconsistent with our general open door policy.” This was generated in response to a letter from Vacuum Oil assuring the State Department that its negotiations with the Czechoslovak government did not contain a monopolistic element. File 860F.6363/1; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD.

Article XIV was loose enough to allow Standard Oil to export oil from the country before domestic needs were satisfied. This concern was repeated by the ministry in a number of inter-ministerial communications throughout September. The concern of the Ministry of Post and Telegraphs over the proposed contract was symptomatic of many of the concerns that began to circulate within the ministries and later within legislative circles.

Despite the general recognition that Czechoslovakia needed to engage a foreign enterprise for the exploration and exploitation of any domestic oil reserves, there was a desire to ensure that every minute detail of the contract favored the Czechoslovak state. While this was not an unreasonable or even lamentable desire, it skewed the true nature of the relationship between Czechoslovakia and foreign investors. Czechoslovakia consistently approached the issue of foreign participation in its country from the position of strength despite the recognition on both sides of the negotiating table that the truth was otherwise. It was the constant wrangling over the specific nature of various elements of the contract with Standard Oil that delayed its official approval on the Czechoslovak side and eventually led to the withdrawal of Standard Oil from the process.

It was also in September 1921 that the objections of the state’s various oil refining enterprises began to enter the debate over the Standard Oil contract. Initially, the objections were filtered through various ministerial memoranda circulating within the Council of Ministers. As Oleosvaz had earlier alluded, Standard Oil’s *modus operandi* was to vertically integrate the oil industry in any region it entered.²⁵¹ While the negotiated concessions did not grant Standard Oil any rights in refining the oil it

²⁵¹ References to Standard Oil’s activities in neighboring regions appeared in numerous ministerial memos indicating that not only were Czechoslovak officials aware of Standard Oil’s activities in Poland and Romania, but that their concerns were not entirely without justification.
extracted, the Czechoslovak refining industry feared that it would only be a matter of time before the company sought those rights as well. Time would eventually confirm what history already knows, Czechoslovakia was not an oil-rich nation and contained only minimal natural oil resources. What Czechoslovakia did have, however, particularly in 1921, was a significant portion of the former Dual Monarchy’s oil refining facilities. What oil industry Czechoslovakia possessed was not based on its natural reserves of oil, but on its ability to refine crude oil for export at higher premiums. The specter of an eventual Standard Oil take-over threatened the security of what was quite reasonably deemed to be a vital national industry, with or without domestic oil fields.

The concern over the Standard Oil contract for many was not the issue of control over natural resources as much as it was protection of an industry that could profit regardless of domestic sources of crude oil. Czechoslovak refiners wanted to protect their ability to import crude oil, refine for domestic consumption and export for a considerable mark-up. This was an issue that the contract did not address.

While the merits and drawbacks of the proposed contract were still being discussed among the various ministries and well before the issue entered the parliamentary realm a new company was formed to meet the requirements of the proposed contract. The American Petroleum Company of Czechoslovakia (Americká petrolejářská společnost v Československu) was formed on 16 September 1921 for the importation, exportation, sale and trade of crude oil products. According to Standard Oil of New Jersey records, the company was 60 percent owned by SONJ and 40 percent owned by Standard Franco-Américaine and it was provided an indefinite charter for

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252 Finance & Index of Affiliates, Box 1, File 2.207/K92B – 1a, EMCH, CAH-UTA, Austin, TX.
operation within the Czechoslovak state.\textsuperscript{253} Strictly speaking, the ownership percentages did not correspond with the requirements of the contract, but that could simply have been the result of an as yet unresolved contract process. Presumably, once the contract was approved by the Czechoslovak government, between 30 and 52 percent of the company’s stock would be offered to Czechoslovak interests as the contract required. It is also interesting to note that for all the emphasis within the contract on establishing a Czechoslovak company with Czechoslovak personnel, the company’s name prominently reflected its foreign affiliation, but then again, the contract said nothing about the naming of the proposed company. As early as mid-September 1921, therefore, Standard Oil was committed to executing the spirit of the contract and investing considerable resources into the Czechoslovak state.

The creation of the American Petroleum Company of Czechoslovakia also illustrates the confidence Standard Oil executives had in the ratification of the contract. Doubtless, this confidence originated in positive assurances from prominent Czechoslovak officials, such as Beneš, that the contract was a done deal.\textsuperscript{254} Such assurances would have taken on added importance to Standard Oil officials in late September when Beneš formed a new government and simultaneously held the positions of Prime Minister and Foreign Minister. It was also this turn of events that more than likely caused the contract to become embroiled in political debate as those politicians opposed to Beneš’s policies took the opportunity to use this issue as a point of attack.

\textsuperscript{253} Ibid.

\textsuperscript{254} This is further evidenced by the appointment of Dr. Ferdinand Heidler (former Czechoslovak Minister of Commerce) as president of the American Petroleum Company of Czechoslovakia. Surely such a prominent appointment, in keeping with the contract’s requirements, added a degree of confidence that the contract would be quickly approved in parliament. SOC(NJ) Company Information: Corporate Finance EH Knowlton, Box 1, File 2.207/K93B – 2a, EMCH, CAH-UTA, Austin, Texas.
For those opposed to Beneš’s foreign economic agenda, the deal with Standard Oil could become a rallying cry and industry objections already on record gave the opposition reason to believe that they had firm ground upon which to make a stand.

In this evolving situation, the consensus within the Council of Ministers remained favorable toward awarding the oil concessions to Standard Oil. This, no doubt, was most immediately influenced by Beneš’s new government and a collective desire to further secure U.S. patronage. The discussions within the Council of Ministers focused more on the wording of specific clauses within the proposed contract and less on whether or not the contract should be accepted. For example, in the 13 October Council meeting, the Minister of Public Works Alois Tučný provided a detailed report on the proposed contract and concluded that concerns voiced earlier by other ministries regarding the supply of mineral oils to Czechoslovak enterprises was addressed in the contract. Specifically, Tučný referenced to Section XIV of the contract, the Sale of Production. It was the wording of this section that the Ministry of Posts and Telegraphs had earlier voiced concern. This section stated that “all crude oil, natural gas and other bitumen substances mined will be reserved in the first place for domestic consumption and only surplus amounts will be authorized for export.” This was, at the ministerial level, the concern surrounding the contract with Standard Oil, that domestic oil needs not be subordinated to corporate profit desires. During the same report Tučný supported

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255 Předsednictvo ministerské rady, číslo 4206/1008, zásobení čsl. republiky minerálními oleji, smlouva se Standard Franco-Americaine, 13 října 1921, PMR, karton 414, číslo 100873492, SÚA, Prague. Tučný was a member of the National Socialist party that Beneš himself would eventually join.

Beneš’s desire to keep the details of ministerial concerns over the contract from the public, particularly the press.²⁵⁷ This comment was understandable given the level of negative press the proposed contract was receiving in this venue and the desire of Beneš and Tučný to see this contract authorized. This was also the case because Beneš hoped to send this issue quickly through parliament, a body more likely to posture in response to adverse public reaction. However, it was not just the Czechoslovak press that was introducing the issue of oil concessions in Czechoslovakia to the public.

In October, the *New York Times* reported “that Standard Oil interests had received a concession to develop oil prospects in Czechoslovakia.”²⁵⁸ The article made no mention of the formation of the American Petroleum Company of Czechoslovakia, but stated that the government concessions were “a development of uppermost importance in oil-producing circles” because Standard had beaten out Royal Dutch Shell for the concessions and had been granted exclusive rights to drill for oil in the Czechoslovak state.²⁵⁹ The article went on to state the conditions of the “virtual monopoly” granted to Standard which included the creation of a Czechoslovak company with an initial capital of 100,000,000 Kč.²⁶⁰ Thirty percent of the stock was to be given to the Czechoslovak government with an additional 20 percent offered to “Prague interests.”²⁶¹ Interestingly,

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²⁵⁷ Předsednictvo ministerské rady, číslo 4206/1008, zásobení čsl. republiky minerálními oleji, smlouva se Standard Franco-Americaine, 13 října 1921, PMR, karton 414, číslo 100873492, SÚA, Prague.


²⁵⁹ Ibid. Curiously, this function does not appear in the Standard Oil records noting the formation of the American Petroleum Company of Czechoslovakia. Perhaps it was a function of timing since in September 1921 no such right legally existed.

²⁶⁰ Ibid.

²⁶¹ Ibid.
the article concluded with the observation that “Czechoslovak refiners [were] protesting that the concession not only [gave] the Standard Oil Company a monopoly of petroleum, but also of subsidiary business.” While the objections of the refiners were well known to the Czechoslovak ministers and those U.S. observers close to the negotiations, what no one anticipated in October were the objections that were to be made from within Czechoslovak parliamentary circles.

In November the issue of oil concessions shifted from the ministerial circles into the legislative circles as both the Chamber of Deputies and then the Senát debated the issues associated with the Standard Oil contract. This debate is where major difficulties began to arise for the American company. Not only had Standard Oil been encouraged by the Czechoslovak government to participate in the bidding process, but once the decision had been made to award it the contract, the U.S. firm had been assured that the legislative approval was all but guaranteed. The ministries, specifically, the Ministry of Public Works, owned this issue and the Senát and Chamber of Deputies would obediently follow suit. Unfortunately for Standard Oil, and perhaps more so for the long-term objectives of Czechoslovak policy-makers, the legislative assemblies failed to follow suit and hesitated to dutifully act as a rubber stamp. They appeared far more swayed by non-governmental pressures than the ministries and the result was a drawn out process that led to a sense of alienation on the part of Standard Oil and an eventual withdrawal from the contract.

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262 Ibid.

263 At least, this was the point in the process that Standard Oil believed the problems to have begun.
In late November, at roughly the same time the Porto Rose Conference was concluding, the Czechoslovak Chamber of Deputies began to debate the issue of granting state oil concessions to Standard Oil. In the course of the 21 November session Deputy Alois Merta spoke out against the proposed arrangement with Standard Oil citing the dangers the large foreign trust presented to the state. In a rather unique fashion he began his address by comparing Standard Oil with Bat’a. Bat’a was a Czechoslovak shoe manufacturing empire that was hailed as model of manufacturing efficiency on a par with Ford’s enterprises in the United States. Merta argued that despite the immense success and profitability of the shoe magnate, the monopoly it enjoyed had destroyed smaller businesses and adversely affected many local economies. He suggested that the same pattern would follow in the oil refining industry if Standard Oil were granted monopolistic concessions in the state.

Later in his address he dropped the reference to Bat’a and attacked Standard Oil directly, citing the shortcomings of Standard Oil’s founder, John D. Rockefeller, to strengthen his opposition to the proposed contract with the U.S. oil giant. “Who is Standard Oil?” Merta demanded, and then answered, “Nothing other than a large American firm under the leadership of the celebrated millionaire Rockefeller … Rockefeller took over petroleum production in America and he wants to take over our

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265 Merta was a member of the Social Democrat party which was also the party of Antonín Srba who headed the Ministry of Posts and Telegraphs in the Beneš government.
Merta was convinced that entering into a deal with Standard Oil would not develop Czechoslovakia’s petroleum industry, rather it would sell it off to a foreign firm. In case that were not a credible enough objection, Merta also cited previous Rockefeller takeovers to support his belief that Rockefeller, and by extension Standard Oil, was stingy (skoupí) and would be unwilling to yield any money or profits to its stockholders. The state would not benefit from an association with Standard Oil, nor would individual investors. Merta concluded that Standard Oil would control and ruin Czechoslovak refineries and other domestic enterprises associated with petroleum and mineral oils and if it received a license from the state it would soon become a dictator of prices as it had become in neighboring states. It was essential to the security of the Czechoslovak state that Standard Oil not be granted special concessions in their territory.

Later that same week, Deputy Wilhelm Medinger again broached the topic of the proposed Standard Oil concessions. In the midst of a larger debate on Czechoslovak security the deputy protested “passing over a national fortune to foreigners” by assigning Standard Oil a monopoly on petroleum production. Here, the issue appeared to be both

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267 Ibid. It appears that Merta did a substantial amount of research into the history of Standard Oil activities because he cited an 1870 business transaction in which Rockefeller eliminated the Clark Brothers as competitors in order to support his objections. Unfortunately, he failed to realize (or chose to ignore) the fact that Rockefeller had retired from Standard Oil shortly after the 1911 trust bust and no longer directed its activities. The disdain for Rockefeller (despite the Rockefeller Foundation’s public health initiatives in Czechoslovakia at the time) seeps from the words Merta used in this section of his address with the obvious intent of damaging the Standard Oil image.

268 Ibid.

the monopoly and the participation of a foreign corporation. Medinger’s speech also attacked the Beneš government’s efforts to curb unemployment and went so far as to suggest that ethnically German industrialists were being disadvantaged by government policies related to exports. Medinger, who delivered his address in German, was among those ethnic German politicians who took an obstructionist approach to parliamentary affairs in the early 1920s. For him, the Standard Oil contract provided another opportunity to attack Beneš’s policies that sought to diminish economic dependency on Germany. While the Sudeten region that occupied his interests was rich in brown coal, it was far removed from the suspected oil fields of Moravia and Sub-Carpathian Ruthenia. Recall that the proposed contract excluded brown coal from the concessions. Medinger’s attack on the Standard Oil deal was politically motivated. He associated his concerns with those who feared the loss of a vital national resource to foreign interests, but offered no solutions. Nor did he specify, like many other contract opponents, the clauses that caused him the greatest apprehension. Medinger represented the type of obstructionist behavior that Beneš and like-minded policy-makers had hoped to avoid when submitting the contract to the legislative branch.

Following Medinger’s brief and relatively vague attack on the Standard Oil deal in the Chamber of Deputies, the issue was not raised within legislative circles again until February of the following year. By that time the contract with Standard Oil was considered by many within both the Czechoslovak and American camps to be finalized. This time the commentary was offered before the Senát and the concern over the contract was slightly different. Senators Inž. Julius Klimko, Dr. Eugen Ledebur, and their
associates called on the entire government to answer questions related to the awarded Standard Oil contract.  

Legislators in either house had the right to call any member of the government before them to answer questions and these officials or their representatives were legally bound to appear. Among the questions the senators wanted answered was under what authority the government believed it was acting when granting concessions to the entire country. The senators asserted that the government could grant concessions to mine petroleum “only in specific districts.” Nothing more was mentioned at this time regarding which specific districts might be acceptable or even how such an authority could not be extended to the whole country as one specific district, but it was clear that part of the issue was the exclusive nature of the contract. After all, such a concession left no territory open to competitors. Another issue they wanted clarified was whether Czechoslovak refiners were in any way bound to Standard Oil by elements of the contract. The new element introduced by this senatorial request was the issue of authority within the government. The final question posed by the senators was how the government defended its conclusion of the contract before it ever entered the Senát.

The underlying conflict that arose in February was whether or not parliament had the right to pass on such issues as government concessions and contract negotiations. Beneš and other government ministers clearly felt that the final authority rested with them and that parliament was notified merely as a courtesy. The assurances given

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271 Ibid.

272 Ibid.
Standard Oil and State Department officials that the pětka made the real decisions may have been bravado, but it also stemmed from serious issues confronting the young republic. In truth, the Czechoslovak constitution was written in such a manner as to give credence to Beneš and his cohorts. Section 90 of the constitution allowed state offices with financial functions to be organized and dictated by government decrees, which did not directly require the consent of parliament. For its part, the parliament had the right to require any minister, or his representative, to appear before either chamber to answer questions and account for actions. Beyond that, only a vote of no confidence in the government could alter the type of activity that was embodied in the Standard Oil negotiations. Section 53 vaguely referred to the control of financial administration and state debt as being regulated by law and not government decree. The question then arose: Was the government contract with Standard Oil an issue that required parliamentary approval? It did not relate to state debt, but did exclusive rights to explore and extract mineral oils fall under the heading of financial administration? Members of both chambers tried to make that case in so far as they argued that these resources were vital to the state’s national security. The underlying political issue within the Council of Ministers was the scope of competence of each ministry, while the underlying political issue that became manifest in the parliamentary discussions was the jurisdiction of the ministries versus the legislature. Legislators furthermore resented having been left uninformed about the negotiations with Standard Oil until the very end.

273 Constitution of the Czecho-Slovak Republic, enacted into law 29 February 1920.

274 Ibid.
By the beginning of 1922 the stalemate in the Czechoslovak government appeared to resolve itself, at least as far as U.S. accounts indicated. The New York Times reported in January that Tučný, on behalf of the Czechoslovak government, had signed the contract extending “a monopoly for oil prospecting and well sinking, and also, to some extent, a trading concession for thirty years” to Standard Oil.\textsuperscript{275} Significantly, the article also mentions that the “overtures originally came from Czechoslovakia” communicating that the monopoly was freely granted and not acquired through hostile business dealings.\textsuperscript{276} This is important for understanding the negative sentiment toward Czechoslovakia that would eventually arise once the Standard Oil contract was cancelled. The New York Times also reported that the Czechoslovak government had been reluctant to submit the contract to the Senát but that suggested amendments to the contract had already been accepted by Standard Oil.\textsuperscript{277}

It is not until March that the U.S. Minister to Czechoslovakia Lewis Einstein reported that the contract had been signed between the Czechoslovak government and the Franco-American Standard Oil Company. His report confirmed that the contract granted the U.S. firm a 30-year concession to any and all oil that might be discovered in Czechoslovakia. For its part, the Czechoslovak government would own 30 percent of the stock in the company that was to be created and agreed to subscribe to another 22


\textsuperscript{276} “Czechoslovakia Gives Grant to Standard: Concession Agreed on Through French Branch Covers Thirty Years, Says Minister,” New York Times, 19 January 1922, 11.

\textsuperscript{277} Ibid.
percent, giving the government 52 percent ownership in the venture. However, the contract called for the Czechoslovak government to sell 4 percent of its shares to a Czechoslovak citizen designated by the Standard Oil Group. It is extremely interesting to note that according to Einstein the Czechoslovak government requested that the details of the contract be kept secret.  

Nothing in the record suggests why this request was made, but given the many objections to the Standard Oil monopoly it was most likely associated with the near even division of percentages in the ownership of the new company. The dispatch highlighted another very important point when Einstein reported that Beneš had agreed to help Standard Oil get a foothold in Czechoslovakia in exchange for the latter’s cooperation in securing loans in Paris and New York. Beneš had told Einstein that the Czechoslovak parliament did not need to approve the Standard Oil contract because the pětka had already agreed on the concession and they were the true force in the government.  

This point re-enforces the argument that within the Czechoslovak government different messages were communicated to foreign interests. It is easy to see why U.S. businessmen quickly became frustrated in their attempts to engage the Czechoslovak market. Additionally, Beneš’s comment illustrated the relationship he understood between securing future financial benefit by supplying Standard Oil with a favorable contract. The cordial relationship that existed between Beneš and Einstein was such that

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278 Dispatch No. 63 (Very Confidential), from Lewis Einstein to Secretary of State, 13 March 1922, regarding Standard Oil Monopoly Concession in Czecho-Slovakia; Lewis Einstein Papers, Accession Number 1116, Box 5, Folder 9, American Heritage Center, University of Wyoming (AHC-UWY), Laramie, WY.

279 Ibid. Apparently no one informed the Senát and Chamber of Deputies that they were no more than a rubber stamp.
the U.S. Minister was familiar with Beneš’s broader objectives and confident in the information that was often provided by the calculating Foreign Minister.\textsuperscript{280}

Approximately two weeks later Einstein reported that the contract had been recognized by the Czechoslovak Senát as legally binding despite the fact that they continued to feel deceived by the government.\textsuperscript{281} Dr. Rašín was apparently asked to offer his opinion on the matter and while not a member of the current government his reputation both at home and abroad meant that his opinion carried weight. He indicated that with minor revisions the contract would present the state no true harm.\textsuperscript{282} Although the contract had apparently been approved, it was still not yet finalized. Einstein also indicated in his March dispatches that the contract was receiving poor publicity in both the Czech and German language press in Czechoslovakia. This further fueled the problematic relationship between Standard Oil and Czechoslovakia.

4.5: The Standard Retreat

The Einstein reports stand in stark contrast with accounts of the Standard Oil contract that surfaced in the \textit{New York Times} at the beginning of March. A front page article reported that Standard Oil had lost the Czechoslovak contract due to the last-

\textsuperscript{280} Einstein’s personal papers testify to the fact that during his time in Prague he and Beneš developed a close friendship.

\textsuperscript{281} Dispatch No. 74 (Confidential), from Lewis Einstein to Secretary of State, 25 March 1922, regarding Standard Oil Monopoly Concession in Czecho-Slovakia (Dispatch No. 63); Lewis Einstein Papers, Accession Number 1116, Box 5, Folder 9, AHC-UWY, Laramie, WY.

\textsuperscript{282} Ibid.
minute intervention of Beneš.\footnote{283}{“Standard Oil Loses Czechoslovak Monopoly By Last Minute Shift of Government,” \textit{New York Times}, 3 March 1922, 1.} Apparently “influenced by a press campaign that argued that the contract involved economic disadvantage to Czechoslovakia” and “opposition to the grant [that] developed in the Senate,” Beneš had withdrawn his support of Standard Oil.\footnote{284}{Ibid.} The article provided no other details concerning opposition to the contract or what specific elements of the contract allowed for economic disadvantage in the host country, but did state that Standard Oil officials were unaware of a cancellation.\footnote{285}{Ibid.} This point was reiterated the next day when the paper reported Standard’s official denial of the earlier report.\footnote{286}{“Denies Oil Monopoly. Standard Gets No Word Regarding Czechoslovakian Agreement,” \textit{New York Times}, 4 March 1922, 19.} Standard Oil officials not only denied any knowledge of the contract’s cancellation, but they insisted that the contract did not allow for a monopoly as it “in no way concerned the sale, import or export of oil.”\footnote{287}{Ibid.} While this charge was not strictly true, the Standard Oil official was correct in pointing out that the Standard Oil “at the request of officials of the Czechoslovakian Government … agreed to form a new company in which a large part of the stock would be held by the Government of Czechoslovakia and citizens of that country.”\footnote{288}{Ibid.} The statement concluded that this new company would have no inherent advantage over other companies when it came to supplying the state’s oil needs.
These two articles illustrate two points closely associated with how this entire contract procedure affected U.S.-Czechoslovak business relations. First, the inaccurate or confused reporting of the issue in the American press gave the impression that conducting business in Czechoslovakia was difficult. It appeared that different ministries and agencies provided different information, giving the sense that there was either a lack of coordination within the Czechoslovak government or a concerted effort to mislead U.S. businessmen. Second was the way that Standard Oil wanted the issue understood. Company officials were not engaging in predatory behavior, rather they were providing a necessary service. They were, in a sense, coming to the aid of a state that needed their particular expertise. Furthermore, Standard Oil was operating in such a manner as to share the profits. The new Czechoslovak company referenced in the contract, which despite all reports to the contrary had already been formed, was for all intents and purposes being given to the Czechoslovak people. There is little doubt as to why Standard Oil officials would want to spin the story in such a way as there is also little doubt that Standard Oil stood to profit greatly from its stock in the American Petroleum Company of Czechoslovakia. Therefore, those U.S. observers not closely associated with the Standard Oil negotiations were to understand that Standard Oil was operating at the behest of the Czechoslovak government and doing so in a particularly helpful manner. This understanding would generate all the more hostility toward a Czechoslovak government that was seen a sending mixed signals to the oil giant and playing games with a prominent American firm, regardless of how that firm was viewed at home.

Nevertheless, in August 1922 Einstein sent word to Washington that the Standard Oil concession had been “satisfactorily concluded,” nearly five months after the
Senát approved what the government had long been soliciting.\(^{289}\) Again, Einstein reported on bad publicity in the local press and credited the Standard Oil representative in Prague for his perseverance in the face of numerous obstacles.\(^{290}\) It is therefore not altogether surprising that in December Einstein reported that the Standard Franco-American Oil Company “is now endeavoring to cancel its contract and give up its monopoly … The reason given is that the [Czechoslovak] Government interference is of such a nature as to make more than doubtful the successful working of their concession … Moreover after the preliminary survey which has been made it is claimed that the likely oil resources of the country do not warrant any large outlay such as had originally been contemplated.”\(^{291}\) Standard Oil officials, it seemed, had lost their interest in Czechoslovakia and were ready to withdraw from the contract altogether. It was the nature of Einstein’s communication more than any other element of the prolonged dealings between Standard Oil and the Czechoslovak government that illustrated the problematic nature of Czechoslovak foreign and economic policy.

While it is legitimate to debate whether Standard Oil officials withdrew from the contract because of the difficulties in dealing with the Czechoslovak government and the associated bad press, as Einstein confidentially communicated to Washington, or because as it turned out there was an insignificant amount of oil in the region, the fact remains

\(^{289}\) Dispatch No. 220 (Confidential), from Lewis Einstein to Secretary of State, 5 August 1922, regarding Standard Oil Monopoly Concession in Czecho-Slovakia; Lewis Einstein Papers, Accession Number 1116, Box 5, Folder 9, AHC-UWY, Laramie, WY.

\(^{290}\) Ibid.

\(^{291}\) Dispatch No. 297, from Lewis Einstein to Secretary of State, 9 December 1922, regarding Standard Oil Monopoly Concession in Czecho-Slovakia (Dispatch No. 138); Lewis Einstein Papers, Accession Number 1116, Box 5, Folder 9, AHC-UWY, Laramie, WY.
that the former became the company line. In fact, Vacuum Oil officials had indicated in mid-1921 that they themselves suspected relatively small oil reserves in Czechoslovakia and that their pursuit of oil concessions was less concerned with profits from oil extraction than with the opportunity to “gain compensation from the improvement of [their] general position in Czechoslovakia.”

Clearly, the decision to pursue oil concessions in Czechoslovakia was not entirely concerned with oil extraction. As many Czechoslovak decision-makers had feared, U.S. firms, whether Vacuum or Standard, hoped the concessions would open the door to more active involvement in the Czechoslovak mineral oil industry. However, the fact that Standard Oil officials, and members of the U.S. State Department, promoted the idea that the actions of the Czechoslovak government were responsible for Standard’s withdrawal from the contract became the common understanding, especially within U.S. business circles. American observers noted that the Czechoslovak government had solicited the participation of foreign oil interests to help bolster its domestic oil industry. Government officials had quickly settled on Standard Oil to the exclusion of other leading oil concerns and within a year and a half, had isolated a large U.S. corporation that had shown considerable interest in the region. The mixed, sometimes schizophrenic, nature of Czechoslovak foreign and economic policy, particularly as it was understood by U.S. investors, tried the patience and cooled the enthusiasm of the U.S. business community.

292 Letter, F.M. Dearing, Dept. of State, to Richard Crane, American Minister in Czechoslovakia, 26 September 1921; File 860F.6363/-; DoSIAC; NAMP M1218, roll 12; NARA, College Park, MD. This letter recaps a 20 July 1921 communication between C. A. Moser and Dearing about Vacuum Oil’s intentions in Czechoslovakia.
By the time Standard Oil withdrew from the Czechoslovak contract in late 1922 the company was already experiencing difficulties with its operations in Poland and Romania. Furthermore, it was pursuing more lucrative concerns in the far vaster oil fields of Russia. Standard Oil’s competition with Royal Dutch Shell and the Anglo-Persian Company there and in the oil rich Middle East meant that Czechoslovakia was simply not worth the added effort. Not only were the oil resources insubstantial, but foreign competitors presented no real threat to what few interests Standard Oil still maintained in the state. In truth, Czechoslovakia had never seriously figured into Standard Oil’s global strategy; it was not even all that important to its East European strategy. This was the fatal flaw in Czechoslovak policy with respect to developing their oil industry. Had the contract been quickly ratified by Czechoslovakia, Standard Oil would have been committed to the state for 30 years. There is every reason to believe that Standard Oil would then have integrated Czechoslovakia, with its refining industry, into the company’s broader operations in the region and potentially injected the much desired capital into the economy. Instead, Standard Oil was allowed to spin the account in the American press that it had bowed to the inconsistency of Czechoslovak policy with regard to foreign capital participation.

The extent to which this perception of Czechoslovak government interference was accepted is best illustrated in a New York Times article that faulted the Czechoslovak government for Standard Oil’s withdrawal from the country. The article also propagated
the myth, as late as 1923, that there had been substantial amounts of oil in Czechoslovakia.\textsuperscript{293} It stated that,

\begin{quote}
The Standard Oil Company has withdrawn from Czechoslovakia, where it had an almost exclusive concession to exploit the country’s great oil resources.

After failing to force the Cabinet to submit the contract to Parliament, which the Cabinet held was unnecessary under the Constitution, rival local and foreign oil interests began to hamper the American company through Government bureaus, through banking interests and in other ways.\textsuperscript{294}
\end{quote}

The article further reported that Czechoslovakia continued to remain dependent on Poland and Romania for “large quantities” of oil imports.\textsuperscript{295} There are clearly factual errors contained within the brief account - for instance, the reference to significant oil resources and the assertion that the contract never went before the Czechoslovak parliament. It was, in fact, the process of being submitted to the parliament for ratification that hampered negotiations, and this is well borne out in the Czechoslovak and U.S. State Department documents. More important than the factual inconsistencies, however, was the impression that it gave U.S. readers of the Czechoslovak business environment, only some of which was rooted in fact. Standard Oil officials had been assured by Czechoslovak cabinet members, most notably by Beneš and Tučný, that parliament’s function was little more than a rubber stamp to a decision already made legitimately by the Council of Ministers. Furthermore, various Czechoslovak ministries and banking interests as well as industrial interests had made significant attempts to curtail or even negate the oil concessions represented by the disputed contract. In other


\textsuperscript{294} Ibid.

\textsuperscript{295} Ibid.
words, this article served to reinforce a growing tendency among American businessmen to believe that the Czechoslovak government presented too many obstacles and irritants to conducting legitimate business in their state. These obstacles seemed all the more objectionable in light of the interest many Czechoslovak policy-makers seemed to have in attracting U.S. investors. As already stated, Standard Oil had been invited to bid on oil concessions. Unlike some other U.S. business schemes that will be discussed in the following chapter, the oil contract had not been initiated by ambitious American businessmen looking for a way to establish a presence in Czechoslovakia.

Furthermore, the ultimate failure of the negotiations resulted not from nationalization laws or unstable political boundaries in the East, but rather from domestic political infighting, mixed messages, and bad press. Coupled with this large corporation’s troubled experience in the region, especially in the most democratically open and economically successful state in the region, it is not difficult to see how U.S. business interest in the region would take a different turn as the second half of the decade rolled on.²⁹⁶

4.6: Conclusions

Standard Oil’s experience in Czechoslovakia demonstrates a number of issues associated with Czechoslovak foreign and economic policy in the 1920s. The case also demonstrates an inherent weakness in the manner of approach employed by U.S. businessmen. In the end, this is an account of miscommunication and cross-purposes.

²⁹⁶ Linda Killen briefly illustrates how Standard Oil experienced similar difficulties in obtaining oil concessions in Yugoslavia in 1938-1939 in Testing the Peripheries: US-Yugoslav Economic Relations in the Interwar Years, 176. Again, the situation was not identical to the Czechoslovak case, but illustrated the difficulty foreign oil concerns experienced in that region of Europe.
Czechoslovak policy-makers hoped to secure U.S. support by extending the wartime patronage enjoyed by the Czechoslovak movement in America. At the same time that Beneš and other key policy-makers advocated increased integration with certain Western economies, there was a growing desire to assert their own independence and importance in a region awash with political and economic strife. Standard Oil demonstrated the approach most U.S. businesses took in the 1920s with respect to Eastern Europe. Failing to appreciate the subtle and not-so-subtle changes that had resulted from the postwar settlements, they re-engaged the region with a business-as-usual attitude. In the case of Czechoslovakia, Standard Oil officials, like numerous other businessmen, ignored the political realities of the new state.

There is no doubt that Czechoslovak officials sent mixed signals to Standard Oil officials and other American businessmen. The dispute between the government and parliament was perhaps a better indication of these mixed signals than the inter-ministerial debates that were to be expected. Beneš personified the concept ‘position of authority’ and his assurances that the pětka’s acceptance of the contract was more valid than parliament’s approval was accepted by Standard Oil and State Department officials at face value. This assurance also failed to appreciably communicate the domestic opposition Beneš regularly received over his foreign and economic policies. The inability among American operatives to appreciate these realities illustrates another weakness of U.S. involvement in the region. There was an appalling lack of area expertise among both public and private officials operating in Czechoslovakia.

This lack of area expertise can be only partially explained away by the fact that Czechoslovakia emerged on the world stage for the first time only in 1918. American
businessmen and diplomats were devoid of the type of cultural exposure that was evident, for instance, in members of the British mission in Prague. Despite the close personal ties developed between the Masaryks and Cranes or between Beneš and Einstein, they never rose to the level of intimate knowledge demonstrated by Britain’s R.W. Seton-Watson or Bruce Lockhart, men who helped shape British policy in the region. It is precisely the absence of an area expert’s intimacy that contributed to inability of American officials to decipher the mixed signals emanating from the Hrádčany. It was this deficiency that exacerbated the problems that arose between Standard Oil and Czechoslovak officials throughout 1921 and 1922.

While Standard Oil and other U.S. firms continued to conduct business in the Czechoslovak Republic throughout the 1920s and into the 1930s, the nature of that business receded from active and enthusiastic direct investment into small-scale trade that was understandably more concerned with brokering the best possible deal than in shoring up the Czechoslovak economy. The following chapter will examine the changed nature of economic relations between the United States and Czechoslovakia after the tensions surrounding Standard Oil’s contract negotiations and illustrate the negative impact that this nearly two year process had on U.S. enthusiasm for all things Czechoslovak.

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297 See Bátonyi, Britain and Central Europe for an in depth look at British aspirations in the region and the impact of area experts in shaping policies.
CHAPTER 5

FROM ROAR TO WHIMPER:
REDEFINED RELATIONS

5.1: Introduction

The strained negotiations between Standard Oil and the Czechoslovak government certainly cooled, but by no means eliminated, American interests in business opportunities in the East European state. This tendency is partially explained by the breadth of American interests in the region by 1922 and the recognition by many entrepreneurs that some economic advantage might still be had despite the public difficulties Standard Oil had recently experienced. Furthermore, several sectors of the U.S. business community had laid the groundwork for involvement in Czechoslovakia over the course of several years and were less willing than Standard Oil to simply disengage and walk away. The broad spectrum of American business interests in Czechoslovakia coupled with the element of time meant that the fallout associated with Standard Oil’s experience was slow in coming. More precisely, given the level of initial interest, it took time for American attraction toward Czechoslovak ventures to dissipate.

It must also be remembered that Czechoslovakia had played a relatively minor role in Standard Oil’s East European strategy and that the far more substantial markets to the east and south were both more lucrative and more important for the oil company’s
global strategy. Many of the other U.S. firms actively engaged in the Czechoslovak economy were smaller than Standard and did not have the range of opportunities in the region that the international oil giant had at its disposal. Additionally, Standard Oil did not entirely cut and run from Czechoslovakia following its withdrawal from the oil concession contract in 1922. Having already established the American Petroleum Company, it continued to operate in the Republic, selling its products on the Czechoslovak market.

Standard Oil was certainly one of the largest and highest profile American firms to seek significant investment opportunities in Czechoslovakia in the 1920s and its difficulties were prominently reported in the U.S. press, but it was not the only U.S. player on the market. In fact, from the moment Czechoslovakia stepped onto the world stage as a newly independent market, U.S. business interests targeted the state as a potential land of opportunity. Certainly, news of Standard Oil’s troubles in the state gave smaller enterprises pause and discouraged long-term direct investment in the region, but by the time the Standard Oil fiasco became public knowledge, there had been nearly three years of active interest and varying levels of enthusiasm for the Czechoslovak market that simply could not evaporate overnight. Besides, it is the nature of entrepreneurs to be optimistic about potential opportunities until there is overwhelming evidence to the contrary. To some, the Standard Oil case provided significant, but not yet overwhelming, evidence. It would take the remainder of the 1920s for the evidence to reach that level of persuasion.
5.2: Initial American Forays into the Czechoslovak Economy

In the early 1920s, the U.S. business community displayed its highest level of interest in investment opportunities in the new economy of Czechoslovakia. Businessmen both large and small explored profit-generating opportunities in the East European state that billed itself as the most industrially developed country with the most skilled labor force in the region. The American oil industry was but one sector of the U.S. economy that actively pursued a share of Czechoslovak investment opportunities. Delegations of businessmen from other industries were also dispatched to the new republic for the purpose of analyzing its industrial base and the character of its labor force. Following the First World War, enterprising entrepreneurs rushed to the emerging states of Eastern Europe with the hope of finding new markets and identifying unique investment opportunities. Among these eastward looking businessmen some seemed satisfied to compete for raw material supply contracts while others readily moved on to bolder, more substantial, and arguably more profitable investment schemes.

Early in 1920 one such businessman from New York, Victor E. Freeman of the Freeman Sumner Company, toured Germany, Austria, Hungary, Poland, and Czechoslovakia.298 During his visit to each country Freeman met with industrialists and bankers to discuss the general nature of economic conditions and, presumably, to scout business opportunities. In addition to meeting with fellow businessmen, Freeman also arranged a number of manufactory tours, and he recorded the conditions he witnessed in his correspondence back to the United States. The primary focus of the Czechoslovak

298 Correspondence of Victor E. Freeman, Freeman Sumner Co., 1920; File 160F.60-; DoSIAC; NAMP M1218, roll 11; NARA, College Park, MD.
portion of his journey were the textile mills of Bohemia and Moravia. The productivity and friendliness of the employees impressed him greatly during one particular tour of a Moravian mill. He observed that the facility “was working between 90 and 95% of … full capacity” and that he received “a pleasant smile and greeting from all [the employees] as [he] passed along.”[^299] His correspondence confirmed that he was on an exploratory mission to identify industrial sectors receptive to U.S. capital participation. Though he studied both the engineering and textile sectors of the economy of each country he visited, it was the latter that appeared to hold the most interest for him, especially in Czechoslovakia, where, he observed, “Splendid mills, [with a] healthy and husky class anxious for work.”[^300]

Freeman’s visit to Eastern Europe did, in fact, prove successful. His venture, supported by five U.S. banks, resulted in a contract to supply cotton to textile mills in Czechoslovakia, Austria, and Hungary.[^301] Additionally, he made arrangements for the sale of Czechoslovak textile products on the American market.[^302] Freeman’s arrangement was typical of the business ventures small-to-medium sized American businessmen initially sought during the years immediately after World War I. These

[^299]: Letter, V.E. Freeman, Freeman Sumner Co., to Richard Crane, American Minister to Czechoslovakia, 5 April 1920; File 860F.60/-; DoSIAC, NAMP M1218, roll 11; NARA, College Park, MD.

[^300]: Letter, V.E. Freeman, Freeman Sumner Co., to W.E. Lake, Mechanics and Metals National Bank, 15 March 1920; File 860F.60/-; DoSIAC; NAMP M1218, roll 11; NARA, College Park, MD.

[^301]: Letter, Richard Crane, American Minister to Czechoslovakia, to Secretary of State (SecState), 14 April 1920, File 860F.60/-; DoSIAC; NAMP M1218, roll 11; NARA, College Park, MD.

[^302]: Letter, V.E. Freeman, Freeman Sumner Co., to North McLean, VP Mechanics and Metals National Bank, 5 April 1920; File 860F.60/-; DoSIAC; NAMP M1218, roll 11; NARA, College Park, MD.
enterprises often began their activity in the region by providing raw material to the textile and metallurgy industries of Czechoslovakia as well as arranging for the export of their finished products to select markets in the United States.

The most intriguing aspect of Freeman’s particular tour of the region of the former Habsburg Empire was not so much the details of his business negotiations, but rather the secondary function the tour appeared to serve. The correspondence resulting from his travels in 1920 was conducted not only with his business associates back in the United States, but also with members of the U.S. Department of State. Like many businessmen during the period, Freeman doubled as an unofficial agent of the U.S. government. His observations were recorded and used to compile a more robust analysis of the economic condition of Czechoslovakia and the neighboring states. This secondary function was most notable in Freeman’s observations of the political climate in many of the industrial enterprises that he visited. Specifically, he seemed to have been concerned with the existence, if any, of Bolshevik sympathies among either the management personnel or the labor force.303 References to this issue were not restricted to his correspondence with members of the U.S. Mission to Czechoslovakia, but were also present in his letters home to business associates. Concerns over labor unrest were closely connected with concerns for the prosperity of Czechoslovakia’s industries and markets. These concerns stemmed from the fact that one of the initial attractions of U.S. businessmen in Eastern Europe was the opportunity to replace Russian markets lost to the Bolshevik Revolution. Fears that similar sentiments, already evident in Hungary, might continue to spread west to the new states experiencing tough economic conditions and

303 Letter, V.E. Freeman, Freeman Sumner Co., to Richard Crane, 5 April 1920; File 860F.60/-; DoSIAC, NAMP M1218, roll 11; NARA, College Park, MD.
already prone to communist sympathies, worried U.S. businessmen, politicians and diplomats alike. Foreign confidence in an industrious workforce devoid of sympathies for the Bolsheviks was one of the objectives of Hotowetz and his Bureau for Foreign Commerce. To that extent, Czechoslovak policy-makers indulged and encouraged tours and inquiries from U.S. businessmen. In this manner, men such as Freeman also served as unofficial emissaries of the Czechoslovak state upon their return home. In so doing, Hotowetz and his colleagues could target the industrial sectors in which they most desired foreign participation, or at the very least, foreign capital.

5.3: The American Czechoslovak Chamber of Commerce

U.S. business interests were by no means confined to industrial tours of the region or attempts to capture broad oil concessions. Many ventures were of a smaller scale and involved agents and associations more intimately familiar with Czechoslavia. As was previously discussed, the Czechoslovak national independence movement had enjoyed a great deal of support in the United States during the course of the First World War. This was particularly true in Chicago, where Czech and Slovak immigrants were a diverse mix of industrial blue-collar workers, successful businessmen, and city politicians. During his visits to the United States during the First World War, Masaryk had enjoyed widespread popularity among this particular colony, and it is therefore understandable that Chicago generated many of the initial business ventures between U.S. and Czechoslovak interests. While New York would increasingly take the lead in this respect as the 1920s progressed, Chicago was a logical departure point immediately following the establishment of an independent Czechoslovakia.
In 1919 prominent members of the Chicago Czech community established the American Czechoslovak Chamber of Commerce. Headquartered in the downtown business district, the Chamber proclaimed that it was “Organized to promote and develop close business relation between the United States and the Czechoslovak Republic.”

One of the leading members of this organization was John Sokol. He was a Czech immigrant who had come to Chicago in 1889 at the age of fourteen. He was, in many respects, the stereotypical immigrant. Working as a grocer by day and spending his evenings attending classes at a local YMCA, he became increasingly interested in the import business. In 1895 he opened his own grocery store in Chicago and quickly parlayed it into a thriving business. Following several successful business ventures in the subsequent decade, Sokol became an established member of the Chicago business community and a leading member of the local Czech community. In 1910 he became the first president of the Bohemian Charitable Association and eventually took up the flag of the Czech and Slovak independence movements during the First World War.

Sokol was typical of the type of Czech-American businessman interested in promoting

304 Taken from the banner of the Chamber’s quarterly bulletin. The organization’s letterhead indicated that it was “Organized to Promote Trade Relation Between America and Czechoslovak Republic.” The Chamber had several addresses throughout the 1920s which included 4335 West 26th Street and later 60 East South Water Street. The prominent Chicago businessman and first-generation Czech immigrant, John A. Sokol was a member and later president of the organization. Item #28 and #32; Collection of Papers of American Czechoslovak Chamber of Commerce (ACCC); Czechoslovak Heritage Museum (CHM), Chicago, IL.

305 Paul Nemecek. “Sokol & Company, Mr. John A. Sokol” in Csagi Kořeny, vol. 6, no. 4, Summer 2002 Issue; Item #33; ACCC; CHM, Chicago, IL. Sokol’s life sometimes reads like an adventure story. In 1902 he moved his family to Vera Cruz, Mexico where he purchased a coffee plantation. From there he exported coffee to New York, New Orleans, and Chicago until a local revolution in 1904 forced him and his family to return to Chicago. It was at this point that he re-entered the Chicago business community and actively engaged the local Czech community.
economic cooperation between the United States and Czechoslovakia through the American Czechoslovak Chamber of Commerce and other similar organizations.

The Chamber launched its campaign of activities with a Commercial Congress held at the Morrison Hotel in downtown Chicago on 3 February 1919. Among the speakers at this event were Charles Pergler, Czechoslovak Commissioner to the United States, Francis Kopecky, Czechoslovak Consul General in New York, Dr. J. F. Smetanka, Director of the Czechoslovak Information Bureau as well as an officer of the famed Czechoslovak Legion, members of various Chicago commercial associations, and representatives from other East European states. Also in attendance was Vojta Beneš, the brother of Edvard Beneš, as well as V.A. Geringer, future U.S. commercial attaché to Czechoslovakia. This was, in other words, an affair that drew together influential members from both the United States and Czechoslovakia and lent credibility to the concept of an organization devoted to promoting business between the two states.

The records of the founding meeting were full of grandiose declarations of love and support for the Czechoslovak people and assertions that the American business community was interested and eager to provide financial assistance to the fledgling democracy. The speeches promoted the idea that the Czech and Slovak communities in the United States were well placed to take the lead in this campaign. There is a clear

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306 Program for the American Czechoslovak Commercial Congress Banquet; Item #1; ACCC; CHM, Chicago, IL.

307 Ibid.

308 Ibid.

309 První Československý obchodní kongres, pořádný dne 3 a 4 února 1919 v Chicagu, Illinois; Item #2; ACCC; CHM, Chicago, IL.
sense that a secondary function of this meeting was to demonstrate to attending
Czechoslovak dignitaries that these immigrant communities were a significant and
reliable resource for economic assistance. Organizers of this event made an effort to
illustrate the breadth of involvement by cataloguing delegates from across the country
who had traveled to Chicago to lend their support to this venture. In reality, most of
these individuals were small-to-medium sized businessmen who were leading members
of their respective communities, but who were not in a position to invest large sums of
capital in their former homeland. Neither the Czech nor Slovak communities in the
United States had produced a John D. Rockefeller and there is a clear sense from the
proceedings of the Commercial Congress that their enthusiasm exceeded their
capabilities.

Nevertheless, these individuals and their desire to facilitate dialogue between the
two business communities served a purpose. The function of the Chamber was intended
to draw upon the goodwill of the business communities in the United States that had been
exposed to the Czechoslovak cause during the war in order to build a durable economic
relationship. Toward that end, the Chamber rightly targeted Czech and Slovak

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310 Ibid. Records from this meeting indicate 235 delegates attended this congress, 103 of whom traveled
from as far away as Nebraska, Iowa, Texas, Ohio, Michigan, Minnesota, Pennsylvania, Washington, DC,
New York, Connecticut, and Massachusetts. The idea apparently was to stress the breadth of the Czech
and Slovak immigrant network in the United States.

311 It is true that the Czech-American community never produced a Rockefeller, but an entertaining
connection between the two is referenced in Dr. Jan Hebenicht’s *History of the Czechs in America* (St.
his youth Rockefeller had “lived near a tiny Czech colony, often was meeting with Czechs and took fancy
to their industry, loyalty, and thriftiness. He was quite a close friend of Josef Kříž … and he often
encouraged Kříž to invest some of his saved hundreds in the new enterprise and become a shareholder of
the ‘Standard Oil Company.’ …However, Kříž did not share the confidence in the enterprise and did not
join Rockefeller …[if] Kříž had been a bit enterprising, he could have been the wealthiest Czech in the
world” (p.474-75). The book was originally published as *Dějiny Čechův Amerických* in 1910, but as the last
chapter of this study illustrated, Kříž was not the last Czech to cast a skeptical eye toward Standard Oil.
communities throughout the United States but especially businessmen in Chicago and New York. Following on the perceived success of the Commercial Congress in Chicago, the Czecho-Slovak Club of America, headquartered in Cleveland, Ohio called upon its members to continue their service to the Czechoslovak state in terms that were unmistakably patriotic:

Cecho-Slovakia [sic] is an independent republic after years of oppression under German and Magyar rule. To secure this independence you, as a member of The Cecho-Slovak [sic] Club of America, generously contributed your service. Your duties, however, have not yet ceased. Political independence has been achieved but economic independence is yet to be secured for our brothers in the home land.

To assure such economic independence it is essential that direct commercial intercourse between America and Cecho-Slovakia [sic] be established without delay.312

With this call to arms, members were invited to create local branches of the American Czechoslovak Chamber of Commerce for the purpose of promoting just such an intercourse. Unlike the American businessmen discussed in other sections of this study, the Chamber promoted trade more than investments. Surely one might follow the other, but from the standpoint of the American Czechoslovak Chamber of Commerce and other Czechoslovak-American organizations in 1919 it was manifestly important to promote the trade of raw materials and manufactured goods to help jumpstart the Czechoslovak economy. This is an important element of the Czechoslovak-American relationship that should not be forgotten when delving into the more intricate and intrigue-filled details of U.S. investments in the new Republic. Trade was intended to stabilize an economy that would then be a more highly valued investment opportunity.

312 Letter, from The Cecho-Slovak (sic) Club of America, 538 East Ohio Gas Building, Cleveland, Ohio, to its members, 25 February 1919; Item #6; ACCC; CHM, Chicago, IL. This is remarkably similar to Masaryk’s charge later that year to members of the USČP discussed in Chapter 2.
Throughout 1919 and into 1920 Sokol, in particular, worked tirelessly to promote the agenda of the American-Czechoslovak Chamber of Commerce. In the summer of 1919, he was dispatched to his native land to aid with the establishment of economic relations between his adopted country and the land of his birth. On a late summer day, one that must have seemed unimaginable to an ardent Czech nationalist who had emigrated thirty years earlier in hopes of a better life, he stood before the nascent legislative body of the Czechoslovak Republic to address the issue of close economic ties with the United States.  

As might be expected, the speech contained a great deal of sentiment as well as the standard assertions of the close and special bond between the United States and Czechoslovakia. Sokol also stressed the vitally important role the American Czechoslovak Chamber of Commerce could play in strengthening the economic ties between the United States and Czechoslovakia. Toward this end, Sokol assured his Czechoslovak hosts that “In America every member of the Chamber of Commerce is an agent of your republic. Presently the propaganda work is preoccupied with an exhibition in New York where the export capabilities of your products is displayed … so as to familiarize the public with your products.”

Sokol also introduced a clever element into his assertion of the Chamber’s service to the new state. Prior to 1918, goods produced in the Czechoslovak lands had been marketed and sold as “Made in Germany” or “Made in Austria.” This meant that

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313 Speech, delivered by John A. Sokol, 18 August 1919, Prague; Item #8; ACCC; CHM, Chicago, IL.

314 Ibid.

315 Presumably, the label “Made in Germany” was applied to products of the 122 mi² (316 km²) Hlučínsko kraj (Hultschiner Ländchen – Hlučín region) of Czechoslovakia. This tiny sliver of Upper Silesia was the only territory taken from Germany and assigned to Czechoslovakia in the interwar period. Today it remains part of the Moravskoslezskýkraj (Moravian-Silesian Region) of the Czech Republic.
not only did potential U.S. customers and investors need to be educated on the specifics of the new country, they needed to made aware of the fact that they were already familiar with the products. Indeed, many Americans had probably been using Czechoslovak goods for some time without realizing it. The Chamber was well positioned, Sokol argued, to make this point clear to the American public and to assure potential investors that there was a long-standing manufacturing tradition and well-established product lines.

Sokol reminded his audience that during the war, when goods bearing the “Made in Germany” and “Made in Austria” labels were understandably shunned by American consumers, it had been Czech-American assets that had worked to get the goods sold as Czech rather than German and that the resulting profit had helped fund the Czechoslovak national movement in America.\textsuperscript{316} In other words, the Chamber and its members had already proved their utility to the Czechoslovak cause and had every reason to suspect continued and perhaps even expanded success in the postwar era.

The sale of Czechoslovak goods in the U.S. market was only part of the equation Sokol was selling to his audience that day. He also stressed the service the American Czechoslovak Chamber of Commerce could provide in acquiring much needed raw materials from American sources. Sokol rhetorically queried, “the whole world is buying from us, why is it that you have to buy from Vienna?”\textsuperscript{317} He asserted that whether a Czechoslovak enterprise or agency had something to sell or wanted something to buy, the Chamber could serve as its \textit{direct} link into the American market. Additionally, the Chamber allowed for all inquiries to made in Czech, as members of the Chamber were bi-

\textsuperscript{316} Speech, delivered by John A. Sokol, 18 August 1919, Prague; Item #8; ACCC; CHM, Chicago, IL.
\textsuperscript{317} Ibid.
lingual and could do much to overcome any possible barrier that language might present – all the more useful given the general lack of knowledge in the United States when it came to the Czech language. He was adamant in his closing remarks that “you [Czechoslovak policy-makers] have countrymen who will work for your concern” in the members of the American Czechoslovak Chamber of Commerce.\(^{318}\)

Perhaps as significant as Sokol’s remarks, particularly for the purpose of assessing the role of the American Czechoslovak Chamber of Commerce in this broader story, is the atypical question-and-answer exchange that occurred following his address. During this exchange, several Czechoslovak officials pressed Sokol on the specifics of his remarks, some openly challenging many of his assertions. One of the initial concerns voiced was the validity of Sokol’s claim that there was a ready pool of American investors and businessmen with heartfelt ties to Czechoslovakia. As one official pointed out, many of those gathered to hear Sokol speak had relatives in America and they knew of the working class nature of most of those immigrant communities. Because not all Czechoslovak-Americans were self-made men such as Sokol, this official doubted that many would have the means to invest in U.S.-Czechoslovak trade or the desire to return to Eastern Europe to help rebuild the economy.\(^{319}\) Coupled with that was the question whether U.S. law allowed for these immigrants to travel freely back and forth between the two countries to help promote such trade. Essentially, he challenged Sokol’s

\(^{318}\) Ibid.

\(^{319}\) Ibid.
enthusiastic claims that the American Czechoslovak Chamber of Commerce truly had its hand on the pulse of the Czechoslovak-American community and could deliver on many of its promises.

Sokol responded by stating that the law, as he understood it, allowed those who had been in the United States between 8 and 10 years to travel back and forth, but that special exceptions could be made. However, focusing on that particular issue was to miss larger point of his remarks. Whether or not the Czechoslovak-American community had the material wealth base to actively invest in Czechoslovak enterprises was also a side issue that Sokol felt derailed his message. The point, Sokol insisted, was that there was an active and interested community in the United States that represented a broad spectrum of activity, any of which, might act as agents for Czechoslovak interests. He dodged the question by ignoring the reality of the official’s observation, but was correct in keeping the focus of the exchange on the services the Chamber could realistically be expected to provide rather than on the possible exaggerations of his remarks.

Before ending his visit to Czechoslovakia, Sokol also wanted assurances from local officials that they would not entertain any individual claiming association with the American Czechoslovak Chamber of Commerce without first verifying their credentials. If the Prague Chamber of Commerce worked with the American organization, the courtesy would be reciprocated. In this way, the exchange of information, particularly the monthly reports the American Chamber promised to provide regarding U.S. firms interested in Czechoslovak products and enterprises, could be accepted at face value and

\(^\text{320}\) Ibid.
a truly cooperative relationship could function between the American Czechoslovak
Chamber of Commerce and the Prague Chamber of Commerce.\textsuperscript{321}

Sokol was given the final word in this dialogue with Czechoslovak policy-makers
and he used the opportunity to assure those gathered that he and his colleagues had the
best interests of Czechoslovakia in mind. His final commentary, however, was
surprisingly paternalistic given his Czech roots. “We go back with a favorable opinion of
you, for you are as a child which cannot yet function in the international trade, and we
return to America to assist you and you must be sure that we will do everything possible
to make your work easier.”\textsuperscript{322} With that audacious and patronizing commentary, he was
thanked for his “distinguished presence” and the meeting was concluded.\textsuperscript{323}

Following his return to America, Sokol continued to promote the Chamber’s work
and the idea of greater economic cooperation with Czechoslovakia. Drawing on his
recent experience abroad, he addressed the 10\textsuperscript{th} Annual Convention of the American
Manufacturers Export Association in New York City in early October, contributing to a
panel on “The New States” of Europe.\textsuperscript{324} His comments contained many of what were
becoming standard references to the bond shared by Americans and Czechoslovaks. He
impressed upon those gathered that the “constitution and government of the new

\textsuperscript{321} Ibid.

\textsuperscript{322} Ibid.

\textsuperscript{323} Ibid.

\textsuperscript{324} Program, Tenth Annual Convention of the American Manufacturers Export Association, The Waldorf-
Astoria Hotel, New York, October 16\textsuperscript{th} and 17\textsuperscript{th} 1919; Item #11; ACCC; CHM, Chicago, IL.
Republic [was] formed on the principles of the United States of America.”

Furthermore, he reminded his audience that the Czechoslovak president had spent many years in the United States and was applying American principles in his role as Czechoslovakia’s founding father and president liberator. Sokol also supported his assertions with remarks recently given by Richard Crane to reporters of the *Chicago Daily News* that “the Czecho-Slovak state [was] politically the healthiest and sanest place in Central Europe.”

Not only was Czechoslovakia an economically sound trading partner, but it was a state easily understood by American businessmen. This recognizable fact, Sokol asserted, had recently led Herbert Hoover to single out Czechoslovakia from the other newly formed post-war European governments as one “in close touch with our [American] people.”

All of these reminders were aimed at generating a belief that increased U.S.-Czechoslovak business relations were not only intelligent and profitable, but also very natural. The American Manufacturers Export Association responded to numerous requests for copies of Sokol’s remarks by publishing and distributing them to its broader membership later that same year.

The speeches, trips abroad, and calls for greater economic cooperation between the United States and Czechoslovakia were common activities for organizations such as

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326 Ibid.

327 Ibid.

328 Letter, Robert F. Voletine, Secretary, American Manufacturers Export Association, to John A. Sokol, Secretary, Czecho-Slovakian Chamber of Commerce of America, 23 October 1919; Item #13; ACCC; CHM, Chicago, IL.
the American Czechoslovak Chamber of Commerce and representatives of the
Czechoslovak-American community who wanted to overstate the importance of their
homeland to profit-minded entrepreneurs in the United States. By themselves, these
activities were not enough to generate and maintain long-term interest in Czechoslovakia,
but they do serve as a departure point for examining how various components of the U.S.
business community understood and interacted with Czechoslovakia. Such activities help
explain why Standard Oil’s experience, while detrimental to Czechoslovak aspirations,
was not enough to put an immediate end to U.S. efforts in the region. The response to
these activities also helps to clarify the detrimental effect of the mixed messages sent by
the Czechoslovak government that are very much part of the story of U.S.-Czechoslovak
relations in the 1920s.

In the spring of 1920, the American Czechoslovak Chamber of Commerce made
the decision to move its headquarters from Chicago to New York City, where it felt it
could better serve the needs of both U.S. and Czechoslovak businessmen seeking closer
ties with one another. The announcement was made to the Chamber’s members at what
may, by most accounts, have been a singularly uneventful meeting held in Cleveland,
Ohio. What adds an element of interest to this meeting was the attendance of Jan
Masaryk, the Czechoslovak president’s son and Dr. Smetana, the Czechoslovak
commercial attaché to the United States. Both men delivered brief opening statements
and gave the impression that the Czechoslovak government both approved and
 appreciated the activity of the Chamber. In fact, prior to this meeting, Masaryk and

329 First Annual Meeting of the Czecho-Slovak Chamber of Commerce of America, Cleveland Ohio, 2 May 1920; Item #22a; ACCC; CHM, Chicago, IL.
Sokol had been corresponding regarding the activities of the Chamber. Specifically, Sokol asked if Masaryk would approve of the Chamber’s campaign to solicit credits for the shipment of raw materials from the United States to Czechoslovakia. In response, Masaryk traveled to Chicago to discuss the matter in person.\(^{330}\) This exchange suggests an official connection between the Chamber and the Czechoslovak government that was never present. It also suggests that the U.S. businessmen working closely with the Chamber may have been given the impression that they were engaging in business transactions at the behest of the East European republic. In other words, these businessmen may have believed they were being invited.

Aside from an early attempt to create a trading company for the purpose of handling imports and exports between the United States and Czechoslovakia, the Chamber’s primary function seems to have been to keep Czechoslovakia in the crosshairs of as many U.S. businesses as possible. Despite this more passive tendency toward soliciting U.S. interest in the region, Sokol and other members of the Chicago Czechoslovak-American community established the American Slavic Trading Company “for the purpose of developing and promoting commercial relations between the United States of America and the new republic of Czecho-Slovakia.”\(^{331}\) The slogan may have been recycled from the Chamber’s letterhead, but the approach was significantly different. The company was incorporated in Delaware with an initial capital of one million dollars divided into 10,000 shares of common stock valued at $10 per share and

\(^{330}\) Letter from John A. Sokol to Jan Masaryk, 10 March 1920; Item #16; ACCC; CHM, Chicago, IL. Letter from Masaryk to Sokol, 17 March 1920; Item #17; ACCC; CHM, Chicago, IL.

\(^{331}\) Open letter to potential share-holders of American Slavic Trading Company; Item #5; ACCC; CHM, Chicago, IL.
9,000 shares of preferred stock valued at $100 per share.\textsuperscript{332} The open invitation to purchase these shares played on the same sentimental chords of earlier calls to economically aid Czechoslovakia. It invoked the good will of the American people to help citizens of a sister republic, the industrious and honest character of the Czechoslovak people, and, of course, the claim that “no other country stands so close to the Czecho-Slovaks as the United States of America.”\textsuperscript{333} This letter introduced another angle of approach that is as entertaining as it is creative in its use of historical reference. In the paragraph that specifically called upon U.S. businessmen to support this company, the author made two intriguing statements. The first was the fact that many an educated man had observed “that the Czecho-Slovaks are the Yanks of Central Europe,” once again suggesting a special bond between the two states.\textsuperscript{334} The second played on perhaps the more Machiavellian tendencies of the entrepreneurial spirit with “Remember Bismarck’s remark, ‘The masters of Bohemia are the masters of Europe.’”\textsuperscript{335}

This second statement introduced an incentive missing from previous attempts to encourage U.S. business ventures in Czechoslovakia. Up to this point, Sokol and the organizations with which he was affiliated sought to encourage trade with Czechoslovakia, but in terms more akin to wartime aid. The Chamber and now the Trading Company petitioned American businessmen to export the raw materials Czechoslovakia needed to maintain and eventually expand its industrial strength and to

\textsuperscript{332} Ibid.
\textsuperscript{333} Ibid.
\textsuperscript{334} Ibid.
\textsuperscript{335} Ibid.
purchase those finished goods that would strengthen Czechoslovakia’s industrial complex. Whereas previous business connections were almost always associated with an element of aid, the Trading Company was now suggesting that Czechoslovakia (Bohemia) was the key to greater commercial ventures in the whole of the continent.

The Trading Company did not shy away from using nationalist rhetoric. Here, too, it borrowed from language first used by the Chamber. The open letter referenced the trademark “Made in Czecho-Slovakia” as an issue of utmost concern to the Trading Company. Asserting that before the First World War, “The brains and ingenuity of its [Czechoslovakia] countrymen were being exploited for the profit of German interests, and the well known trademark ‘Made in Germany’ flourished accordingly, at the expense of the Czecho-Slovak nation,” the trading company saw fit to rectify the situation through its activities. With that, the American Slavic Trading Company played the nationalism card. Rather than simply calling upon the patriotism associated with Czechoslovak heritage or appealing to the generous American sensibility, it couched its mission as part of the effort to check German aggression and right the wrong of centuries-long oppression at the hands of Germanic overlords.

Perhaps this was done to curry favor with Czechoslovak statesmen and businessmen who harbored nationalist resentment toward Germans and Hungarians. As discussed earlier, Beneš and other policy-makers were often perceived to be anti-Hungarian and overly apprehensive concerning Germany. The language of this letter would certainly have appealed to such sentiments if they were truly present. In any

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336 Ibid. It is unclear why repeated references are made about “Made in Germany” and not “Made in Austria,” unless the communication point was ethnic rather than political.
event, the effort appears to have been for naught as the company never achieved much in the way of either profits or increased trade between the United States and Czechoslovakia. The Chamber continued to be the more effective organization for such activity.

However, Czechoslovak officials presented a curiously different view of the American Czechoslovak Chamber of Commerce. Given the compatibility of the Chamber’s objectives with those of Czechoslovak institutions such as the Bureau for Foreign Commerce, it is surprising to discover the lack of direct support offered to the American-based organization. The presence of key Czechoslovak officials at early meetings of the Chamber coupled with what appeared to be support and regular interaction between Czechoslovak officials and men like Sokol certainly gave the impression of Czechoslovak support and approval. Yet, as early as 1923 the Prague government began denying financial assistance to the American Czechoslovak Chamber of Commerce.

Once again, U.S. observers perceived mixed signals emanating from Prague. This time, however, the signals were not being sent to a faceless international oil conglomerate, but to Czech and Slovak cousins in America. These same brethren who had rallied their communities in support of a Czechoslovak national cause and been instrumental in arranging raw material shipments just a few short years earlier were now being denied financial aid because they were not representatives of an official Czechoslovak organ. Here, again, was the issue of a nascent state’s struggles with domestic institutions and party politics interfering with foreign and economic policy agendas.
In late 1923 the Czecho-Slovak Chamber of Commerce in Chicago petitioned the Czechoslovak Ministry of Commerce and the Bureau for Foreign Commerce for a subsidy to help defray the cost of its operations.\footnote{The American Czechoslovak Chamber of Commerce eventually changed its name to The Czecho-Slovak Chamber of Commerce. Its mission, officers, members and offices remained the same. The reason for the name change is unclear, but was probably done to promote the idea that the Chamber was more directly connected to the Czechoslovak government in Prague.} The Chamber argued that it would have difficulty meeting its financial obligations in the near future owing to the increased amount of activity it was undertaking to provide information to both U.S. and Czechoslovak businessmen. The situation was further compounded by the fact that the Chamber did not employ a full-time staff, and the work was largely being done at the expense of unpaid Chamber officers. The requested funds were to be used to hire a full time secretary devoted entirely to conducting the day-to-day operations of the Chamber.\footnote{Letter from The Czecho-Slovak Chamber of Commerce, Chicago, Illinois to the Ministry of Commerce (MPOŽ) and the Bureau for Foreign Commerce (ÚPZO) in Prague, 22 December, 1923. MPOŽ, karton 44, číslo 12.238\textsuperscript{23}, SÚA, Prague.}

The request for a subsidy generated disagreement among Czechoslovak policy-makers. At the end of January 1924 the Ministry of Foreign Affairs sent a memorandum to the Ministry of Commerce inquiring about the state of the American organization’s request.\footnote{Letter, From the Ministry of Foreign Affairs (MZV) to the Ministry of Commerce in Prague (MPOŽ), 29 January 1924. MPOŽ, karton 44, číslo 12.238\textsuperscript{24}, SÚA, Prague.} This memorandum also illustrated the degree to which varying interests became involved in the issue of the requested subsidy. The Institute for Commerce and Trade Chambers had brought the subsidy request to the attention of the Ministry of Foreign Affairs earlier in the month and indicated that members of the Chicago
organization were anxious to hear news of Prague’s decision. The Ministry of Foreign Affairs expressed an understanding that the Ministry of Commerce opposed the subsidy and desired to know on what grounds such an objection was being made.\(^{340}\)

In February 1924 the Ministry of Industry, Commerce and Trade issued a report concerning the merits of subsidizing the Chicago organization. It noted that while the Chicago Chamber of Commerce had been the first such organization in America, the New York, Cleveland, and St. Louis offices that had followed later closed due to insufficient membership. Nevertheless, the Chicago branch reported over three hundred members and maintained an official publication, *The Czechoslovak Chamber of Commerce*. The communication reported that both the Czechoslovak Minister in Washington, DC and the Czechoslovak Consul in Chicago believed that a subsidy of at least $2,500 was an appropriate amount of aid to provide.\(^{341}\) The memorandum cited the Chamber’s annual reports from 1919 to 1922 and noted that in each of the years for which they had data, the Chamber had been profitable and growing in membership; however, owing to the organization’s desire to hire a dedicated employee, its anticipated expenses for 1924 were $8,000.\(^{342}\) The communication concluded that since the Chamber had, in fact, been working in the best interest of Czechoslovak commerce and industry and was seeking assistance for a legitimate extension of its activities, the Commercial Policy Section within the Ministry supported the suggestion to provide the Chamber with a $2,500 subsidy.

\(^{340}\) Ibid.

\(^{341}\) Report, 1 February 1924. MPOŽ, karton 44, číslo 12.238\(^{23}\), SÚA, Prague.

\(^{342}\) Ibid. In those years membership increased from 282 to 307 and profits were $292 (1919), $151.15 (1920), $43.11 (1921), and $233.27 (1922).
The aforementioned report is slightly misleading. The Ministry of Commerce generated another report the following week that expressed the concerns referenced in the Ministry of Foreign Affairs’ memorandum. In this latest report the Ministry of Commerce regretfully declined to support the idea of a subsidy on the grounds that the state budget for 1924 had already been finalized and there was no room to maneuver.\textsuperscript{343} According to the report, “the Ministry of Commerce assigned expensed items with the greatest of economy so as to cover only those expenses entirely necessary.”\textsuperscript{344} This statement conveys a sentiment that appeared to be an undercurrent among some of the participants in this debate over whether or not to grant the subsidy to the Chicago Chamber. There was a sense that while the Chamber assisted Czechoslovak efforts in the United States, it was not an official organ of the Czechoslovak government and therefore not a consideration when planning annual state budgets. Certainly from the viewpoint of the Ministry of Commerce, the activities of the Chamber were not “indispensably necessary” (\textit{nezbytně nutná}).\textsuperscript{345}

The hesitation to grant financial aid to the Czecho-Slovak Chamber of Commerce was noticed in Chicago. And, the sentiment articulated by the Ministry of Commerce was known to the officers of the American organization. The Chicago Chamber sent several inquiries to Prague requesting an update on their application for a subsidy. It is significant to note that in these inquiries, which were made through several venues, the Chamber made reference to “other Czechoslovak institutions” (\textit{jiné československé}

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\textsuperscript{343} Report, MPOŽ, č. 7875, 7 February 1924. MPOŽ, karton 44, číslo 12.238\textsuperscript{23}, SÚA, Prague.

\textsuperscript{344} Ibid.

\textsuperscript{345} Ibid.
\end{footnotesize}
instituce) that had received similar subsidies. Apparently, the Chamber in Chicago considered itself a Czechoslovak institution. This belief, whether accurate or not, is essential to understanding the impact on the Chamber of the Czechoslovak government’s decision not to grant the subsidy. The assertion that they were a Czechoslovak institution, in the official sense, is certainly difficult to defend. The organization was formed, headquartered, and operated out of the United States. While there were several Czechoslovak citizens on its board, the Chamber was run by U.S. citizens, collected dues from U.S. members, and served U.S. as well as Czechoslovak business and commercial interests. Furthermore, the fact that the Czechoslovak government did not allocate resources in its budget for the American Czechoslovak Chamber of Commerce lends support to the argument that it was not considered to be an official organ of the state. Another, perhaps more subtle, indicator that the confusion lay with the Chicago side of the equation and not with the Prague side is the avenue by which the subsidy request traveled. An official organ of the state would have had direct access to the Ministry of Commerce in Prague; however, the subsidy request passed through, and seemed to require the approval of, the Chicago consulate and the Washington mission before being forwarded to Prague.

There is no need, nor any value, to assign blame for this confusion. The fact was the Chicago organization felt itself to be a Czechoslovak institution, or at least on par with such institutions, and therefore rankled at the Czechoslovak government’s position to the contrary. At no time did any of the Czechoslovak policy-makers disagree with the

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346 Memorandum, Obchodní Ústav (Ústav k Podpore Zahraničního Obchodu) Obchodní a Živnostenské Komory v Praze, Ministerstvu Obchodu, 16 January 1924, MPOŽ, karton 44, číslo 12.23823, SÚA, Prague.
value of the Chamber, but this circumstance appears to have been a case where actions spoke louder than words. The American Czechoslovak Chamber of Commerce in Chicago never received its subsidy, despite its insistence that it was needed to continue the productive work of promoting Czechoslovak commodities and business opportunities. It would not be until the 1930s that the American Czechoslovak Chamber of Commerce and the Czechoslovak government entered into a closer dialogue and began operating with a clearer understanding of their relationship.

The difference between the mixed signals sent to Standard Oil and the mixed signals sent to the American Czechoslovak Chamber of Commerce is significant. It could be legitimately argued that Standard Oil was self-interested in its attempts to secure oil concessions in Czechoslovakia and had the potential for adversely affecting the broader domestic oil industry. However, the American Czechoslovak Chamber of Commerce was formed specifically to promote greater cooperation between U.S. and Czechoslovak business interests. In 1919 and 1920, in particular, there appeared to be a good deal of cooperation between the Czech-American business community and Czechoslovak officials both in Europe and the United States. Visits in both directions across the Atlantic also spoke to an atmosphere of active cooperation and appreciation. Yet as the 1920s progressed, enthusiasm in both camps appears to have waned.

The diminishing enthusiasm was partially perception and is not entirely surprising. The wartime enthusiasm for the Czechoslovak cause faded as the realities of the postwar years became manifest. Furthermore, Czechoslovak policy-makers became consumed with the domestic and international challenges to developing an economically vibrant democracy in a region awash with postwar insecurity, economic hardship, social
and political unrest, and nationalist antagonisms. As these officials settled down to the business of forging a new state, the minutia associated with organizations such as the American Czechoslovak Chamber of Commerce understandably took secondary consideration. It was not that the activity of the organization was valued any less. Simply stated, the perceived payout was less than other ventures that occupied the agendas of the various Czechoslovak ministries. Likewise, Czech-American interest waned as demonstrated by the failure of the New York, St. Louis, and Cleveland Chambers to maintain adequate membership. The fact that the Chicago Chamber prospered and continued to support commercial interest in Czechoslovakia was less visible than other American ventures establishing a presence in Czechoslovakia. Unfortunately, the understandable conditions that led to this state of affairs also allowed for the mixed signals the Chamber felt it was receiving. As with the Standard Oil case, a good deal of the confusion can be attributed to a failure in communication and an inability to recognize the full scope of the challenges facing Czechoslovak policy-makers. Budgetary constraints and a need to promote domestic enterprises had to supercede subsidies to American organizations, regardless of its value to the Czechoslovak cause.

5.4: Broader American Interests in the Czechoslovak Economy

Other avenues for U.S. involvement in Czechoslovakia were also being explored in the early 1920s, and most of these did not involve individuals with cultural ties to the young Republic. In 1923, the U.S. Minister to Czechoslovakia Lewis Einstein reported
to Washington the details of his tour of the Škoda Auto Works in Plzěn (Pilsen).  

While the communiqué addressed general trends in the Czechoslovak industrial sector, what it communicated in its focus on the Škoda Works in particular is interesting. Einstein remarked that, “American factory methods have been carefully studied since the war and the Taylor System partially introduced.” The comment is significant not so much for its specifics, but for the mentality that lay behind the message. The observation of American practices in manufacturing implied a sense of modernization, or an improvement that warranted U.S. support and encouragement. In fact, the observation illustrates the fruits of the ÚSČP’s earlier, and continuing, efforts to promote closer ties between the United States and Czechoslovakia through the exchange of engineers and other professionals. Furthermore, it suggests that businessmen and state agents were not the only parties interested in promoting strengthened relations between the two republics.

Academics also became involved in maintaining this special relationship between the United States and Czechoslovakia. One such example is the participation of academics and professional organizations that worked closely with private industry. On 1 June 1922 the 26th Annual Meeting of the American Academy of Political and Social Science took place in Philadelphia. One of the keynote speakers at this conference was

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347 Despatch No. 496, Lewis Einstein, American Legation (AmLeg) to SecState, 28 July 1923, File 860F.50/23; DoSIAC; NAMP M1218, roll 7; NARA, College Park, MD.

348 Despatch No. 496, Lewis Einstein, American Legation (AmLeg) to SecState, 28 July 1923, File 860F.50/23; DoSIAC; NAMP M1218, roll 7; NARA, College Park, MD. The Taylor System refers to the theories of scientific management developed by Frederick W. Taylor, a ground-breaking American industrial engineer.

349 “Economic and Financial Reconstruction of Czechoslovakia,” address by Dr. B. Štepanek, Czechoslovak Minister to the United States, delivered to the 26th Annual Meeting of the American Academy of Political and Social Science, Philadelphia, Pa, 1 June 1922; File 860F.50/17; DoSIAC; NAMP M 1218, roll 7; NARA, College Park, MD.
the Czechoslovak Minister to the United States, Dr. B. Štepanek, who spoke of the economic and financial reconstruction occurring in Czechoslovakia. He took the opportunity to educate the audience on the general economic conditions of his homeland and in his concluding remarks on the “future problems” of the Czechoslovak economy reiterated the broader theme of international cooperation, especially in the field of industrial recovery. It was at this point that he discussed the “reorganization and elimination of waste in industry … exploitation of water power … [and] electrification of the whole country” as the key components of future efforts to improve the economic condition of Czechoslovakia. As an essential element to international cooperation in these endeavors, Štepanek “consider[ed] it the supreme task of every engineer, notably of the great peaceful army of the American engineers, to do their best to have a ‘World’s Engineering Foundation’ established as soon as possible.”

While this “World Engineering Foundation” never saw the light of day, U.S. engineers, businessmen and academics continued to maintain an active interest in Czechoslovakia.

Indeed, many of these individuals were officially recognized by the Czechoslovak government for their services and contributions to the young republic. The Order of the White Lion was established in 1922 to honor citizens and non-citizens for outstanding service to the Czechoslovak state. By the end of the 1920s, numerous American

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350 Ibid.
351 Ibid.
352 Stanovy Řádu bílého lva (Statutes of the Order of the White Lion), Příloha zákona č. 157/94 Sb.1 (Law Gazette, No. 157/1994, Annex 1), http://old.hrad.cz/kpr/rady/index.html (accessed 18 February 2004). This honor is still recognized by the Czech Republic and, as with the interwar republic, is conferred by the President of the Republic. The Order of the White Lion comes in five classes and two divisions, civil and military.
citizens had been recognized for their contributions to Czechoslovakia with awards of this prestigious honor. In 1927 alone, the *New York Times* reported that six American engineers as well as the General Secretary and several employees of Ford Motor Company had received the honor in recognition of technical services rendered to Czechoslovakia.\(^{353}\) The following year, the American Consul General in Prague, C.S. Winans, whose prolific government reports on various elements of the Czechoslovak economy had encouraged U.S. participation, was awarded the Order.\(^{354}\) By these accounts, it was not simply empty rhetoric on the part of Štepanek, but a sincere appeal for cooperation between the two communities that was duly recognized by the Czechoslovak state.

Orders of the White Lion aside, U.S. interest in Czechoslovak manufacturing and management techniques continued with the First International Management Congress which met in Prague.\(^{355}\) For one week in late July 1924, businessmen, engineers, and academics from the United States and Czechoslovakia discussed and shared ideas and techniques useful to the improvement of industrial operations. Members of the congress

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\(^{353}\) “Six Engineers Get Foreign Honors,” *New York Times*, 28 April 1927, 5. “Six Engineers Decorated: Czechoslovakia Honors Americans for Technical Services,” *New York Times*, 3 July 1927, 13. “Honored by Masaryk,” Seven Americans and a Britisher Receive Decorations,” *New York Times*, 30 November 1927, 17. The engineers included the head of the Department of Industrial Engineering at New York University, the Secretary of the American Society of Mechanical Engineers, the director of the Engineering Foundation in New York, the executive secretary of the American Engineering Council, the managing director of the Taylor Society in New York, and an industrial engineer from Philadelphia. Additionally, the editor of the *Detroit News* was honored.


toured various Czechoslovak manufacturing facilities to observe, learn, suggest, and improve these operations. The noteworthy aspect of the conference was the representation it received from American enterprises. In addition to enjoying a number of corporate sponsors, the board of directors included a number of well respected and internationally recognized experts in the field of industrial management. Additionally, a number of professional societies and leading academic institutions participated in the conference, most notably, the American Management Society, the Society of Industrial Engineers, the National Association of Cost Accountants, Columbia University, and the Georgia School of Technology. This partial list of the sponsors and organizers of the event illustrates the diversity of the involvement by U.S. private industry, professional organizations, and academia in efforts to participate in the stabilization of the Czechoslovak economy.

Branching out from these activities centered around manufacturing operations, some American businessmen seeking investment opportunities in Czechoslovakia concentrated on the exploitation of natural resources or the reconstruction/improvement of public works. For instance, in 1925 the American businessman S.R. Bertron of Bertron, Griscom and Company approached the Czechoslovak government with a proposal for the development of hydroelectric facilities in Bohemia. This proposal was in line with the investment firm’s general interest in recovery programs throughout the

356 This included Dr. Lillian M. Gilbreth, Ph.D. who, along with her husband, Frank B. Gilbreth developed ground-breaking techniques in work-time studies that revolutionized manufacturing practices.


358 Letter, Lewis Einstein, to SecState, 20April 1925; File 860F.51/406; DoSIAC; NAMP M1218, roll 9; NARA, College Park, MD.
Czechoslovak Republic. Earlier in that same year, Bertron, Griscom and Company had invested approximately $100,000 into the development of state forests in Sub-
Carpathia.\footnote{Letter, Lewis Einstein, to SecState, 31 January 1925; File 860F.51/401; DoSIAC; NAMP M1218, roll 9; NARA, College Park, MD.} Although the firm later suspended its investments in these projects in lieu of its mounting interest in credit extension to the new Czechoslovak bank of issue, projects of this nature were common.

Investment schemes such as the ones pursued by Bertron, Griscom and Company were in some ways responses to the portrayal of Czechoslovakia in American press and trade journal accounts. The hydroelectric projects of the Czechoslovak state as well as the country’s “forest wealth” were common subjects for U.S. trade journals.\footnote{John B. Woods, “The Ambitious Industrial Plans of Czechoslovakia,” \textit{American Machinist} 53, no. 5 (29 July 1920): 238-239; “Czechoslovak Republic’s Plans for Electrification,” \textit{Electrical World} 79, no. 14 (8 April 1922): 677. This article referred to another article on the same topic published the previous year. “Electrification Schemes in Czechoslovakia: A Large Program,” \textit{The Czechoslovak Trade Journal} 2, no. 12 (August 1922).} Likewise, there were public calls for U.S. capital participation in Czechoslovakia. Using sentiments that would later be echoed in Rašín’s frustrated commentary on Western capital participation, Paul Berka of the Bohemian Central Bank in Prague declared “an opportune time for the participation of American capital in the reconstruction of Czechoslovakia.”\footnote{“Czechs Want U.S. Capital: Most Investors Now Are British and French, Says Banker,” \textit{New York Times}, 30 September 1920, 19. For Rašín’s commentary see Chapter 4.} American investors and entrepreneurs did not need to look far or long for encouragement and direction for investment opportunities in Czechoslovakia. They were scattered throughout various trade journals and popular press accounts.\footnote{C.A. Heise, “The Situation of the Machine-Tool Market in Czecho-Slovakia,” \textit{American Machinist} 53, no. 21 (18 November 1920): 938. This article promoted “Big Chances for American Products”}
One of Bertron, Griscom and Company’s more audacious schemes was an intriguing business proposal for the consolidation of railways in the region. The first mention of such an undertaking actually transpired during the firm’s 1925 negotiations for the aforementioned forestry development. At that time, the American firm expressed an interest in acquiring control of the Czechoslovak railways as part of a broader initiative to consolidate and administer all the railways of the former Austro-Hungarian Empire. This plan to create a U.S. company to run the East European railways met with resistance from both Einstein and Beneš. Bertron and his associates argued that their proposal was the only way to ensure that the railway systems of Eastern Europe were operated with any degree of efficiency.

These New York businessmen were not alone in believing that the people of Eastern Europe, although seemingly capable of self-rule, were wholly incapable of running a railway. In 1926, an Anglo-French group of businessmen met with Chief of the Presidential Office of the Ministry of Railways, Dr. Riha, for the express purpose of discussing the consolidation of the Czechoslovak railways under their direction. Although Riha discussed with the businessmen the operating costs of the railways in Czechoslovakia, their proposal met with no more enthusiasm than had that of Bertron, Griscom and Company’s the previous year. Interestingly, one of the reasons indicated in

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363 Letter, Lewis Einstein, to SecState, 31 January 1925; File 860F.51/401; DoSIAC; NAMP M1218, roll 9; NARA, College Park, MD.

364 Anglo-French Combine Manifest in Czechoslovak Railway Company by Frank P.S. Glassey, American Vice Consul in Prague, 15 December 1926; File 860F.77/21; DoSIAC; NAMP M1218, roll 13; NARA, College Park, MD.
1926 dealt with government protection of state enterprises. Riha conceded that a private enterprise might indeed operate the railway with more efficiency, but he doubted that any such enterprise would be willing to grant the concessions that the Czechoslovak government granted the railways.\footnote{Anglo-French Combine Manifest in Czechoslovak Railway Company by Frank P.S. Glassey, American Vice Consul in Prague, 15 December 1926; File 860F.77/21; DoSIAC; NAMP M1218, roll 13; NARA, College Park, MD.} The Anglo-French venture left Prague discouraged and never pursued the matter further. For its part, Bertron, Griscom and Company satisfied itself with investments in Czechoslovak banks, forests and hydro-electric projects and also failed to pursue its hope of controlling Czechoslovakia’s railways.\footnote{In 1926 the \textit{New York Times} reported on an Anglo-American attempt to purchase Czechoslovak state railways. The brief account noted that “The Minister of Railways confirmed the news, but added that negotiations originated with the financiers and not with the Government.” Apparently, there was to be no more confusion regarding the sale of vital national resources to foreign interests. “Anglo-American Bid Made for Czechoslovakia’s Railways,” \textit{New York Times}, 28 November 1926, 1.}

The Czechoslovak response was entirely in keeping with its protectionist policies. If petroleum reserves were a protected resource essential to the security of the state, then one could hardly argue that the railways, which transported the state’s commerce and military, were any less vital to national security. Riha could cite government subsidies all he liked, but the real reason for turning away foreign railway investors was security. The primacy of railway issues at the Porto Rose Conference confirms that conclusion. In any event, such audacious ventures would quickly take a back seat to the issues generated by American investments in an established and renowned Czechoslovak engineering works. The problems that began to arise out of this investment in 1925 would plague American investors and diplomats as well as their Czechoslovak counterparts and re-open the wounds of Standard Oil that had only recently begun to heal.
5.5: The Brünner Turbine Investment Scandal

In 1925 a consortium of American bankers invested in the Czechoslovak manufacturing firm, Brünner Turbine. This venture, which included the participation of approximately 1,600 American bondholders, illustrates elements of both continued interest and growing apprehension toward U.S. investments in Czechoslovakia. In the autumn of 1925, the legal firm Hornblower, Miller and Garrison informed the U.S. State Department that it had recently represented the investment house of F.J. Lisman and Company in negotiations to provide the Brünner Turbine company with a 30 year, $4 million loan at 7.5 percent interest. The law firm wished to confirm State Department approval of the anticipated loan. Within a week the U.S. Departments of State, Commerce, and Treasury had reviewed and approved the proposed loan. In response, the State Department forwarded the standard letter of approval to the law firm. The letter included a key phrase that would later carry important implications for F.J. Lisman and Company’s investment in Brünner Turbine. It was a standard phrase in all State

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367 The actual name of the Czechoslovak company was První Brněnská Strojírenská Společnost (First Brno Engineering Company). Because of the Germanic history and character of the city of Brno and its industrial complex, the company was also regularly referred to as Ersten Brüner Maschinen-Fabriks-Gesellschaft in Brünn (First Brno Engineering Plant in Brno). A derivation of the Germanic name, Brünner Turbine is used here because that is how it was known to American investors and the New York investment community. It was also the name by which U.S. State Department officials consistently referred to the company in their records.

368 Letter, Hornblower, Miller & Garrison, to State Dept., 30 October 1925; File 860F.51Er8/-; DoSIAC, NAMP M1218, roll 10; NARA, College Park, MD.

369 Letter, Leland Harrison, Assistant (Asst.) SecState, to Messrs. Hornblower, Miller & Garrison, 3 November 1925; File 860F.51Er8/-; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. Letter, Garrard B. Winston, Undersecretary of the Treasury, to SecState, 4 November 1925; File 860F.51 Er8/1; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. Letter, Harold Phelps Stokes, Asst. to Mr. Hoover, to Leland Harrison, State Dept., 5 November 1925; File 860F.51 Er8/2; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. Letter, Office of the Economic Advisor, State Dept., to Leland Harrison, Asst. SecState, 28 October 1925; File 860F.51 Er8/3; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.
Department letters approving loans to foreign enterprises which read, “the Department of State does not pass upon the merits of foreign loans as business propositions nor assume any responsibility in connection with such transactions.” The line reinforced known policy whereby the State Department was kept informed of loans extended to foreign enterprises, but did not assume financial responsibility.

In May 1926, the State Department received a ‘Strictly Confidential’ dispatch from the American Consulate in Vienna. The nine page communiqué was a detailed summary of a recently discovered fraud perpetrated by Brünner Turbine. For several years, officials of the Czechoslovak company had falsified key documents and disguised its financial problems. Investigators discovered that these officials had published “incorrect and misleading balance sheets and [paid] dividends and taxes that were not justified by current earnings or the condition of the reserve.” In response to these discoveries, F.J. Lisman and Company quietly conducted its own investigation and initiated several audits in an effort to assess the damage. Despite attempts to conceal the investigations from the public, Brünner Turbine’s stock declined approximately seventy percent in value during the first five months of 1926. The investigation also discovered that at least one of the four Central European banks involved with the American loan had been suspicious of the fraud for several years. The Böhmische

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370 Letter, Leland Harrison, Asst. SecState, to Messrs. Hornblower, Miller & Garrison, 3 November 1925; File 860F.51Er/-; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

371 Despatch No. 64/26, Erste Bruenner Maschinen Fabriks-Gesellschaft, American Consulate, Vienna, to State Dept., 29 May 1926; File 860F.51Er8/4; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

372 Ibid.

373 Ibid.
Escomptebank of Prague had suspected Brünner Turbine of falsifying its records as far back as 1922, but had been unable to act on the suspicion until 1924 when the bank acquired a considerable share in the company. However, negotiations for American loans kept the bankers from publicizing their misgivings. As a result, the deception of Brünner Turbine’s officers was not discovered until after the company had concluded its loan with F.J. Lisman and Company. Despite the company’s financial difficulties, American diplomats in Vienna were of the opinion that the American investors were properly insulated from reciprocal losses and the State Department hoped the issue was therefore resolved.

The president of F.J. Lisman and Company added an interesting dimension to the case in 1927 when he solicited the State Department’s assistance in the ongoing difficulties with Brünner Turbine. In a conversation with State Department economic advisors, the banker suggested that a “display of interest by the United States might be the one psychological touch necessary to save the situation.” The situation to which Lisman referred was, of course, the increasing likelihood that Brünner Turbine would default on the American loan. The New York banker was aware of the State Department’s reluctance to appear involved in the matter; nevertheless, he intimated that the Department had an obligation to the American investors his company represented. The report of this meeting generated some splendidly candid internal State Department debates concerning the appropriate position to take on the matter. A member of the

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374 Ibid.

375 Ibid.

376 Conversation between Mr. F.J. Lisman, Mr. Livesy and the Acting Economic Advisor, 30 April 1927; File 860F.51Er8/5; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.
Department’s Division of West European Affairs provided a skillful synopsis of the key issues circulating over the case. He insisted that any action taken by the Department on behalf of F.J. Lisman and Company would contradict the Department’s standard disclaimer regarding its endorsement of foreign loans.\textsuperscript{377} In other words, assisting the investors would admit that the Department had assumed responsibility for American loans made to foreign enterprises. However, the official also feared that implied responsibility had already been assumed by the Department. He speculated that American investors generally misunderstood the Department’s policy and believed that since “the Department \textit{did} insist on passing on their loans … it [had] obligated itself to a minimum of support.”\textsuperscript{378} The State Department clearly found itself in a difficult situation. Regardless of disclaimers, its actions implied a degree of responsibility to American investors on foreign shores. The official insightfully concluded his commentary by requesting that the Department “indicate on which horn of the dilemma we are to be impaled?”\textsuperscript{379}

The State Department was plainly in a delicate situation. While the debate raged within the inner circles of the State Department, Lewis Einstein was sent ‘Strictly Confidential’ instructions to discreetly acquire additional details and forward his

\textsuperscript{377} Internal State Depart. Memorandum, Division of West European Affairs, 5 May 1927; File 860F.51Er8/5; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. The disclaimer referred to is the line mentioned above, “the State Department does not pass upon the merits…” (Beneš would have been pleased to learn that Czechoslovak affairs were being handled by the Division of West European Affairs as it seemingly re-enforced his assertion that Czechoslovakia was firmly in the Western camp.)

\textsuperscript{378} Ibid. (His emphasis.)

\textsuperscript{379} Ibid.
recommendations to Washington as soon as possible.  At the same time he was cautioned against taking “any action which might appear to establish precedent.”

During the course of the months that followed, Lisman continued to solicit assistance from officials in Washington while the State Department allowed the Legation in Prague to quietly gather information. Additionally, Lisman convened a Bondholders’ Protective Committee to negotiate a settlement with Brünner Turbine.

In July 1927, Lisman traveled with members of this committee to Prague to meet with members of the American Legation, officers of the Brünner Turbine Company, and Prague bankers. His mission was to resolve the situation with the Czechoslovak manufacturing firm and secure the investments of his fellow bondholders. He employed a letter of introduction provided by U.S. Senator George Moses to obtain an appointment with Einstein. At this meeting, Lisman requested an introduction to certain members of the Czechoslovak government. Although the State Department presumed the Czechoslovak government to be as unwilling as it was to intervene in the Brünner Turbine case, it nevertheless authorized Einstein to conduct the proper introductions. The American Minister introduced Lisman to Drs. Engliš and Popisil in the late summer of

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380 Despatch No. 464, W.R. Castle, Jr., State Dept., to Lewis Einstein, 9 June, 1927; File 860F.51Er8/6; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

381 Ibid.

382 Letter, F.J. Lisman, to Office of the Economic Advisor, State Dept., 20 July 1927; File 860F.51Er8/8; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

383 Letter, Office of the Economic Advisor, State Dept., to Dr. Young, 28 July 1927; File 860F.51Er8/10; NAMP M1218, roll 10; NARA, College Park, MD. Moses (R-NH) was a member of the Senate Foreign Affairs Committee.
The U.S. Minister took the opportunity to emphasize the State Department’s non-intrusive position and simply expressed “sympathetic interest” in the situation. A combination of events followed this introduction that seemingly brought the conflict to a resolution. One followed from the actions of Lisman’s Bondholders’ Protection Committee while the other resulted from the actions of Lewis Einstein.

The Bondholders’ Protection Committee met with members of Brünner Turbine and European bankers who had significant interest in the company’s operations. A final settlement was agreed upon by the parties involved whereby the American bondholders would be reimbursed fifty percent of the value of their investment. The American bondholders, in turn, agreed to accept 45 percent in cash up front with the remaining five percent coming from future earnings of Brünner Turbine paid when the company’s capital returned to six percent. Although the settlement was “extremely unsatisfactory” for the American bondholders, the involved parties understood it was the only alternative to insolvency. F.J. Lisman and Company approved the deal with its fellow bondholders and by the end of 1927, the unfortunate investment scandal came to a close.

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384 At this time Engliš was once again Minister of Finance in the third Švehla government. Popisil was the Governor of the Czechoslovak National Bank.

385 Strictly Confidential Despatch No. 1354, Lewis Einstein, AmLeg, to SecState, 17 July 1927; File 860F.51Er8/11; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. Strictly Confidential Despatch No. 1370, Lewis Einstein, AmLeg, to SecState, 6 September 1927; File 860F.51Er8/11; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

386 Strictly Confidential Despatch No. 1370, Einstein, AmLeg, to SecState, 6 September 1927; File 860F.51Er8/12; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD. Memorandum in Re Brunner Turbine & Equipment Company 7 1/2% Bonds, Erste Bruenner Maschinen-Fabriks-Gesellschaft, Parsons, Klapp, Brickerhoff & Douglas Engineers, to State Dept., 27 January 1928; File 860F.51Er8/18; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

387 Ibid. Additional details of the agreement are contained in the noted memo and re-addressed in several State Department documents in this record series. Only the information relevant to the topic at hand has been included in the body of this text.
For its part, the State Department emerged from the situation with its non-intervention policy intact. Despite the great deal of commotion generated among State Department officials advocating a *laissez faire* approach to the situation, the Department did, in fact, intervene. Einstein reported a conversation he held with Beneš at the time Lisman and his committee were negotiating their settlement. When asked by Einstein for information related to the Brünner Turbine Company, Beneš claimed ignorance of the case. However, Beneš agreed to lend “unofficial assistance” in the matter and agreed to help facilitate the aforementioned meeting between Lisman and Englįš. Although this conversation was vague, and represented only a minor breach of the State Department’s practice of non-entanglement, it generated enough discomfort for Einstein that he recorded several frustrated observations. He held that the State Department’s practice of passing on loans to foreign entities obligated it to validate the solvency of the foreign enterprise. Einstein believed that a government audit of this sort would have prevented the Brünner Turbine fiasco. Furthermore, he expressed irritation at the fact that “four million dollars was borrowed from 1600 American bondholders for an industrial enterprise in Czechoslovakia without the Legation having been aware of the investment until after it was made.”

State Department officials in Washington recognized Einstein’s observations but failed to act upon them. It was easier for the Department to fault F.J. Lisman and Company’s lack of due diligence in their business proposals than to

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388 Strictly Confidential Despatch No. 1354, Lewis Einstein, AmLeg, to SecState, 27 July 1927; File 860F.51Er8/11; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.

389 Ibid.

390 Strictly Confidential Despatch No. 1370, Lewis Einstein, AmLeg, to SecState, 6 September 1927; File 860F.51Er8/12; DoSIAC; NAMP M1218, roll 10; NARA, College Park, MD.
return to the slippery path they had recently traversed. The State Department continued
to insist on passing on all loans to Czechoslovak enterprises while still proclaiming the
absence of liability should investment schemes fail.

Washington was not the only government that hoped to avoid entanglement in the
Brünner Turbine financial scandal. Whether or not Beneš was being truthful when he
told Einstein that he was ignorant of the situation in July is difficult to determine. The
same can not be said for other Czechoslovak government officials. In September 1927,
the Ministry of Finance informed the Ministry of Public Works that a reorganization of
the First Brno Engineering Company (Brünner Turbine) had recently occurred. Attached
to this brief letter was all the supporting documentation related to the settlement between
Brünner Turbine and the Bondholders’ Protection Committee and the concluding
commentary that the issue was more properly the competence of the Ministry of Public
Works than it was of the Ministry of Finance. This was an interesting observation
given the fact that it was Engliš (the Minister of Finance) who had accepted the meeting
with Lisman and representatives of the Bondholders’ Protection Committee.

Nevertheless, the inter-ministerial communication clearly indicates that at least some
influential government organs were aware of the details of the Brünner Turbine fiasco.

The information circulated between the two ministries was taken from a detailed
report generated by Brünner Turbine for the benefit of the Ministry of Finance. The
information was intended to help explain precisely what was believed to have occurred in
the accounting of the Brno-based company’s finances and how a resolution had been

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391 Letter, Ministerstvo Financí, to Pan Dr. František Spina, Ministr Veřejných Prací, 29 září 1927, MF I,
karton 22, číslo 1617B27, SÚA, Prague.
decided upon with the American bondholders. It is unclear exactly what the intent was behind this report as Brünner Turbine in no way solicited government intervention. Nevertheless, key policy-makers were aware of the situation and the disruption it was causing in U.S.-Czechoslovak business relations.

Unlike the Standard Oil case several years earlier, the Brünner Turbine case played out differently in the U.S. press. Members of New York financial circles not directly involved in the fiasco appeared none the wiser. The actual situation that arose between the Czechoslovak manufacturer and the U.S. bondholders remained obscured in the popular press accounts despite consistent reports in the *New York Times* concerning American involvement with Brünner Turbine. As early as December 1925, the newspaper began coverage with news of the initial bond offer.\(^{392}\) Throughout 1926 and into the first half of 1927, articles related to the activities of Brünner Turbine or the value of its stock often appeared in the newspaper. Beginning in July, however, the subject of news coverage became the declining value of the Czechoslovak company’s stock, the depreciation of the bonds and the formation of the Bondholders’ Protection Committee.\(^{393}\) What the newspaper never accurately reported was the underlying cause of the decline in the company’s value and the need for the formation of such a protective committee. In fact, the reporting was erroneous, citing the loss of vital contracts and the declining economic atmosphere in Europe for the stock’s decline rather than questionable accounting practices. It can only be concluded that the efforts by bankers and government officials in both the United States and Czechoslovakia were successful in

\(^{392}\) “Foreign Industrial Bonds on Market. $4,000,000 Block of Brunner Turbine Securities Put on Sale Here.” *New York Times*, 3 December 1925, 38.

\(^{393}\) *New York Times*, July, August, September 1927.
their desire to keep the accounting scandal under wraps and out of the public domain. Nevertheless, the investment scandal proved damaging to Czechoslovak aspirations for further large-scale American investments.

5.6: International and Domestic Factors

More was occurring during these pivotal years than just an elastic tension between U.S. businessmen and Czechoslovak policy-makers. The international backdrop against which these relationships played out was fraught with uncertainty from the Czechoslovak perspective. Beneš may have scored a victory for his policies at Porto Rose in 1921, but the resulting sense of security for Czechoslovakia was short-lived. The mid-1920s witnessed the Dawes Plan and Locarno Conference and contributed to a mounting sense of dread among Czechoslovak policy-makers that international sympathies were turning against their favor. Western Powers were seeking stability with a greater sense of urgency, increasingly unwilling to tolerate the uncertainty that seemed to exist in the new Eastern Europe, more willing to contemplate the inadequacies of the Paris Peace Settlement, and more willing to engage Germany in an effort to create the elusive peace and stability that would prevent the outbreak of another world war. This changing attitude toward the Germans and the growing sense of indifference emanating from Washington and London fed the natural insecurities of the Czechoslovak policy-makers. Faced with this re-alignment in the post-war relationships Czechoslovak policies, or at least the policy articulations, became all the more significant in their dealing with Westerners, be they statesmen or businessmen.
Late in 1924 the Conservative Party came to power in Great Britain and had a distinctly detached attitude toward issues associated with Eastern Europe. In the same year the United States was called upon to lend financial support to the over-burdened German economy. The resulting Dawes Plan that reduced German reparations and established a new repayment schedule also redirected U.S. economic aid into Germany. From the Czechoslovak point of view, this was an unsettling turn of events. In short order Czechoslovakia seemed to have lost influence with both Washington and London.

The following year offered some reprieve to the mounting sense of insecurity among Czechoslovak policy-makers. The 1925 Locarno Conference represented another step toward Western reconciliation with Germany and an attempt to redress several components of the Versailles Settlement. Germany’s acceptance of its western borders with France and Belgium and its admittance to the League of Nations did much to allay French fears of German aggression. Beneš attempted to share the spirit of optimism that the conference promoted despite the fact that Germany kept silent about accepting its eastern borders. The insecurities represented by this fact necessitated that France continue to pursue its East European security aims by signing treaties of mutual assistance with both Poland and Czechoslovakia. These treaties were intended to provide the East European states with the same sense of security against German aggression that the recognition of the western borders had provided for France and Belgium. Nevertheless, this arrangement placed Czechoslovakia, and particularly Beneš, in a precarious position. Czechoslovak policy-makers were increasingly uncertain of how far the Western Powers would go to reconcile with Germany and to what extent East European security issues would be sacrificed in this effort.
The interest of the U.S. business community in Czechoslovakia presented itself immediately following the First World War and remained active, yet waning, throughout the 1920s. The difficulties experienced by Standard Oil between 1920 and 1922 slowed, but did not eliminate, American desires to pursue direct and indirect investment opportunities in the Czechoslovak economy. Perhaps the final nail in the coffin for U.S.-Czechoslovak business relations was the Brünner Turbine affair, for it certainly did not ease mounting apprehensions among American investors concerning East European ventures. The international situation, however, cannot be underestimated in this regard. Czechoslovak policy-makers, particularly Beneš, felt threatened by the shifting sands of international affairs. The apparent reconciliation between the Western Powers and Germany, manifest in the Dawes Plan and the Locarno agreements, promoted an increasing sense of vulnerability among Czechoslovak policy-makers. Coupled with the apparent difficulties American businessmen were experiencing in the Czechoslovak market, it is easy to understand how Beneš and others in his camp may have felt as though a significant moment had passed; one that had the potential to solidify a U.S. financial presence in the beleaguered East European state.

Standard Oil’s experience in Czechoslovakia was a story of miscommunication and misunderstanding on both sides of the negotiating table, and as this chapter has reinforced, a developing trend in the broader story of U.S. business activity in Czechoslovakia throughout the 1920s. Early in the decade, Czech and Slovak immigrants in the United States sought to promote business relations between the two republics out of an overly romantic sense of national duty and a desire to capitalize on
their heritage with an industrialized and newly democratic state. Believing that they were both acting in the best interest of their former homeland and being encouraged by Czechoslovak officials, they took a leading role in drumming up support in their respective American communities. The impact of the American Czechoslovak Chamber of Commerce, however, was not sustainable as it was denied funds and a sense of legitimacy from the Czechoslovak government. Lacking these funds and coupled with the small-to-medium sized nature of its associate members, the Chamber became an increasingly ineffective organization by the mid-to-late 1920s, particularly as a facilitator of U.S. investments in the Czechoslovak state.

To some degree the issues of the Chamber were a continuation of the mixed signals emanating from Prague. Denied funds because it was not, strictly speaking, a Czechoslovak organization, the Chamber was left wondering why its activities had received so much attention from Czechoslovak officials in 1919 and 1920. In the end, the organization was capable of little more than promoting trade and tourism in the region and lost its initial momentum. Mixed signals might also explain the failure of significant U.S. investments in the hydroelectric, forest, and railway projects of Czechoslovakia in the 1920s as potential investors were quickly informed that their capital, but not their direct participation, was preferred. This outcome, however, was less of a mixed signal than a shift in the desired status.

Increasingly as the decade of the 1920s progressed, Czechoslovak policy-makers sought parity with their Western counterparts. Beneš repeatedly asserted his belief that Czechoslovakia was the center of Europe and that Western statesmen and businessmen
“come to [it] as [its] collaborator.”\(^{394}\) This need to negotiate with Western Powers as equals took on greater emphasis following 1925 as Beneš witnessed his Western patrons re-embracing Germany. For the U.S. investors who supplied the desired capital, the perceived relationship was anything but equal. The declining interest of the U.S. business community stemmed not only from this unwillingness to engage Czechoslovakia as equal partners, but also from the mounting difficulties that seemed to accompany U.S. investments in the state.

No amount of goodwill or high state honors could entirely eliminate the fear that negotiated contracts might become embroiled in domestic political agendas or fall victim to scurrilous accounting practices. As the breadth of U.S. economic activity in Czechoslovakia demonstrated throughout the 1920s, no one factor led to the decline in U.S. interest and loss of Czechoslovak influence. Rather, it was a combination of shifting agendas, entrenched perceptions and mixed signals that ultimately illustrated the weaknesses of Czechoslovak policy-making as it applied to its economic relations with the United States. From the American Czechoslovak Chamber of Commerce to the Brünner Turbine Company, Czechoslovak policy-makers and U.S. businessmen found themselves at odds and seemed to be at impasse when the fateful depression of 1929 forever altered the economic relationship. The decade that began with a roar of support and cooperation ended in a whimper of unfulfilled potential.

\(^{394}\) Letter, Richard Crane, American Minister in Czechoslovakia, to SecState, 12 December 1919; File 860F.50/1; DoSIAC; NAMP M1218, roll 7; NARA, College Park, MD. For the specific context of this comment see Chapter 4.
CHAPTER 6

CONCLUSIONS:

MAJOR ELEMENTS OF A TROUBLED RELATIONSHIP

6.1: Introduction

The decade following the First World War was one of promise and disappointment for Czechoslovak policy-makers and U.S. businessmen alike. Moderate American support for the wartime independence movement of an oppressed East European nationality was mistaken by some elements in both countries for an active and committed interest in the economic success of the Czechoslovak state. In truth, the relationship was based more upon mutual self-interest than anything else. Czechoslovak policy-makers saw an opportunity to secure their position as the guiding force in economic and regional development. Their American counterparts saw an opportunity to economically stabilize a region in which they wished to minimize political involvement. Furthermore, U.S. officials welcomed the opportunity to sell wartime surplus on a ready market to the benefit of their economy. For their own part, American businessmen saw an opportunity for profit and the potential for establishing a presence in Eastern Europe, a region they had traditionally neglected. The real story here, however, is the impact of Czechoslovak policy decision-making on its relationship with the United States.
Despite the continued desire to maintain a connection with the United States, and other Western Powers, Czechoslovak policy seemed to embrace challenge as readily as cooperation. The Porto Rose Conference was the first clear sign of this trend, but so, too were the negotiations with Standard Oil. This desire to assert parity with Western interests in the East European theater was not always well received, particularly within U.S. business circles. American businessmen and statesmen, alike, were left wondering about the meaning of the seemingly mixed signals they received from Prague. For Czechoslovak policy-makers, however, the view was quite different as their intentions seemed quite clear.

6.2: The American Component of Czechoslovak Foreign and Economic Policy

The struggle to develop an economic and foreign policy that would attract U.S. participation in the Czechoslovak economy grew out of a search for security and a recognition that America possessed the financial means to assist. There can be no doubt that the United States figured prominently into early articulations of Czechoslovak foreign and economic policy. Recall that at the 1919 inaugural meeting of the ÚSČP Masaryk and other state and local officials defended an orientation toward America as necessary to the continued prosperity of the young state. In fact, many members of the Czechoslovak political and business communities desired a continued, and even strengthened, association with the United States. Hence the participation of influential Czechoslovak officials at early meetings of the American Czechoslovak Chamber of Commerce. Even Hotowetz and his short-lived Bureau for Foreign Commerce heavily targeted U.S. economic involvement, recognizing both the need for loans and more direct
forms of investment. The fact of the matter was, American economic aid was recognized as crucial to Czechoslovak interests in the early 1920s. A degree of inflexibility, however, presented barriers to entry that U.S. businessmen increasingly found frustrating. Some of these problems stemmed from redundancies in Czechoslovak policy-making, but some of them were also related to a growing Czechoslovak desire for American capital without direct American participation. Following 1922, there was a pronounced difference in Czechoslovak attitudes toward the West and American interests were consequently affected.

Nonetheless, Czechoslovak officials were quite clever in their pursuit of this economic aid. Aside from encouraging the efforts of Czechoslovak-Americans such as Sokol, there was also an attempt to emulate certain American practices. Hence the program that sent Czechoslovak engineers to the United States to observe the manufacturing practices of such bedrock institutions as Ford Motor Company and the publicized attempts to implement Taylorism in leading Czechoslovak industrial concerns. Efforts were made to demonstrate a parity with American industrial practices – or at least a willingness to adopt these practices – in an effort to attract U.S. businessmen interested in engaging Czechoslovak enterprises. Applauding the efforts of American engineers and awarding them high civil honors also illustrated an accommodation on the part of Czechoslovak agents that later policies seemed to betray. Regardless, the approach taken by policy-makers early on certainly suggests a willingness to embrace a cooperative relationship.

The association between the United States and Czechoslovakia throughout the 1920s even took on the dimensions of a client-patron relationship. Wartime support of
the Czechoslovak independence movement included loans and other material and economic support. This later translated into significant economic aid for the fledgling state in the form of additional loans, raw material supplies, and business investments. Despite these ties, however, a conflict arose between the Czechoslovak desire for American support and economic assistance and its desire to stand alone as an independent state exercising influence in the East European region. On one level, the perceived threat to Czechoslovak interests was replacing subservience to Austria with subservience to another foreign power. In many respects, this is similar to current apprehensions among East European states that they may be replacing Moscow with Brussels by joining the EU. In the 1920s, there was arguably an oversensitivity on the part Czechoslovak policy-makers, especially where it concerned U.S. intentions. As stated earlier, American foreign policy objectives in Eastern Europe were economic and political stability. Aside from ensuring that wartime loans were being paid off, the United States government had very little official interest in the foreign policy of Czechoslovakia. As a result, favorable economic conditions in Czechoslovakia were the extent of official U.S. concern. This was part of the attraction of American capital to Czechoslovak officials – U.S. economic aid by and large did not come with accompanying policy demands.

The United States presented an unprecedented opportunity for Czechoslovakia. Unlike Great Britain and France, the United States did not have a particularly threatening agenda in Eastern Europe. Nor did American enterprises have a traditional presence in

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395 This was not limited to support for Národní Výbor alone, but also extended to repatriating the Czechoslovak Legionnaires battling their way across Siberia
the Czechoslovak region. Therefore, the United States represented a source of capital without the historic fears of undue foreign influence that accompanied British, French, or even German ventures. Neal Pease’s study of U.S.-Polish relations in the 1920s illustrates that Poland shared an attraction to U.S. capital for similar reasons. The differences between the Polish and Czechoslovak cases are important, however, particularly for what they communicate about the strengths and weaknesses of Czechoslovak policy-making. Polish attempts to secure American investments often took on an air of desperation as Polish officials unsuccessfully attempted to stir interest among U.S. businessmen and financiers. The story with Czechoslovakia was somewhat different with numerous American attempts to become engaged in the Czechoslovak economy meeting with mixed results. These differing experiences can not be ascribed to U.S. policy alone, for it was applied equally to both East European states. The difference lay with the perception among American businessmen and financiers. The fact that both East European states suffered similar fates vis-à-vis American economic aid in the 1930s had less to do with U.S. policies than with Czechoslovak agendas and Poland’s precarious borders and political instability.

It would be unfair to blame the policies of the Czechoslovak state for the failed U.S. investment in Brünner Turbine, but certainly the ill-fated experience of Standard Oil supports this observation. Polish officials may have chased American financial assistance with few resulting successes, but Czechoslovak officials experienced the

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396 Pease, Poland, the United States, and the Stabilization of Europe.

397 Ibid. Like Czechoslovakia, Poland had an extremely large immigrant population in the United States. Pease illustrates how this community’s attempts to aid Poland suffered from efforts to assimilate. Assimilation did not seem to affect the Czech and Slovak communities in the same way.
It was Czechoslovak officials, lawmakers, and businessmen who rebuffed U.S. oilmen responding to the call to invest in the state, not vice versa. The account of U.S.-Polish interwar relations may be one of “something that did not happen,” but that of U.S.-Czechoslovak relations was one that more closely approximated lost opportunity. By all accounts, Czechoslovakia had an advantage over its neighbors when it came to attracting the attention of U.S. interests. It was a state relatively well known to the U.S. public, all the more so for the efforts of the American Czechoslovak Chamber of Commerce and other such organizations that kept Czechoslovakia in the American public’s eye. Furthermore, it was a democratic state modeled, in part, off the United States and it was led by men well known to influential segments of the American business community.

6.3: The Veiled Search for Security

The attempt to secure U.S. investments was part of a larger Czechoslovak search for security in the 1920s. As a newly forged state surrounded by neighbors dissatisfied with the postwar territorial settlements Czechoslovakia found itself looking to the Western Powers for security assurances. At the same time Czechoslovakia often demonstrated a willingness to serve as its own guarantor of peace and security in the region. Between 1920 and 1921, in an effort to guard against Hungarian revanchism, Beneš forged the Little Entente with Yugoslavia and Romania. During this same period, 

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398 Ibid.
399 Ibid., vi.
400 This is more true when compared to U.S. public perceptions of other East European states. In her *Testing the Periphery*, Linda Killen argues that one of the many difficulties U.S.-Yugoslav interwar economic relations suffered was the alien image Yugoslavia conjured in the minds of potential investors.
Beneš more openly displayed his willingness to shed the mantle of small state in an effort to assert Czechoslovak strength and authority in the East European region. It was the case of a client-patron relationship that desperately sought a relationship that more closely approximated a partnership.

The status of the Czechoslovak national movement during the First World War had necessitated the adoption of a client-patron relationship when leading members of Národní Výbor approached statesmen in the United States, Great Britain, and France for support. This relationship continued into the years immediately following the cessation of hostilities, particularly as Beneš and his colleagues campaigned for the most advantageous territorial settlements possible. Masaryk, himself, recognized the particular hazards small nations faced in the aftermath of the Great War and made them a central element of his campaign for independence. The issue had been a topic of his writings and lectures for years and with the fruition of his nationalist dreams in 1918, it became a reality. While this suggests an attitude willing to accept a client-patron relation, Masaryk introduced a dichotomy in Czechoslovak policy with his views about the role of small states in the European order.

As early as 1915, Masaryk publicly asserted the right of small nations to exist alongside large nations. In October of that year this accomplished intellectual, who would soon add president of the Czechoslovak Republic to his resume, delivered the inaugural lecture of the University of London’s School of Slavonic Studies at King’s

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College. Before an audience that had also gathered to hear Prime Minister Asquith’s remarks, he presented an eloquent and logical argument for parity between the large and small states of Europe. Standing before a captivated audience, this professor of philosophy and political exile proclaimed that the “conditions for political independence for smaller states [were] the same as for bigger ones” and that the “physical, mental, and moral qualities of smaller nations [were] just as good as those of their greater neighbors and oppressors.” This mentality was later embraced by Beneš and other members of the hrád who shaped Czechoslovak policy in the 1920s.

When Masaryk delivered the aforementioned address, he was in the early stages of the campaign for Czechoslovak independence and at a point when soliciting a client-patron relationship was the surest path to success. Nevertheless, Czechoslovak policymakers were not long satisfied with maintaining the strict client-patron relationship with the Western benefactors once the peace was concluded and independence had been achieved. Ever conscious of the need to maintain the active support of the Western Powers Czechoslovak policy-makers took what might be considered a middle road. While conceding a subordinate role to the West in some respects, Czechoslovakia clearly strove to be the dominant state in its own neighborhood. It was a client in one respect and a patron in another.  

Beneš was also a believer in international security through cooperation as illustrated by the formulation and execution of his foreign policy. It was further

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403 Ibid.

404 The patron role was certainly fed by the pressure Czechoslovakia received to extend loans to Austria in 1921.
illustrated by his influential participation in the League of Nations. Like Masaryk, he appreciated the predicament of small states, especially those surrounded by disgruntled Germanic and Magyar populations and he fundamentally understood the need to weave cooperation into his policies. However, Beneš and other Czechoslovak policy-makers also understood that they were the sole champions of the Czechoslovak cause and if they did not formulate policies of strength, their state would become subordinated to the goals of the Western Powers. This was particularly true from the mid-1920s forward when Western reconciliation toward Germany became more and more prominent and U.S. financial assistance flowed more readily into Germany than into Czechoslovakia. The search for Czechoslovak security, therefore, changed from one that relied on the support from the West to one that was predicated on strength in the region as means of bargaining chip with the West. If the Western Powers did not want to support a Czechoslovak agenda out of a sense of kindred spirits, then perhaps they would be willing to support a Czechoslovak agenda that could deliver an East European security structure such as the one that the Little Entente was supposed to represent.

The Little Entente represented another element of Czechoslovak policy-making that could have been construed by casual observers as a mixed signal. The alliance represented a willingness to coordinate policies with regional states and to embrace an element of internationalism which, to a small degree, echoed Masaryk’s calls for internationalism in European affairs. While the Little Entente could be seen as representing a willingness to cooperate with other nations, there was no escaping the fact that it was created primarily to isolate Hungary and reduce it as a threat in Eastern Europe. For Western observers unable, or unwilling to appreciate the insecurities of
small states in the region, Beneš’s relationship with the Little Entente could be interpreted as either a willingness to cooperate or a challenge to Western desires to integrate Hungary into their East European strategies. It was, in other words, another mixed signal. The Porto Rose Conference was perhaps the best illustration of this phenomenon in practice.

Porto Rose illustrated that Czechoslovakia could influence events in Eastern Europe in its own favor and in opposition to Western agendas. Unfortunately, rather than persuade the Western Powers that Czechoslovakia was an equal player on this eastern stage, it tended to reinforce already existing animosities toward the young republic, especially within the Western diplomatic ranks. The defeat of a Danubian Confederation sent a signal to Western statesmen that Czechoslovakia was unwilling to cooperate if Western agendas threatened its security in the region. More precisely, Czechoslovakia was unwilling to cooperate if Western agendas did not feature the Czechoslovak state as the central regional figure. This was the first instance when astute Western observers had insight into the true nature of Czechoslovak foreign and economic policy in the 1920s. Prior to the Porto Rose Conference and the strenuous opposition to a Danubian Confederation that redirected power and control away from Prague, Beneš and his cohorts actively courted Western patronage. Indeed, even after the Porto Rose Conference, Western favor was still desired, but it was pursued with a greater sense of righteousness.

Unfortunately, a different signal was received. Great Britain had steadily moved away from a position of unconditional support for Czechoslovakia since the working days of the Paris Peace Conference. The obstinate position Czechoslovakia took at the Porto
Rose Conference two years later only reinforced those tendencies. France had little choice, but to abandon hopes of integrating Hungary into its security policy for fear of losing Czechoslovakia, Yugoslavia, and Romania. The position with the United States was perhaps the least affected by the Porto Rose Conference, but the Czechoslovak attitude on display there was not lost on American observers and had a small, yet significant impact. Following 1921, there was a recognizable coolness within the U.S. State Department when it came to issues related to Czechoslovakia.

Czechoslovakia’s search for security was another illustration of how its mixed signals lost it a share of Western good will and support. It seemed to pursue a client-patron relationship with the understanding that Czechoslovak interests were best served by promoting such an accord and yet it seemed unwilling to concede much to Western statesmen. This conflict would become all the more problematic for Czechoslovakia as the Western Powers became increasingly desirous of an economically reconstructed German state, one that could only come at the expense of an inflexible Czechoslovak foreign and economic policy.

6.4: Competing Agendas, Conflicting Messages, and Small State Insecurities

Given Czechoslovakia’s interest in attracting American investments and its relative initial success, the competing agendas of foreign and economic policy must be considered a factor in understanding the failure of U.S.-Czechoslovak relations to develop more fully in the 1920s. The appearance of conflicting messages emanating from Prague speak to the insecurities of a small state in Eastern Europe. Czechoslovakia was surrounded by unfriendly and potentially aggressive states. In the search for security
such events as the Locarno treaties gave Czechoslovak policy-makers pause. While Beneš publicly endorsed Locarno diplomacy and embraced the peace and stability it promised, it also fed Czechoslovak insecurities. Western attempts to re-invigorate the German economy and re-habilitate the German state were unsettling. No amount of rhetoric from Beneš could negate the fact that a strengthened Germany posed a potential hazard to the security of Eastern Europe. At the very least, a re-invigorated Germany could challenge Czechoslovakia for leadership in the region.

Beneš accepted the 1924 Franco-Czechoslovak treaty as reassurance that at least France realized the potential for German aggression along its eastern frontier. The point had not been lost on the Czechoslovaks that while Germany formalized its western borders, it remained ambiguous towards the east. The Dawes Plan and Locarno represented more than just a moment of insecurity on the part of Beneš and other key Czechoslovak policy-makers. Beneš was once again coming under attack at home for his foreign policy. In December 1925, shortly after the Locarno treaties were signed, Švehla formed a second “All National” coalition (Všenárodní Koalice). The right-leaning coalition of Agrarians/Republicans, National Democrats, and People’s Parties remained moderately hostile toward Beneš’s foreign policy objectives. While Beneš argued that Locarno was a success for Czechoslovak foreign policy and an opportunity for the Little Entente to play a larger role in the security policy of the region, it appeared to be a hard sell at home. Members of the Czechoslovak military establishment believed the Franco-Czechoslovak alliance was misleading, arguing that it was designed to buy France time to
mobilize its forces while the Czechoslovak (and Polish) armies invaded the eastern marches of Germany. To their mind, the treaty in no way guaranteed French military support in the event of hostilities with Germany.\footnote{Zeman and Klimek, \textit{The Life of Edvard Beneš}, 77-78.}  

The resurgence of domestic opposition to Beneš’s foreign policy, the closer ties between the Western Powers and Germany, and the growing concern over diminishing interest from U.S. investors and businessmen combined to heighten the sense of insecurity pervading the ministerial halls of Prague. Švehla’s second coalition came to an end in mid-March 1926, replaced by a second Černy administration that was the first to include the participation of German politicians in its government. This was the unstable political and diplomatic backdrop against which F.J. Lisman, Bertrom, Griscom, and Company and a host of other U.S. businessmen conducted their ventures into the Czechoslovak economy in the mid-to-late 1920s. Insecurity at home and abroad led many Czechoslovak policy-makers to question whether or not the assertive policies of Beneš and his like-minded colleagues in the Ministries of Commerce and Public Works had set the stage for the apparent estrangement with its U.S. patron.

As the 1920s evolved and Czechoslovakia’s economy became an almost exclusively export economy, the threat of a restored German state loomed larger.\footnote{Germany represented one of Czechoslovakia’s largest export markets.}  

American loans to Germany in the latter half of the 1920s heightened these insecurities. The Czechoslovak response, for better or worse, was to reassert its position as necessary to the stabilization of the region. However, the damage had already been done to the U.S.-Czechoslovak relationship. Prague’s demands to be dealt with as an equal partner...
had fallen on deaf ears in Washington and New York and the U.S. diplomatic and business community had grown weary of Czechoslovak pretences by the late 1920s. It is unknown if this perception could have been reversed because the 1929 New York stock market crash and ensuing Great Depression forever changed the nature of U.S.-Czechoslovak economic and business relations in the interwar period.

Following the stock market crash of 1929, U.S. banks recalled their loans and Czechoslovakia’s economy fell victim to the same global Depression that plagued its East European neighbors and Western patrons. The economic relationship with the United States understandably diminished and it was not until the mid-1930s that relations would resume, albeit in a much changed format. Even then, the relationship centered more on trade than on investment. Ironically, the American-Czechoslovak Chamber of Commerce, by then headquartered in New York City, found renewed interest among Czechoslovak policy-makers. While the Czechoslovak government conceded subsidies at that point, the value of the relationship never achieved the results of its Chicago predecessor of the earlier decade.

Part of the policy articulation problem that Czechoslovak officials faced in the 1920s stemmed from the internal political struggles that characterized most East European states in the 1920s. While Czechoslovakia proved the far more stable state in the region, and the most enduring democracy, it was affected by the internal problems that plague most newly forged states. It is true that Czechoslovakia was a successful democracy and the power of its parliamentary structure was clearly illustrated with the Standard Oil case. Nevertheless, behind this democratic structure lay two shadowy institutions that represented the most consistent element of the Czechoslovak government
in the decade following independence. The first was the hrád, that circle of intellectuals that surrounded Masaryk and exerted undue influence over the policy agendas of the young state. The second was the pětka, the quasi-official grouping of officials from the five leading parties that arguably maintained stability and a degree of consistency across the many coalition governments.

To those Czechoslovak politicians who most vehemently opposed Beneš and his policies, the hrád represented the more disturbing of the two unofficial power structures. It was seen as the organ that tightly controlled economic policy and took any debate out of the public sphere. This further fueled the opposition to Beneš’s policies by Švehla and his fellow Agrarians (Republicans) who had steadily grown in strength since the 1919 land reform elevated the station of the state’s peasants, the chief constituents of his party. Yet elements of the Agrarian platform embraced protectionist economic policies and made uneasy bedfellows of Beneš and Švehla. These conflicting agendas and strong personalities contributed to the mixed signals outside observers often received as it was difficult to determine whom to lobby for support.

The desire to attract foreign investments and the need to assert independence repeatedly came to cross-purposes and the Standard Oil case best illustrated this issue. In many respects, the case was a perfect microcosm for the larger issues that assailed Czechoslovak policy-makers. Desirous of a domestic oil industry that would alleviate its independence on foreign oil, which drove its substantial industrial complex,

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407 Lacina’s Formování Československé Ekonomiky, 1918-1923 and Lacina and Slezák’s Státní Hospodářská Politika v Ekonomickém Vývoji První ČSR provide an excellent treatment of these issues.

408 Slezák’s contribution to Státní Hospodářská Politika v Ekonomickém Vývoji První ČSR presents a nice overview of the connection between land reform, the rise of the Agrarians, and the protectionist economic policies. He argues that the impact of these policies on Czechoslovak commerce and industry deepened the state’s dependency on exports in the late 1920s.
Czechoslovak policy-makers were wise enough to recognize they needed foreign assistance to locate and extract the oil. Having made the decision to engage foreign enterprises, the Czechoslovak policy-makers and non-governmental actors became overly sensitive to the possibility of undue foreign influence over a vital natural resource. While a reasonable enough concern, it ignored the reality that without such support, no domestic industry could be established. It was symbiotic relationship that some elements of the Czechoslovak policy structure refused to recognize.

Added to this situation was the fact that some elements of the Czechoslovak government took the opportunity to use the Standard Oil negotiations to test the limits of the fledgling constitution. The Standard Oil case became as much about protectionist policies as it was about the exercise of power within the governmental structure. It became a power struggle between the elitists of the hrád and the people’s representatives in the Senát and Chamber of Deputies. The fact that such a struggle occurred and did not render the government ineffective speaks to the strength and temerity of the Czechoslovak commitment to democracy and, despite the internal wrangling, spoke to a level of stability in governmental affairs missing in neighboring states.

Regardless, a political debate that is encouraging to a scholar of East European affairs is an unwelcome obstacle to a foreign businessman seeking concessions and profit. Thus, the understandable growing pangs of the young republic tended to project an image of difficulty and conflicting agendas. Czechoslovak policy-makers consistently struggled with the need to prioritize long and short-term objectives when it came to interacting with foreign enterprises. To that extent, some fault lies with Czechoslovak policy-makers who too often became entangled in their desires to have the best of both
worlds. These policy-makers simultaneously desired the sympathy and support of the Western Powers and the right to dictate the terms of such support.

Judgment, however, needs to be tempered with the reality of the international situation. It is unlikely that the story of U.S.-Czechoslovak relations in the 1920s would have ended any differently had the latter’s policies been more accommodating to American investments. The United States, like Great Britain and France, shared fault in so far as its East European policies were unconcerned with the realities of the region. It viewed Eastern Europe only through the prism of Western security parameters. American and British policy in the region may have sought stability, but their actions did not demonstrate a commitment to the creation of stability. Both sought economic stability and avoided treatment of political issues. The failure to understand that they were linked was a substantial flaw in the Western approach to Czechoslovakia. France, likewise, viewed Czechoslovakia as a necessary consequence of the First World War and Bolshevik Revolution.

Cooperation may have been the slogan of the day, but the reality, as practiced by all sides, was something else entirely. The Western Powers and Czechoslovakia all approached their dealings with one another not from the vantage point of cooperation, but from the vantage point of how best to benefit their respective states. This was not the attitude required by the political and economic realities on the ground. The desire for stability in the region and Western patronage required long-term commitments and flexibility in policy development, neither of which was present in the 1920s.
6.5: Links with the Present

Czechoslovak economic and foreign policy in the 1920s was designed to protect and enhance its position in Eastern Europe. Unfortunately, it was unable to effectively combat the domestic and international forces that assailed Europe in that difficult decade. Legacies from Austro-Hungarian dominance over the Czechoslovak lands created a mindset that made flexibility difficult, especially as the Western Powers struggled to determine the best and least traumatic manner of stabilizing and integrating Eastern Europe into the broader European community.

This study offers a good deal to those interested in more recent events in the same region. Since the collapse of communism in Eastern Europe in 1989 these same states, in slightly altered form, have struggled with similar issues of foreign and economic sovereignty, legacies of foreign domination/occupation, and a desire to re-integrate with the West. The legacies of the 1920s have helped shape the response to these more recent events. Czechoslovakia no longer exists, but its successor states, the Czech Republic and the Republic of Slovakia, have achieved what their interwar antecedent could not, namely integration into the Western power structure.\footnote{Czechoslovakia ceased to exist following the Velvet Divorce of 1 January 1993. The Czech Republic initially integrated at a faster pace, for instance, joining the North Atlantic Treaty Organization (NATO) in 1999. Slovakia followed later in 2004, and in that same year, both the Czech Republic and Slovakia were admitted to the European Union (EU).} Despite this success in gaining acceptance from the West, similar issues of economic nationalism have plagued political debates and policy-making agendas in the last decade and a half. Issues of economic sovereignty characterize the debate over accepting the Euro, and the role of foreign corporations is of continuing concern to many Czech and Slovak policy-makers.
Conversely, Czech and Slovak policies are still being evaluated on their willingness to accommodate Western foreign and economic policies. This is not a surprising, or even unreasonable, state of affairs given the relative risks to Western institutions that East European integration represents. But this stance has also manifest itself in interesting ways. Since 2003, for example, the United States government has embraced the “New Europe”\textsuperscript{410} for its participation in the Iraq war as a member of the “Coalition of the Willing.” Shortly thereafter, French president Jacques Chirac went so far as to rebuke East European applicants to the European Union for displaying a lack of loyalty to Europe and therefore failing to know their proper place when they chose to support U.S. foreign policy over an opposing European policy concerning the war in Iraq.\textsuperscript{411} Eastern Europe, it seems, continues to have value only as an appendage to large state policy agendas. This tendency extends beyond foreign policy and into the realm of economic policy where cooperation is once again the expectation.

In the 1990s, U.S. businesses flocked to the Czech Republic to take advantage of an emerging market and generous privatization initiatives. Like their predecessors seventy years earlier, American businessmen also enjoyed the well developed industrial infrastructure of the region and a market searching for foreign capital. But, also like their

\begin{footnotesize}
\begin{itemize}
\item\textsuperscript{410} By U.S. Secretary of Defense Donald Rumsfeld’s definition this would include the Czech Republic, Slovakia, Poland, Hungary, Romania, Bulgaria, and Ukraine, to name but a few.
\item\textsuperscript{411} The countries to which he referred (and angered) were the Czech Republic, Slovakia, Poland, Hungary, Romania, Slovenia, Latvia, and Lithuania. At the time, the difference between loyalty and subservience was thrown back in response to such criticism.
\end{itemize}
\end{footnotesize}

embroiled in a domestic issue that it had been unaware of when the initial investment had been made. The circumstances were considerably different between the two cases, but both American firms unwittingly found themselves victims of internal policies and competing agendas that had very little to do with the merits of their capital investments.

The story ended well for Proctor and Gamble, which has successfully expanded its Czech market and continues to operate the facility in Rakona. Like many foreign companies, it has flourished in an environment that largely welcomes foreign direct participation. Slovakia, similarly, has become a darling of foreign investors in recent years, but only after substantial efforts to put its own house in order. Following several shaky years in the mid-to-late 1990s, the country has rebounded, implemented numerous policies favorable to foreign investors, and been rewarded for its flat tax initiative with significant foreign investment over the past several years.\textsuperscript{415} The Czech and Slovak lands are still being evaluated by Western observers according to their willingness to cooperate in the realm of foreign and economic policy. The difference now is an apparent willingness on the part of Czech and Slovak policy-makers to work with Western states and businesses. In an incredibly ironic turn of events, in 1995 the Czech government sold a 49 percent share of its largest oil refinery for $173 million to a foreign oil consortium that consisted of Conoco, AGIP, and British and Dutch subsidiaries of the Royal Dutch/Shell Company.\textsuperscript{416}

\textit{Review} 2, no. 9 (6 March 2000). In addition to paying 80,000 Kč to cover legal fees, the Czech government was required to pay each complainant 1,350,000 Kč.\textsuperscript{415} This is particularly true of the automotive manufacturing industry.\textsuperscript{416} “Prague Approves Sale of Oil Stake,” \textit{New York Times}, 8 July 1995. Perhaps the lessons of history can be learned in Eastern Europe.
Clearly there are significant differences, both domestically and internationally, between the 1920s and the 1990s. However, there are also significant similarities and it is the similarities that suggest a more contemporary utility to this study. There are lessons to be drawn from the very first attempts to embrace an independent Czechoslovak state into the democratic and economic structures of West. The obstacles to entry for foreign firms remain similar to those that presented themselves when the region last emerged from the shadow of imperial domination. The role of domestic political tensions, fledgling democratic institutions, privatization of enterprises, apprehensions about undue foreign influence all have their place in contemporary dealings with both the Czech Republic and Slovakia. Legacies of communism are now coupled with legacies from the interwar period and both deserve a place in the evaluation of contemporary issues, particularly if mistakes from the past are hoped to be avoided.

In the final evaluation, Czechoslovak foreign and economic policies in the 1920s faltered under the weight of several issues. One issue was that the government sought to construct policies that could cope with the inherent weaknesses of the Versailles system that brought the state into existence. The Western Powers only committed to the dissolution of the Habsburg Empire late in the war and never effectively resolved the competing ethnic, national, political, social, and economic aspirations of the East European theater. Western policies, when they were specifically defined, had a regional focus that often ignored the realities of individual states’ security concerns, this seemed particularly true of Western dealings with Czechoslovakia.

At the same time, Czechoslovak policy-makers failed to appreciate how best to articulate their own intentions and objectives in an environment that tended to minimize
their predicament. Their response was policies that lacked the flexibility to engage Western Powers differently. In essence, Czechoslovak policy-makers suffered from the same approach to their security issues as the Western Powers faced in their approach to Eastern Europe. The same policies that applied to German and Austrian interests were also applied to American enterprises, which had the least amount of political agendas in the region. Lacina’s claims that Czechoslovak policy was characterized by flexibility is an overly optimistic assessment. It was not so much flexibility as it was entanglement. The Czechoslovak lion wagged both its tails when it came to policy articulation in the 1920s. With one, the young state demonstrated a desire to work with the West. With the other, Czechoslovak actions increasingly communicated a desire to stand apart from its neighbors and bristled at taking a subordinate role to Western objectives in the region. Consequently, Czechoslovak policy-makers sent mixed signals, or told two different tales. Czechoslovakia may have approximated the “actual center of Europe,” but Czechoslovak policy-makers mistook that for a position of strength.
APPENDIX A: CHRONOLOGY

1918

October: Masaryk reads Czechoslovak Declaration of Independence in Philadelphia
Czechoslovak independence officially declared in Prague

November: “All National” coalition government in Czechoslovakia formed under
Kramař
Masaryk recognized as the 1st President of Czechoslovakia

1919

January: Paris Peace Conference convenes

February: Commercial Congress held in Chicago
American Czechoslovak Chamber of Commerce established in Chicago

March: Hungary invades Czechoslovakia

April: U.S. officially recognizes the Czechoslovak state
Richard Crane appointed first U.S. Minister to Czechoslovakia

May: Inaugural meeting of the Central Union of Czechoslovak Industrialists
(ÚŠČP) held in Prague
Czechoslovak and Polish forces clash over disputed Těšín region

June: Versailles Treaty signed
Richard Crane presents credentials in Prague

July: First “Red-Green” coalition government in Czechoslovakia formed under
Tusar

August: Sokol delivers address to Czechoslovak legislature

September: Treaty of St. Germain signed
October: Tenth Annual Convention of the American Manufacturers Export Association held in New York City

1920

January: League of Nations officially opened

February: Czechoslovak constitution adopted

April: First regular elections held in Czechoslovakia

May: Second “Red-Green” coalition government in Czechoslovakia formed under Tusar
   First Annual Meeting of the Czecho-Slovak Chamber of Commerce of America held in Cleveland

June: Treaty of Trianon signed
   Czechoslovak Bureau for Foreign Commerce established

July: Czechoslovak-Polish territorial dispute over Těšín resolved

August: Czechoslovak-Yugoslav Treaty signed (forming basis of Little Entente)

September: “Caretaker” government in Czechoslovakia formed under Černy

1921

February: Foreign oil companies invited to bid on Czechoslovak oil concessions

March: Warren G. Harding becomes 29th President of the United States
   Karl Habsburg first attempts to restore Habsburg rule in Hungary

April: Czechoslovak-Romanian Treaty signed

June: Yugoslav-Romanian Treaty signed (completing Little Entente)

August: Burgenland Affair initiated

September: “All National” coalition government in Czechoslovakia formed under Beneš
   Beneš simultaneously becomes Prime Minister and Foreign Minister

October: Karl Habsburg attempts to again restore Habsburg rule in Hungary
   Lewis Einstein appointed second U.S. Minister to Czechoslovakia
   Porto Rose Conference convened
November: Porto Rose Conference concluded

December: Burgenland Affair resolved
Richard Crane resigns his post
Lewis Einstein presents credentials in Prague

1922

January: Czechoslovak Bureau for Foreign Commerce dissolved

April: Genoa Conference convened

May: Genoa Conference concluded

June: 26th Annual Meeting of the American Academy of Political and Social Science held in Philadelphia

October: First “All National” coalition government in Czechoslovakia formed under Švehla

December: Standard Oil cancels contract with Czechoslovak government

1923

January: Alois Rašín dies

August: Calvin Coolidge becomes 30th President of the United States

December: Czecho-Slovak Chamber of Commerce in Chicago requests subsidy from Czechoslovak government

1924

January: Czechoslovak-French Treaty of Alliance signed

April: Dawes Plan initiated

July: First International Management Congress held in Prague

1925

January: Bertron, Griscom and Company propose to purchase and administer the railways of the former Austro-Hungarian Empire
October: Locarno Conference occurs
F.J. Lisman and Company extend loan to Brünner Turbine

December: Second “All National” coalition government in Czechoslovakia formed under Švehla

1926

March: Second “Caretaker” government in Czechoslovakia formed under Černý

May: Brünner Turbine accounting discrepancies discovered

October: “Gentlemen’s” coalition government in Czechoslovakia formed under Švehla

December: Anglo-French group of businessmen propose to purchase and administer Czechoslovak railways

1927

May: President Masaryk re-elected
World Economic Conference held in Geneva

July: Lisman’s Bondholders Protection Committee formed
Lisman and colleagues meet with Drs. Engliš and Popisil

September: Bondholders Protection Committee resolves issue with Brünner Turbine

1928

February: C.S. Winans awarded the Order of the White Lion

1929

February: “Gentlemen’s” coalition government in Czechoslovakia formed under Udržal

March: Herbert Hoover becomes 31st President of the United States

June: Young Plan initiated

October: Stock Market crashes in New York

December: “Broad” coalition government in Czechoslovakia formed under Udržal
Subsequent Dates of Interest

1930
February: Lewis Einstein resigns his post

1935
December: President Masaryk resigns
Beneš elected 2\textsuperscript{nd} President of Czechoslovakia

1938
September: Munich Conference cedes Sudetenland to Germany
October: President Beneš resigns
First Czechoslovak Republic dissolved and replaced by short-lived Second
Czechoslovak Republic

1939
March: Germany invades and dismembers Czechoslovakia
## APPENDIX B: LIST OF IMPORTANT INDIVIDUALS

<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>H.E. Bedford</td>
<td>Standard Franco-Américaine official</td>
</tr>
<tr>
<td>Edvard Beneš</td>
<td>Czechoslovak Foreign Minister, 1919-1935</td>
</tr>
<tr>
<td></td>
<td>Czechoslovak Prime Minister, 1921-1922</td>
</tr>
<tr>
<td></td>
<td>2\textsuperscript{nd} President of Czechoslovakia, 1935-1938</td>
</tr>
<tr>
<td>Richard Crane</td>
<td>U.S. Minister to Czechoslovakia, 1919-1921</td>
</tr>
<tr>
<td>Jan Černý</td>
<td>Czechoslovak Prime Minister, 1920-1921, 1926</td>
</tr>
<tr>
<td>Lewis Einstein</td>
<td>U.S. Minister to Czechoslovakia, 1921-1930</td>
</tr>
<tr>
<td>Karel Engliš</td>
<td>Czechoslovak Minister of Finance, 1920-1921, 1925-1929</td>
</tr>
<tr>
<td>Victor E. Freeman</td>
<td>New York businessman</td>
</tr>
<tr>
<td>V.A. Geringer</td>
<td>U.S. commercial attaché to Czechoslovakia</td>
</tr>
<tr>
<td>Karl Habsburg</td>
<td>Claimant to Hungarian throne</td>
</tr>
<tr>
<td>Ferdinand Heidler</td>
<td>Czechoslovak Minister of Commerce, 1919-1920</td>
</tr>
<tr>
<td>František Hodač</td>
<td>ÚSČP Managing director, 1919</td>
</tr>
<tr>
<td>Herbert Hoover</td>
<td>Head of American Relief Administration, 1919-1921</td>
</tr>
<tr>
<td></td>
<td>United States Secretary of Commerce, 1921-1928</td>
</tr>
<tr>
<td></td>
<td>31\textsuperscript{st} President of the United States, 1929-1933</td>
</tr>
<tr>
<td>Rudolf Hotowetz</td>
<td>Head of Bureau for Foreign Commerce, 1920-1922</td>
</tr>
<tr>
<td></td>
<td>Czechoslovak Minister of Commerce, 1920-1921</td>
</tr>
<tr>
<td>František Kovařík</td>
<td>Czechoslovak Minister of Public Works, 1920-1921</td>
</tr>
<tr>
<td>Karel Kramář</td>
<td>Czechoslovak Prime Minister, 1918-1919</td>
</tr>
<tr>
<td>F.J. Lisman</td>
<td>U.S. businessman</td>
</tr>
</tbody>
</table>
František Malinský  ÚSČP president, 1919
Jan Masaryk  Czechoslovak diplomat
Son of Tomáš Masaryk
Tomáš Masaryk  1st President of Czechoslovakia, 1918-1935
Charles Moser  Vacuum Oil official
Charles Pergler  Czechoslovak minister to the United States, 1919-1920
Alois Rašín  Czechoslovak Minister of Finance, 1918-1919, 1922-1923
Jan Sokol  Secretary of the American Czechoslovak Chamber of Commerce
Kuneš Sonntag  Czechoslovak Minister of Commerce, 1920
František Staněk  Czechoslovak Minister of Post and Telegraphs, 1919-1920
Milan Štefánek  Leading Slovak member of Národní Výbor
Bendřich Štepanek  Czechoslovak minister to the United States, 1921
Antonín Švehla  Czechoslovak Prime Minister, 1922-1926, 1926-1929
Alois Tučný  Czechoslovak Minister of Public Works, 1921-1922
Vlastimil Tusar  Czechoslovak Prime Minister, 1919-1920
Bohuslav Vrbenský  Czechoslovak Minister of Public Works, 1920
C.S. Winans  U.S. Consul in Prague
APPENDIX C: MAPS

Between 1918 and 1938 the First Czechoslovak Republic was composed of five distinct regions, Bohemia, Moravia, Silesia, Slovakia, and Sub-Carpathian Rus. Bohemia, Moravia, and parts of Silesia are traditionally referred to as the Czech Lands, sharing a common language and history. Today they form the Czech Republic. Slovakia shares a very similar language and culture, but had been dominated by the Hungarians for the better part of 500 years and subjected to forced Magyarization in the late nineteenth century. Slovakia became an independent country in 1993. Sub-Carpathian Rus was only part of the Czechoslovak state during the interwar years. Following the Second World War, it was incorporated into the Ukrainian state, where it remains today.

Figure 1: Component Parts of Czechoslovakia, 1918-1938
The following map illustrates Czechoslovakia’s position relative to its immediate neighbors in the interwar period. During this period, Czechoslovakia experienced territorial disputes with Poland, Hungary, and Germany.

**Figure 2: Czechoslovakia, 1918-1938**
APPENDIX D: CZECHOSLOVAK STATE SYMBOLS

The traditional symbol of the Kingdom of Bohemia is the two-tailed lion. In 1920, this symbol was incorporated into the Czechoslovak state seal, illustrating the predominate role the more prosperous and industrialized Bohemia would exercise over the other constituent parts of the new republic.

The Great Seal of Czechoslovakia features a heraldic shield flanked by two golden Bohemian Lions. A scroll below the lions reads, “Pravda Vítěží” (Truth Prevails). These words, made famous by fifteenth century religious reformer Jan Hus were adopted by Tomáš Masaryk as the state’s motto. The shield in the middle features the silver Bohemian Lion on a field of red in the center. In the upper left corner, the Slovak symbol of a double cross over three hills is displayed. Immediately to the right is the gold and blue of Ukraine and the red bear on a field of white representing Sub-Carpathian Rus, which was only part of Czechoslovakia between 1918 and 1939. On the bottom right is a golden eagle on a field of red white and blue representing the Ratibor, Opava, and Těšín regions (disputed between Poland and Czechoslovakia). The golden eagle on the field of blue represents Silesia and the red and white checkered eagle on a field of blue represents Moravia. Bohemia, Moravia, and elements of Silesia now comprise the Czech Republic.
The more commonly displayed coat-of-arms was a simplified version of the Great Seal. It was the central shield described above, minus the heraldry for the disputed regions with Poland. Rather, it represented only Bohemia, Moravia, Silesia, Slovakia, and Sub-Carpathian Rus.
The Bohemian Lion was the traditional and more commonly recognized symbol of the First Czechoslovak Republic and typically included the Slovak symbol on its torso. This symbol was often displayed on official letterhead and ministerial documents. It is from the Bohemian Lion that this dissertation derives its title.

Figure 5: Bohemian Lion with Slovak Shield
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Archives

Czech Republic


Státní Ústřední Archive v Praze (State Central Archive in Prague) - Ministerstvo Financí I, Praha (Ministry of Finance I, Prague), Ministerstvo průmyslu, obchodu, a živností (Ministry of Industry, Commerce, and Trade), Ministerstvo veřejných prací (Ministry of Public Works), Ministerstvo zahraničních věcí – výstřižkovy archiv (Ministry of Foreign Affairs – Newspaper archive), Poradní sbor pro otázky hospodářské, 1919-1938 (Advisory Committee for Economic Questions, 1919-1938), Předsednictvo Ministerské Rady (Council of Ministers), Ústřední Svaz Českoslovenká Průmyslu (Central Union of Czechoslovak Industrialists).

United States

American Heritage Center, University of Wyoming, Laramie, Wyoming - Lewis Einstein Collection.

Czechoslovak Heritage Museum, West Springs, Illinois - Czechoslovak-American Chamber of Commerce Collection.

The Center for American History, The University of Texas at Austin, Austin, Texas - ExxonMobil Historical Collection.

Georgetown University Library Special Collections Division, Georgetown University, Washington, DC - The Richard Crane Collection Number 1, The Charles Pergler Collection.

National Archives and Records Administration, College Park, Maryland – Records of Foreign Service Posts (Record Group 84), General Records of the Department of State (Record Group 59), Records of the International Trade Administration (Record Group 489), Records of the Bureau of Foreign and Domestic Commerce
Published Documents


“Czechoslovak Commercial Agreements with Italy and Austria,” *The Czechoslovak Review* 5, no. 6 (June 1921): 183.

"Czechoslovak Republic's Plans for Electrification" in *Electrical World* 79, no. 14 (April 8, 1922): 677


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The Lectures of Professor T.G. Masaryk at the University of Chicago, Summer 1902. Lewisburg: Bucknell University Press, 1978.


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