

Hrvoje Volner

Modernisation of the Central European Periphery:

**S. H. Gutmann Ltd. and Našička Ltd.
in the Industrialisation of Slavonia**

Translated by Tomislav Janović



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MODERNISATION OF THE CENTRAL EUROPEAN PERIPHERY:
S. H. GUTMANN LTD. AND NAŠIČKA LTD.
IN THE INDUSTRIALISATION OF SLAVONIA

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Published on the cover is a photo of Gutmann family: standing Dr. Sandor Henrik, Eng. Otto, Eng. Viktor, Arthur, Eng. Ernest, sitting Ladislav.

On the back of the cover is a picture of Oscar v. Pistor from Vienna in 1886. A painting depicting the appearance of Belišće in 1886 is in the office of the plant's general manager.

We thank the Museum of Belišće for providing the photo, as well as other pictorial material in the book. We also thank the Našice Homeland Museum for providing the illustrations.

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Introduction

This book is the product of a long-lasting research into archival records, especially of the Croatian State Archives in Osijek, relating to S. H. Gutmann Ltd. Pursuing the fate of a single company, which is inseparably intertwined with the fate of its founders and owners, it tries to reconstruct the development of lumber industry in Slavonia, a historical province of Croatia, in the period ranging from the late 1800s and early 1900s over to the end of the Second World War. The members of the Gutmann family can be considered as the forerunners of the modernization process not only in Slavonia but in Croatia as a whole.

They established the lumber and chemical industries and initiated activities necessary for the finalization and maintenance of products of these industries. Moreover, the Gutmann barons were among the largest landowners in Slavonia. The book manuscript emerged from two stages of research. The first stage has been completed in 2007 by the defence of an MA thesis entitled “The Role of S. H. Gutmann Ltd. in the Yugoslav Interwar Industry and the Development of the Town of Belišće”. The aim of the second research stage, spanning over a five-year period – from 2012 to the end of 2017 – was to examine the archival material from the Croatian State Archives in Osijek (DAOS) related to the following institutions: S. H. Gutmann Ltd. from Belišće, the Osijek Chamber of Trades and Crafts, Association of Merchants and Industrialists of Osijek, and the Municipality of the City of Osijek. In this research phase, special attention was given to the examination of legal sources – especially the sources documenting the proceedings of the District Court in Osijek from 1934 and 1935, in the famous corruption trial later to become known as “the *Našička* Scandal”.

The result of a years-long research is the present book. It is a book about economic problems of the larger Osijek area and its political context in the times of the first Yugoslav state, from the perspective of businessmen, forestry experts, and industrialists. It is also a book about the economic crisis and its unavoidable by-products – corruption and business-averse sentiments. Apart from the abovementioned historiographic sources, the internet database of *Šumarski list*, a journal published by the Croatian Forestry Society, has proven to be an invaluable source of information. It provided data on the history of lumber trade in Croatia-Slavonia and the problems of cultivation, protection, marketing, and profitability of forestry as an industrial branch. Since most authors who had been writing for *Šumarski list* (*The Forestry Journal*), from the last quarter of the 19th century onwards, were well informed and highly competent, this journal was an invaluable source of information about the Slavonian society and the practices of its inhabitants, especially regarding

the management of forests, forestry regulations, and the ways of getting around these regulations. Among a variety of mutually related topics, one will be singled out at the outset and will re-emerge throughout the book – the Segregation issue. Representing the point at which the traditional rural society breaks down, this issue will be key to understanding both the Agrarian Reform policy of the first Yugoslav state and the actions of the opponents of this policy. It will also emerge as essential for understanding the specific fate of the municipal forests (*općinske šume*) in Slavonia.

Being dependent on the forest and its primary and secondary products, the local population found itself in midst of a political arena, face to face with big business and landlords – protagonists of a curious contest overviewed by the corrupt interwar Yugoslav state. The first-hand accounts of these events can be found in the works of several economists and economic historians. Rudolf Bičanić and Igor Karaman wrote about structural problems of the agrarian society in the period of initiation of capitalist economy into rural areas. Zdenka Šimončić-Bobetko, Mira Kolar-Dimitrijević and Smiljana Đurović researched the industrial development of the period, especially the development of lumber industry, while Marijan Matićka and his co-authors considered the rural overpopulation as a cause of the persistent agrarian crisis. The work of Boris Kršev on the financial policy of the Kingdom of Yugoslavia should also be mentioned. This work has prompted me to study various contemporary authors, and these authors, on their part, drew my attention to deflation as a significant determinant of the international monetary policy of the interwar period – a topic discussed with great concern at sessions of trades and crafts chambers of the period.

A significant part of the book is dedicated to the analysis of archives of the District Court in Osijek. This archival material offers insight into the so-called *Našička* Scandal, one of the largest corruption cases of the interwar Yugoslav state. The protagonists of this affair were businessmen and companies whose networks and histories are also analysed in the book. Zvonimir Kulundžić researched this topic in the 1960's. Even today, his book *Politics and Corruption in the Kingdom of Yugoslavia (Politika i korupcija u kraljevskoj Jugoslaviji)* is an invaluable information source for anybody interested in this anti-corruption process – one of the few political events that has remained in the collective memory of the interwar Yugoslavia.

It was not before the end of the first stage of my research into the Gutmann company that the archival material documenting the *Našička* Scandal had been put in order and thus made researchable. The material consisted of approximately ten boxes containing files that remained in Osijek, i.e., which were not sent to the Cassation Court in Zagreb where the appeal process proceedings took place and the final verdict rendered. Due to a thorough inspection of the content of these archives during the second research stage, an interesting chronicle by an Osijek attorney Hugo

Spitzer, *Meine Erlebnisse im Hause Gutmann; an Baron Arthur Gutmann* (“My Memories from the House Gutmann; Dedicated to Baron Arthur Gutmann”), has been discovered. Comparing Spitzer’s text with court records, counsellors’ speeches and parts of Kulundžić’s book brought to light important aspects of the *Našička* Affair, especially the role of *Podravina* Ltd. and the selling of the Majlath estate. Of many interesting protagonists of this story, Svetozar Grgin and brothers Adolf and Pejsah Schlesinger deserve to be mentioned by name. Spitzer’s note is an outstanding historiographic source on Gutmann family history: from the times of the founders of Belišće – Edmund, Vilim, Alfred and Ladislav – to 1931 and the period of stabilization of Yugoslav currency *dinar* in the mandate of minister Švrljuga.

The overall circumstances of the establishment and dissolution of the Gutmann company, various secondary sources, together with the information available from the *Našička* Scandal archives, imposed the need for reconstructing the history of the *Našička* – the company that has been the direct competitor to the Gutmann’s. Considering its significance for the lumber market, the space dedicated to *Našička* in this book cannot do full justice to the role of this company. Therefore, the obligation of writing a separate study on this topic remains to be fulfilled. Nevertheless, considering what has hitherto been written about *Našička*, this book, at any rate, brings some new circumstances to light.

The first chapter deals with economic conditions enabling exploitation of forests on large estates in Slavonia and Srymia (Srijem). The introduction of foreign capital brought new elements into the traditional forms of the late feudal economy. The prominent representatives of these changes were the Gutmann barons and the industrial settlement Belišće, together with their relentless competitor, the *Našička*.

The second chapter describes the economic situation following the unification of the South Slavic nations – Serbs, Croats and Slovenes – into a single state which was later renamed into ‘Yugoslavia.’ This chapter shows how the security of doing business for industrial giants disappeared and how revolutionary movements contributed to this unfortunate development, together with two other factors: the Agrarian Reform, threatening to destroy the industrial capacities, and the corruption gradually morphing into a form of government – kleptocracy.

The third chapter is about the problems of lumber industry in the Kingdom of Yugoslavia and the contribution of both Gutmann Ltd. and *Našička* Ltd. to the expansion of this industry. Since there is no industry without workforce, this chapter also touches on social legislation and social tensions between labour, capital, and state. The fourth chapter deals with the Great Depression and its consequences, both on the global and the local (i.e., affecting the economy of the Kingdom of Yugoslavia) levels: the agriculture overburdened by debt, the decline of the banking sector and its impact on the industry, and the increasing intrusion of state into economy.

An important source for studying this topic are the written recordings of the sessions of the Trades and Crafts Chamber in Osijek (*Trgovačko-obrtnička komora u Osijeku*). These recordings reveal how state interventions were often welcomed and how political opportunism overrode competency in decisions concerning appointments and promotions.

The Great Depression affected the finances of the Kingdom of Yugoslavia to a great degree, while its government just passively observed the devastating waves of global distrust. However, the political elites were keen on hiding their impotence by various populist actions, one of which was the *Našička* Scandal – the topic of the fifth chapter. The final, sixth chapter provides insight into the fate of the lumber industry and the Gutmann company during the period of the Independent State of Croatia (1941–1945), especially the events related to the confiscation of “non-Aryan” property, and, in the communist-ruled post-war period, the property owned by the “enemies of the people”.

The author feels obliged to express his special gratitude to the German historian Holm Sundhausen who gave an important contribution to the present research by kindly providing the author with a copy of his book *Wirtschaftsgeschichte Kroatiens im nationalsozialistischen Großraum 1941–1945: Das Scheitern einer Ausbeutungsstrategie* (Economic History of Croatia in the Wider Nationalist-Socialist Framework 1941–1945: The Failure of an Exploitation Strategy). The wealth of information offered by Sundhausen’s book, together with the personal testimony of Baron Viktor Gutmann during his ineffective struggle to save his face and his life before the “People’s Court” (the testimony being kept at the Belišće Local History Museum), testify both to the expansion of lumber industry in Slavonia and the significance of the Gutmann family for this development. Unable to predict future events, Viktor and his older brother Ernest left their bones in Croatia. Ernest died in the Jasenovac concentration camp during the pro-Nazi rule in 1942, while Viktor met his tragic end in Zagreb, upon the ruling of the District “People’s Court” in 1946.

1. Slavonian forestry from the beginning of the 18th century to the end of the Austro-Hungarian Monarchy

1.1. Economic activities on large estates in Slavonia from its liberation from the Ottomans in 1699 to 1873

After the Treaty of Karlowitz in 1699 and the liberation of Slavonia from the Ottoman rule, all land was put under the control of the Imperial Chamber and the military. This situation, called 'Provisorium', lasted until the mid-18th century when administrative units called 'counties' (*županije*) were established (Požega, Virovitica, Syrmia). By the time of "Incorporation", 1745, several feudal estates were formed by Austrian and Hungarian nobility. The largest estates were in Podravina and Podunavlje – Valpovo (including Donji Miholjac), Vukovar, Syrmia (Ilok and Irig belonging to the Italian noble family Odiscalchi), and the estate of the Bishop of Đakovo (encompassing 54 villages). Over a long period, spanning over two centuries, Slavonian estates did not change their owners, until they were finally abolished in 1945. The estates were either received as rewards or purchased. Thus, Baron Petar Antun Hillebrand von Prandau received an estate via a donation charter from the Emperor Charles VI. The estate consisted of approximately 40 villages, including Valpovo, with all possible feudal privileges, serf labour and other tributes. In 1726, the estimated value of the estate was 29,880 gulden with inheritance rights given to male descendants of the Prandau family or a repayment requirement according to the estimated estate value (in case of inheritance by the female line).¹

Together with ownership rights, the Baron was bestowed the administrative authority, within the administrative system of Virovitica County, over the "chamber estate" Valpovo. From the administrative authority over an estate ensued the real authority of the estate owner over his subjects. In the hands of allodial lords, due to the benefits ascertained to them by the legal-economic norms of the feudal system, a chamber estate influenced the dynamics of economic development of its serfs. That is, the feudal system assumed obligations obtaining between a feudal lord and his serfs. Effectively, these obligations were duties imposed on serfs as members of cooperatives (*zadruga*) or urbarial municipalities (*urbarijalne općine*) and the legal basis on which serfs, as *genus*, received homesteads (*sessions*) (*selišta*) and the right

1 Mijo Mirković, *Slavonija – povijest naselja i podrijetlo stanovnika* (Zagreb: 2002), 198–199; Igor Karaman, "Gospodarska djelatnost na podravskom veleposjedu Valpovo u doba oblikovanja i razvoja građanskog poretka, 1848–1918/1945.", in: *Iz prošlosti Slavonije, Srijema i Baranje: Studije o društvenoj i gospodarskoj povijesti XVIII.–XX. stoljeća* (Osijek: 1997), 77, 83.

of exploiting the common land. Thus, serfs represented members of the estate as the lord represented its head. Actual productive output of serfs hardly exceeded the level of subsistence farming. Their miserable cultural and hygienic conditions were as much the consequences of the feudal order as of the frequent wars ravaging the country – circumstances which hardly changed throughout the entire 19th century. By the end of the 18th century, the lords tried to squeeze out as much as they could from the estates which they had obtained either through purchase or as a compensation for the loans given to the monarch for the purpose of financing the anti-Ottoman campaigns. In order to achieve the return of their investments as soon as possible the lords placed a great burden on local populations. The profits were never reinvested, which led to money shortages and insufficient consumption, which in turn slowed down the economic development. Due to natural population growth and the development of trade the administration of the Slavonia-Syrmia District, controlled by the state and the estate lords, was able to increase the area of arable lands. In turn, this change will have consequences for the management of forests, meadows and fields.²

The Slowing down of the rural economy in Slavonia coincided with the increase of economic activity at allodial lands (*alodij*). Feudal lords relied on labour their subjects were obliged to provide, the quantity of labour depending on the size of a homestead. Since the end of the 18th century, feudal estates were increasingly participating in capitalist entrepreneurship – mostly as buyers of manufactured goods coming from Vienna, Pest (later to be united with Budim) and other industrial centres of the Monarchy. By this kind of contribution, i.e., acting as merchants, feudal lords could hardly improve the miserable state of the agrarian economy; in fact, they prevented their serfs from achieving such an improvement themselves. In effect, due to their favourable location between the ports of Northern Adria and the Pannonian planes feudal estates were forced into market economy. The decline in the value of money in the period of the Napoleonic Wars and the resulting increase of wheat prices ensured greater profits for feudal lords. For peasants, this situation was unfortunate because their production primarily came from livestock breeding, and they were sometimes even forced to purchase wheat for food and seeds. Production of various cereals increased at allodial lands, and the serfs' requested labour (*radna obveza*) increased accordingly. Contributions in kind (*naturalna davanja*) at the Valpovo estate (1801–1810) amounted to 22% for corn, 45% for oat, 56% for barley, and as much as 96.5% for wheat. Overburdened by these contributions and other

2 Igor Karaman "Kretanje društvenih i gospodarskih odnosa na slavonsko-srijemskom selu tijekom 18. i 19. stoljeća", *Iz prošlosti Slavonije, Srijema i Baranje*, 47–58; Milan Vrbanus, "Vlastelinstva u Hrvatskoj u 18. stoljeću"; in: Franko Mirošević (ed.) *Povijest Hrvata. Od kraja 15. stoljeća do kraja Prvog svjetskog rata*, (Zagreb: 2005), 254–255.

levies, the productive capacity of the Slavonian population stagnated or increased marginally in the period between 1785 and 1840. In contrast, the productive capacity of allodial lands increased, especially the production of cereals.³

Feudal estates in the Slavonia-Syrmia District owed their progress to cheap workforce which was relatively abundant. Allodial lands increased in size at the expense of other types of real estate, especially through their expansion to municipal lands which were predominantly used for pasturage. Since such parcels had hitherto been owned by peasant households this type of land exchange was a bad bargain. Moreover, regulation of statute labour instigated peasant revolts throughout the observed period. According to the Slavonian *Urbarium* from 1756, a feudal lord had a right to 48 days of statute labour per homestead, “at the same time being permitted to impose additional labour, under the condition of paying the serf a wage of 12 kreuzers, without a fixed upper limit to this supererogation”.⁴ In respect to the quantity of statute labour, it was not before 1810 when Slavonian serfs were treated on an equal footing with serfs from Croatia proper who had an obligation of 56 workdays per *homestead*.⁵

Originally, the word ‘*selište*’ (‘homestead’, Lat. *session*) designated a utilizable piece of land sufficient for normal functioning of a peasant household (household “in servitude”). In 1745, peasant households in Virovitica County included 4,470 farms cultivating 7,804.25 acres of farmable land and 6,146.25 swaths of meadows (1 swath representing an area that a mower can mow in a day). “If we take for granted the highest fixed numbers, it turns out that one household (*domaćinstvo*) comprised not more than 2.5 acres of farmable land, and only 1.5 swaths of meadows”.⁶ The problem of determining property status of the serfs emanated from tax regulations from which estimations arose. Inventories of domestic animals, especially hogs and sheep, revealed significant differences between households, these differences, at least partially, reflecting real differences. In 1745, Virovitica County divided all peasant farms into three categories: large, middle-sized, and small. A large farm was assumed to comprise an area of 6 acres, 6 swaths of meadows, 12 tills of vineyards (1 till representing an area that one person, using a hoe, can tillage in a day), cultivated by at least one housefather (*domaćin*) and his married son, i.e., consisting of two independent households that, put together, could hardly reach the size of an average homestead. In reality, majority of farms were of a small type, on average only one

3 Karaman, “Kretanje društvenih i gospodarskih odnosa...”, 48, 57–61; Igor Karaman, “Dva priloga razmatranju agrarnih odnosa na području sjeverne Hrvatske u kasnofeudalnom i kapitalističkom razdoblju (do 1918)”, *Historijski zbornik*, 25–26 (1972/73), 380.

4 Karaman, “Kretanje društvenih i gospodarskih odnosa...”, 61.

5 Ibid., 48, 61–65; Slavko Gavrilović, *Agrarni pokreti u Sremu i Slavoniji početkom XIX. veka* (Beograd: 1960), 93; Karaman, “Dva priloga razmatranju agrarnih odnosa...”, 379–380.

6 Karaman, “Kretanje društvenih i gospodarskih odnosa...”, 53.

fourth of a large one. According to the final draft of the *Urbarium codex* from 1751, 8 or 9 male persons lived on an average homestead, which is in significant contrast to a large farm.⁷

As pointed out, the expansion of allodial land took place via deforestation or melioration. Landowners often took the already cultivated land from peasants giving them in exchange the uncultivated land. In the period between 1756 and 1815, the structure of serf homesteads underwent significant changes, mostly through real estate regulations. These changes were followed by increased activities at allodial lands ensuing from the right to an unlimited amount of statute labour in the situation of decreasing value of money. Including peasants into capitalist entrepreneurship, together with the new legal arrangement of feudal relations, brought about a new type of low-wage workforce – cotters (*želiri*). A peasant who had to provide for his family on his own farm typically resisted working on allodial land, so he had to be forced to provide such labour. With the abolition of feudalism, great estates lost this commodity. By the end of the 19th century, for example, land-owning peasants from the Valpovo area were no longer forced to work on feudal lords' farmsteads (*majur*), so workforce had to be imported from the neighbouring Hungarian regions.

Simultaneously, the abolition of feudalism also meant abolition of free labour. The secession of the right to unlimited serf labour hindered the ongoing development of feudal estates. Relying on the benefits secured by the feudal system, feudal lords had no incentive to undertake any significant actions towards modernization of agricultural production on their estates in Slavonia and Syrmia, at least not until the 1848 revolution. After the abolition of feudalism, the profit of Slavonian estates reduced significantly. For example, for the Prandau family, wheat yield dropped by 53% and their crop fields almost disappeared.⁸

After the abolition of feudalism, throughout the Habsburg Monarchy feudal elites were keen to initiate modernization processes, so there were areas of the Monarchy where former feudal lords turned into capitalist entrepreneurs. However, this was not the case in Croatia-Slavonia where modernization mostly lagged. This lag can be explained by the persistence of a feudal economy and its solidifying effect on social relations and social practices. The best chances for overcoming the crisis induced by the abolition of feudalism had feudal lords with the largest estates, since they could lean on forest exploitation. The transition to capitalism was accelerated by various crises that liberated the workforce from its obligations towards estate owners

7 Ibid., 53–56; see also: Milan Vrbanus, “Veličina zasijanih površina na našičkom vlastelinstvu u prvoj polovici 18. stoljeća”, in: *Našički zbornik* 5 (Našice: 1999), 38, 52.

8 Karaman, “Kretanje društvenih i gospodarskih odnosa...”, 58–69; see also: Péter Hanák (ed.) *Povijest Mađarske* (Zagreb: 1995), 184–187.

– in economic, social, legal, and political sense. Throughout the period, unable to free itself from the elements of feudal rent, agricultural production per household stagnated. Sporadic introduction of technological innovations into the estates was a poor compensation for inefficient and non-profitable serf labour. This, in turn, conditioned slower adaptation of rural areas to the new circumstances, brought about by the abolition of feudalism. At the same time, the process of compensating nobility for lost privileges extended over several decades.⁹

Apart from these internal contradictions, European agrarian crises also gave their contribution to the structural transformation of European agriculture in the 19th century, significantly affecting economic and social life of the countryside. The price of agricultural products decreased, leading to money shortages, decline of land rent and indebtedness, which in turn induced changes in property and production relationships. In the period of railway construction and the advancement of steamboat transport, Europe imported cheap wheat from North America, the Danube region and the Balkans, but also from India, Russia and Argentina. Improvement of transport and the reduction of transportation costs led to the increase of industrial production in Western Europe. The effects of this development were also experienced in Slavonia and Syrmia: the advancement of industry compensated for the surpluses of the cheap wheat production, so the domestic agricultural production had to become profitable, or would otherwise collapse.¹⁰

The crash of the Vienna Stock Exchange on May 9th, 1873 put an end to the period of economic growth in Central Europe. This growth was stimulated by war reparations, amounting to five billion golden francs which France was obliged to pay in the aftermath of the Franco-Prussian War. The capital accumulated in Europe was used for investments into countries with underdeveloped capitalist relations, in expectation of high gains. Expansion of foreign capital in that period led to the gradual decline of domestic lumber trade whose golden age ended with the Vienna Stock Exchange crash. As foreign companies in possession of large capital entered the market domestic merchants were outcompeted. According to Bićanić, if there had been any significant capitalist entrepreneurship in the Slavonia-Syrmia region at

9 Mirjana Gross, "O položaju plemstva u strukturi elite sjeverne Hrvatske potkraj 19. i na početku 20. stoljeća", *Historijski zbornik* 31–32 (1978), 123–130; Karaman, "Problemi ekonomskog razvitka hrvatskih zemalja u doba oblikovanja građansko-kapitalističkog društva do prvog svjetskog rata", in: Mirjana Gross (ed.) *Društveni razvoj u Hrvatskoj od 16. do početka 20. stoljeća* (Zagreb: 1981), 307–308; see also: Nikša Stančić, *Hrvatska nacija i nacionalizam u 19. i 20. stoljeću* (Zagreb: 2002), 27–28.

10 Rudolf Bićanić, *Agrarna kriza u Hrvatskoj 1873–1895* (Zagreb: 1937), 4–7; Karaman, "Problemi ekonomskog razvitka...", 308; Mijo Mirković, *Održanje seljačkog posjeda i druge agrarno-ekonomske studije* (Zagreb: 2005), 67; Josip Horvat, *Povijest i kultura Hrvata kroz 1000 godina*, (Split: 2009), 246.

the beginning of the 20th century, this was “an achievement of the colonial-capitalist sector”. “A part of national wealth was exploited by large capital (French, Belgian, English) which was not available in Croatia.”¹¹

Attempting to develop a state according to the European raw model and recognizing the importance of establishing a modern administration under civil rule, the Croatian ruling class started organizing trade and industry. The growing public sector, which fostered the inclusion of rural areas into the capitalist economy, was financed from the land tax – a levy payable in cash and imposed on all citizens. Local capitalists took advantage of this development. During the agrarian crisis, the banking sector flourished. Average annual yield was, for most of the time, between 25% and 34% of the value of the invested capital. The highest profits of savings-banks were recorded in 1883 when *Prva hrvatska štedionica* (First Croatian Savings-Bank) paid to its shareholders 240% of the invested value. The Savings-Bank of Osijek paid 184%, the Vukovar Savings-Bank 137% etc. Since savings-banks held only one tenth of mortgage burdens on real estates; the rest were burdens of loans introduced to rural areas by moneylenders. Bićanić admits that not much was known about crediting conditions in his time. Thus, the best insight into the situation can be gained by looking at the profits of financial institutions. As to private creditors, moneylenders and loan sharks, a good source of information are Croatian “naturalist” writers. In the first phase of the agrarian crisis, when its effects were most strongly felt, the state income increased by 100%. As Bićanić emphasizes, these processes intensified during the rule of the *Ban* (chancellor) Ivan Mažuranić. The State’s uncompromising attitude regarding its opening towards monetary economy is indicated by the fact that the reforms were implemented at the height of the crisis. During the rule of *Ban* Khuen Hedervary, taxes did not rise significantly “but the people, already exhausted from years-long crisis, felt them as a substantial burden”.¹²

In contrast to the countries with developed industry, at the beginning of the 20th century the domestic economy was highly dependent on agricultural production. Export of manufactured goods had an insignificant share in the national economy. Wide-spread and well supplied local trade played an important role in the economic development: it enhanced the circulation of money thus stimulating other activities typical of traditional economy. Nevertheless, the overall economic situation deteriorated due to the exploitation of the poor and lack of capital that would boost the development of crafts and trades.¹³ “Instead of creating capital for the consolidation of industry and crafts, our county opened savings-banks. ... The owners of small businesses hardly survived; without being involved in other economic activities they would certainly go

11 Bićanić, *Agrarna kriza u Hrvatskoj...*, 15.

12 Ibid., 8–12, 18, 22.

13 Governing Board of the Virovitica County: Report for the year 1900 (Osijek: 1901), 215–217.

under because foreign competitors were destroying them¹⁴. With the exception of towns and larger settlements, there were hardly any craftsmen that, apart from practicing their own craft, didn't also work in agriculture or as wage labourers, making "craftsmanship seem like an ancillary profession". Of all small craftsmen, sock-makers, shoe-makers, sausage makers, butchers, bakers, and innkeepers were in the best position.¹⁵

One of the most significant factors influencing the economy in the period between 1873 and 1895 was the drop of wheat prices from 15 to 5 forints. Parallel to the reduction of profits there was an increase of expenditures for taxes, especially on salt and tobacco which had to be paid in cash. Railroads enabled faster transport of goods, and as ever more products of capitalist economy were launched to the markets the habits of buying popular products strengthened. As soon as the negative effects of the capitalist economy started to appear peasants experienced these effects, notwithstanding the fact that only an insignificant portion of the rural economy was exposed to market forces. Relying almost exclusively on cereal production, peasants were unable to respond to the crisis, let alone to the overall pressure of modernization. At the same time, land tax increased by 39%, and continued to rise in the coming years. Salt consumption decreased by as much as 20% in the first stage of the crisis, despite the population growth. Decline of purchasing power in rural areas is aptly exemplified by the following detail: for the same amount of salt a peasant had to sell two to three times more wheat. With growing expenditures people were forced to get hold of cash in any way they could – if for no other reason than for paying taxes. Overall state revenue increased threefold, and with the decrease of prices of agricultural products the financial burden on the population rose fivefold. During the peasants' revolt of 1883, a rumour circulated that "Hungarophiles sold Croatia to Hungary and that Croats will have to pay taxes for their beds and windows, their horses and oxen, their cows and calves, their goats and sheep, their hens and chickens, possibly even for their dead".¹⁶ The peasants protested against "the Hungarian metric system for calculating taxes – hectolitres instead of *vagans* (61 litres) and kilograms instead of pounds (560 grams)". Bićanić takes these circumstances, rather than the introduction of a new legal framework, to be the main causes of the disintegration of rural household cooperatives.

Unlike rural areas of the West European countries, rural areas of Croatia-Slavonia were unable to solve the efficiency problem in managing their resources, and the situation hardly changed after 60 years of capitalist economy. In the 1930s, the average farm was open to market with only a half of its overall production value. Measured by their share in the overall land area, small estates in the hands of peasants

14 Governing Board of the Virovitica County: Report for the year 1907 (Osijek: 1908), 191.

15 Governing Board of the Virovitica County: Report for the year 1911 (Osijek: 1912), 190.

16 Bićanić, *Agrarna kriza u Hrvatskoj...*, 19–21.

were by far the dominant type of real estate. However, already in 1873, large estates produced surpluses that were significantly higher than the peasants' income during the period between the two world wars. The expenditures of the state and the public sector were actually paid by peasants in the form of land tax and tax on salt and tobacco (due to the Government monopoly over these goods).¹⁷

The situation is aptly illustrated by the following story: the most significant contribution to Slavonia's overall rural economy was given by cattle breeding. According to the data provided by the Chamber of Trades and Crafts in Osijek,¹⁸ from 1870 to 1881 the livestock fund decreased continually. The Government's efforts to persuade the peasants to invest into noble breeds and preserve the livestock fund remained ineffective. In that particular year, the export of Slavonian livestock suffered a severe blow from cattle plague that sealed the borders. "The price of domestic livestock [was] very low (...), in fact so low that we dare not state it in our reports fearing they would be considered as exaggerations. The number of cattle decreased with every new need bestowed on the peasants, and the remaining cattle were sold at auctions so the accumulated tax debts can be paid; the selling prices being so low that they would hardly cover the distraint costs."¹⁹ The decline in animal husbandry was also caused by annual flooding of pastures and meadows, "ploughing without livestock manure, insufficient sowing of fodder, and the stubborn unwillingness of the majority of peasants to adopt any improvement measure that would diverge from the way their great-grandfathers used to manage things."²⁰

To this unfortunate development, the shortage of professional veterinary staff also gave its contribution. At the beginning of 1880s, there were only 34 veterinaries in the Provincial (*Provincijal*), of which only 12 resided in Slavonia. The decline of the livestock population during the same period was mostly visible in the civilian part of Slavonia (*civilna Slavonija*) – 46% compared to the civilian part of Croatia proper where the decline amounted to 28%. By 1869, in the civilian part of Slavonia there were on average 1.90 heads of cattle per inhabitant; for comparison, in the civilian part of Croatia this figure was 0.92, and 1.82 in Hungary. The financial crisis of 1873 temporarily blocked all international cattle markets. Domestic animal husbandry was also weakened by uncontrolled deforestation which affected acorn yields.²¹

17 Bićanić, *Agrarna kriza u Hrvatskoj...*, 19–21.

18 The jurisdiction domain of the Chamber of Trades and Crafts in Osijek covered territory that by far exceeded the area of the City of Osijek as the capital of the three Slavonian counties – Syrmia (Srijem), Virovitica and Požega.

19 Report by the Chamber of Trades and Crafts in Osijek (hereinafter: **CTC Osijek**), 1881, 41–42.

20 *Ibid.*

21 Agneza Szabo, "Demografska struktura stanovništva civilne Hrvatske i Slavonije u razdoblju 1850–1880", *Historijski zbornik*, 40 (1) (1987), 188–189; see also: Vladimir Stipetić, *Dva stoljeća razvoja hrvatskog gospodarstva (1820–2005)* (Zagreb: 2012), 178.

The advance of monetary economy had nothing to do with the desire of peasants to satisfy their economic needs by placing their good at the market. As Bičanić points out, “forces that penetrated their economic circle from the outside forced the peasants to sell their products and purchase factory goods after their cooperatives were destroyed”.²² Karaman, on his part, sees the cooperative system of the Military Border (*Vojna krajina*) as identical to the one in the Provincial where “urbarial land cooperatives” (*urbarijalne zemljišne zajednice*)²³, which were dependent on the interests of large estates, managed to survive until 1903. Both types of cooperative remained in existence thanks to feudal lords and the military administration. After the abolition of feudalism and demobilization in the Military Border, began the struggle for rapid elimination of these systems. The incentive for this came not only from the state: railway network construction and foreign capital investments were also important factors. These pressures soon led to dramatic changes in the country’s social and economic structure. Many land-owning peasants became homeless, which ultimately led to impoverishment and “material and cultural regression” of “the peasant class and the population in general”.²⁴ Although Austrian peasantry underwent a similar process of massive bankruptcy, in the 1890-ies financial means were provided for their survival. This was mostly achieved through credit cooperatives and trade associations which eventually transformed into peasant unions with clearly defined political interests. The surplus of rural population did not leave the country but emigrated into towns and cities where there was a growing need for workforce.²⁵

Comparing the census data from 1890 to those of 1900 in Croatia, the number of employed in crafts, trades and industry increased by 20%, while the number of public servants, self-employed and pensioners increased by 37%. The largest increase was seen in the category of low wage workers – 90% in the overall population. Only a few were lucky enough to find work in their own country and avoid emigrating overseas. Changes in land management, according to Stipetić, could be seen in the gradual renewal of livestock breeding that increased by 25% in the period between 1880 and 1895, and by additional 21.5% by 1911. This trend was aided by the new railway lines linking rural areas with meat importing markets, mostly Vienna and

22 Bičanić, *Agrarna kriza u Hrvatskoj...*, 11.

23 Derived from the German word *urbar* (English *urbarium*) which designates a unique way of regulating ownership rights between feudal lords and their serfs in the late Middle Ages and the early modern period. A special institution called ‘urbarial land commune’ kept a register of land plots that were abandoned by feudal lords and left to the serfs for their common use. Cf. B. Klaić, *Rječnik stranih riječi* (Zagreb: 1986), 1396.

24 Ivan Galić, “Problemi agrarne politike u Hrvatskoj i Slavoniji”, reprinted from: *Mjesečnik* (Zagreb 1921), 5.

25 Erich Zöllner, Therese Schüssel, *Povijest Austrije* (Zagreb: 1997), 271–272; Bičanić, *Agrarna kriza u Hrvatskoj...*, 11–12.

Munich. Gloomy and pessimistic, Bićanić, on the other hand, emphasizes the problem of modernisation in the underdeveloped countries whose transition into capitalism was highly dependent on state expenditures. The burden of these expenditures, for the most part, fell on the peasants many of which were destined to lose their land. Stipetić highlights various aspects of the modernisation process, e.g., viticulture and fruit growing, horse breeding, melioration, subsidizing trade schools, providing scholarships for gifted students, etc. He notices, however, that the process developed too slowly, and that the price of this lag was accelerated emigration. National economy growth expressed by GDP accelerated from 1870 to 1890 at an annual rate of 2.36%, and from 1890 to 1914 at an annual rate of 2.77%. Businesses that hardly existed before, such as forestry-based industries, experienced a boom in that period. Nevertheless, the economic development was unevenly distributed and the wealth-gap within the Croatian national corpus widened.²⁶

1.2. Establishment and development of the lumber trade in Croatia-Slavonia until the end of the 19th century

It was not before the times of the Napoleonic Wars that French, Italian and German merchants got involved in the lumber trade in Slavonia. They were attracted by the trees that, regarding technological characteristics of its timber, exceeded all other types of forest trees in Europe. “Oakwood from mild climate areas is the best and of most excellent type since the growth area of sessile oak and common oak corresponds to the grapevine growth area”²⁷ Ljudevit Andrija Adamić, a merchant and aristocrat from Rijeka, was the first to start exporting lumber staves to Marseille in 1826, while the first French merchant who came to Senj was a man named Bonnet. In Croatian, Slavonian and Bosnian forests, Adamić produced material for making barrels. Apart from the hinterland, lumber was exported from forests of Senjska Draga which during the 19th century retained some of the characteristics of oak and fir forests that characterized this area in the past. The entire lumber and forest products trade in the 18th century was cantered in Bakarac. There were warehouses “belonging to the gentry from Fužine, under the name *Kastelanat fužinski-bakarski* as a depot for various types of wood, such as fir, beech and spruce, together with a carpenters’ workshop”²⁸

26 Stipetić, *Dva stoljeća razvoja...*, 178–180, 217; Jakov Gelo, *Demografske promjene u Hrvatskoj od 1780 do 1981 godine* (Zagreb: 1987), 186–189.

27 *Šumarski list* (hereinafter: *ŠL*), 4 (1880), Rasprava Frana Kesterčaneka, 185.

28 *ŠL* 12 (1891), Mijo Radošević, “Pabrici”, 542, 545–546; *ŠL*, 1 (1883), Fran Kesterčanek “Prilozi za povijest šuma i šumskog gospodarstva kod Hrvata”; *ŠL* 4 (1880), Rasprava F. Kesterčaneka, 180 et passim; *ŠL* 1 (1878), Izvješće šumarskog društva za 1877; *ŠL* 2 (1893); Mijo Radošević, “Razvitak drvarskog obrta, trgovine i industrije”; cf. Stipetić, *Dva stoljeća razvoja...*, 127; see also: Dušan Klepac, “Stare šume hrasta lužnjaka i njihov doprinos razvoju Hrvatske”, in: *Hrast lužnjak u Hrvatskoj* (Vinkovci–Zagreb: 1996), 13–15.

After the Louisiana Road was built around 1820, Bakar became a serious competitor to Senj regarding the sale of lumber products from the hinterland. In the Kupa River valley, near Karlovac, and later also near Sisak, the French organized a production of barrel staves. As workers for transporting wooden planks to ports, they hired people from Carniola (*Kranjska*) and local handymen. It is noteworthy that the first axe with an eye came to Slavonia from Carniola; before that, the locals mostly used an adze – a cutting tool that could not cut through an old oak. From 1840 to 1856, trade flourished in Bakar: “in those days it was not uncommon to see 20 or more large sailboats and the same number *trabacolos* moored in the harbour, simultaneously loading various lumber products for French ports: Marseille, Cette and Bordeaux”.²⁹ Shipowners from Bakar, Mate Polić and Medanić brothers, exported lumber products as far as Algeria and other African ports. Nevertheless, many trading companies went under after the construction of the Zagreb–Zidani Most–Trieste railroad: “As circumstances changed, the ports of Bakar and Senj lost their connection with the hinterland.”

By the mid-18th century, the logging of ash, elm and beech timber became common in Slavonia. The wood was used to produce potash – a raw material necessary for manufacturing glass and gunpowder, for tanning leather and making soap. These activities can be considered as the beginnings of lumber-based manufacture in the region. Forest labour was organized around the production of lumber and firewood – commodities for which feudal lords had a regulated market. During the industrial revolution, large Slavonian estates, devoid of arable land, turned to lumber trade. Thus, the large wood complexes of Virovitica County owned by families Majlath, Norman, Pejačević, Janković, Drašković, and Prandau became sources for financing subsistence expenditures and the restoration of fields – through deforestation and melioration. In the early 1860s, Valpovo and Miholjac feudal estates turned approximately 4,000 acres of forests into fields. From 1865 to 1869, Prandau invested over 116,000 forints into these activities. Although the focus on agricultural production will later prove to be mistaken, from the mid-19th century on, the Provincial witnessed an unreasonable and unplanned exploitation of its forests.³⁰

Mass trade in French staves in Slavonia is of a later date. To this testifies an agreement on the purchase of forest estate near Virovitica concluded between Count Janković and Duke Schaumburg-Lippe. According to this agreement, the evaluation of forest quality was performed based on revenue in acorns and galls, and not by the price of

29 ŠL 2 (1893), Vatroslav Rački, “Razvitak drvarskog obrta, trgovine i industrije”.

30 DAOS 476, *Valpovačko vlastelinstvo*, Box 329 and Box 330: Lumber exploitation protocols, 1806–1826; Ive Mažuran, VValpovo, Sedam stoljeća znakovite prošlosti”, *Valpovo* (2004), 87; Roko Benić, “Iskorištavanje šuma na području slavonske Podravine”, in: Josip Roglić (ed.) *Kombinat Belišće kao činilac privrednog razvoja: zbornik radova: simpozij održan 8. i 9. lipnja 1978. godine u Belišću* (Osijek: 1980), 128.

the French or Bavarian staves. On the feudal estates of Podgorač and Našice, between 1830 and 1848, the German craftsmen produced barrel materials that were exported from Osijek via the Drava River. German material for barrel production, also known as Bavarian staves, was transported to Vienna and Budapest by rafts. First associations of manufacturers in Slavonia can be traced back to 1832 when master guilds were established in Pakrac, Jastrebarsko, Daruvar, Virovitica and Kutjevo. They produced barrel staves and other wood products for the German and later for the French market.³¹

Taking advantage of the circumstances of the development of lumber industry, local merchants became moneylenders and resellers who were now able to create prices without restrictions. Apart from organizing transport, they also built sawmills and undertook similar “ventures involving significant capital” and encouraged “lumber sales all over Hungary, Bosnia and Serbia”. Between the 1850s and the end of the 19th century, most crafts had been dominated by Croats (carriage makers, carpenters, lumber cutters, coal manufacturers, plank makers etc.); only turners and manufacturers of barrel staves were immigrants – mostly from Italy and Germany. Until 1873, Croatian craftsmen also became the majority in regions hitherto dominated by Germans and Italians.

The growth of lumber crafts was significantly supported by chambers of trades and crafts which secured loans, managed transport, presented Croatian craftsmen at trade fairs and exhibitions either abroad or within the Habsburg Monarchy. For example, the 1857 International Exhibition in Vienna was important for presenting oak materials. After that, trade activities were legally recognized and organized throughout Slavonia.³²

In the final quarter of the 19th century, wood manufacturing crafts played the leading role in Slavonian export. During a twenty-year period, prices of barrel materials, especially of French staves, increased continuously until the supply finally exceeded the demand. In addition to the saturation of the market, there were other unfavourable events – France was hit by grape phylloxera which destroyed vineyards and reduced its trade, other importing countries experiencing bad years too. In Croatia, the progress in wood processing crafts was excellent, bearing in mind that “by the end of the 19th century, the yield of Slavonian forests was reduced exclusively to acorns and cones, as well as to firewood supplies for the immediate surroundings”. This unfavourable development was significantly accelerated by industrial

31 ŠL 2, 3 (1893) Vatroslav Rački, “Razvitak drvskog obrta, trgovine i industrije”; ŠL 1 (1898), Gašo Vac, “Šume i šumsko gospodarenje u Donjo Miholjačkom kotaru”; ŠL 1 (1890), Stjepan Hankony, “Šume u slavonskoj Podravini”; see also: Igor Karaman, *Industrijalizacija građanske Hrvatske (1800–1941)* (Zagreb: 1991), 71–72.

32 Mirjana Gross, *Počeci moderne Hrvatske* (Zagreb: 1985), 251–252; ŠL 3, 4 (1893), Mijo Radošević “Razvitak drvskog obrta, trgovine i industrije”, 129; ŠL 1 (1892), Mijo Radošević, “Pabrci za šumarsku povijest hrvatsko-srbskih šuma”, 8, 19–21.

exploitation of forests. From only 60,000 akovs³³ in 1840, the production of barrel staves in the Slavonian part of the Drava valley rose 1.5 million akovs by 1860. The construction of the southern railway route from Sisak to Zidani Most facilitated the transport of Slavonian lumber products to Trieste. After opening the port of Rijeka, and after the Danube Steamboat Company began transporting goods to Germany, Slavonian forests became completely open to exploitation.

The French staves were manufactured mostly in the Sava river basin, and only to a lesser degree in the basin of the river Drava. In 1880 and 1881, this industry employed 3,500 workers, mostly from the coastal part of Croatia and Carniola. The seasonal work lasted six months a year, the wages ranging from 1.3 to 3 forints a day. Apart from barrel staves for France and Germany, carpentry materials were also exported from Slavonia to Italy, Greece, Egypt, Austrian lands, Hungary, Germany, France, Belgium, countries of the Danube River basin, England etc. Apart from manual processing, these materials were also manufactured in sawmills. Railroad ties were also produced and exported via Sisak to Italy and France and, to a smaller extent, to Bačka and Upper Hungary.³⁴

The Chamber of Trades and Crafts in Osijek strived to open the Slavonian *latifundia* to industrialization. The major obstacles were poor transport connections – insufficient in the lowlands and almost inexistent in the highlands – and drainage and floods that impeded forest exploitation in many areas. The Chamber in Osijek saw the solution in railroad construction, water outflow regulation in the Drava river basin, and in the construction of a canal connecting rivers Danube and Sava. In 1881, these were merely “humble wishes upon which the entire economy of the country depended”³⁵ The Slavonian local railroad joint-stock company, which will soon connect Osijek with Zagreb, was established by the end of 1892. The railroad route Osijek–Vrpolje connecting Osijek with important markets to the south of Slavonski Brod was established as late as autumn 1904. The growth of the wood processing and, to a lesser extent, cement industry, together with the increase in the number of industrial companies in Osijek, characterized the period between 1890 and 1910.³⁶

33 Akov is a traditional unit of measurement for volume and fluid capacity: 1 akov=56.589 litres.

34 Report by CTC Osijek, 1881, 58–65, 72–83; Rudolf Bičanić, “Industrijska revolucija u Hrvatskoj i godina 1848”, *Historijski zbornik*, 1 (1948), 77.

35 Report by CTC Osijek, 1881, 61, 92

36 Report by CTC Osijek, *Izujestaj o narodno-gospodarstvenim odnošajima komorskog okruga osvrtnom na zadnju dobu do 1894. godine* (Osijek: 1895), 96–97; *ibid.*, 1904, 3–5; Igor Karaman, *Privreda i društvo Hrvatske u 19. stoljeću* (Zagreb: 1972), 86–89, 197, 215, 302–348; see also: Zlata Živaković–Kerže, *Urbanizacija i promet grada Osijeka na prijelazu stoljeća (1868.–1918)* (Osijek: 1996), 113–114; cf. Mira Kolar-Dimitrijević, “Židovi u gospodarstvu sjeverne Hrvatske od 1873. do 1941. godine”, in: *Dva stoljeća povijesti i kulture Židova u Zagrebu i Hrvatskoj* (Zagreb: 1998), 131.

However, the changes described above did not bring any significant structural change to the economy of the area. The real economic and purchasing power of much of the Slavonian population depended on summer yield and this caused a feeling of uncertainty among small craftsmen and local merchants. In 1904, for example, to sell craft goods in stores was almost impossible before autumn, and the sale of craft goods at fairs fared no better. Crafts were also affected by cheap imported industrial goods. Due to a bad harvest, the consumption was low “because throughout the year, until late autumn, there was a scarcity of money, especially in the countryside; the sales revenues, even of local merchants, were miserable, while cash inflow was slow and utterly uncertain”, at least in the purview of the Osijek Chamber Area.³⁷

The peak of the barrel stave production in Slavonia was in the 1870s. With better connections to seaports, competition increased and there were ever more direct buyers coming from France, Italy, and Germany. Since Slavonia had exceptional forests, many of them settled in Slavonia and established their branch and dispatch offices. Entrepreneurial spirit increased: “Soon was Slavonia in a position to satisfy even the largest foreign demand but that magnificent progress carried within itself a seed of downfall: it was merely a single-item overproduction”.³⁸ Two circumstances softened the blow for local manufacturers: firstly, local craftsmen were not so much involved in overproduction and were thus not significantly affected by the subsequent price drop; secondly, since this industry was almost exclusively export-oriented domestic money institutions were keen to help the troubled crafts with loans and thus save them from putting up their accumulated products on fire-sale. Otherwise, domestic manufacturers would fall prey to competition.

In its annual report for the year 1881, the Chamber of Trades and Crafts proclaimed – somewhat too optimistically – that the private lumber industry had survived the crisis. However, two years later, discussing the state of forests and the forestry sector, forestry experts express a dissenting attitude. After 1873, “foreign merchants entered the market as wholesalers, endangering the forest-owner by diminishing his importance, his production, his export and his prices”. Domestic lumber industry experienced significant changes in the structure of its production. The journal *Šumarski list* was not thrilled with the liberal ideas of merchants and industrialists and did not hesitate to state its disagreement: “should the construction of the Karlovac–Rijeka railroad have been postponed for few decades the oak product trade would by all accounts have remained in Croatia“. The period from 1862 to 1873 was the golden age of the Croatian wood processing industry and lumber trade.³⁹

37 Annual report by CTC Osijek, 1904, 3–5.

38 Report by CTC Osijek, 1881, 59–60.

39 Ibid., 60; ŠL 3, 4 (1893), Radošević, “Razvitak drvarskog obrta, trgovine i industrije...”, 128; ŠL 1 (1892), Radošević, “Pabrci”, 21; cf. Bičanić, “Industrijska revolucija u Hrvatskoj...”, 78–79; Gross, *Počeci moderne Hrvatske...*, 251–252.

That the lumber trade also had its dark side became evident from the discussions between members of the Forestry Society in 1883. According to an eyewitness, “lumber had no price or at least that was the consequence of the greed for large profits” or “deforestation for the purpose of gaining arable land”. Administration of the nobility-owned forests, “knowing only the local usage and value of oakwood and ignorant of its real trade and technological value, squandered the forests”. Among merchants, there were also those who, when selling the forest, would gift the buyer with the land on which the forest grew. Besides, in the period between 1848 and 1875, it happened that not only interests, but principals too started to be wasted; according to some calculations, approximately 25% of forests thus disappeared. Local population, “ignorant or happy to get rid of the ancient and supposedly worthless forests ... gave away their best and most appreciated oaks almost for free, and this is how we lost our old-growth forests”.⁴⁰ One calculation by the forestry experts of the time shows that during the period from 1850 to 1860 1,000 oak staves achieved a price between 6 and 14 forints, which means that sellers let 200 years-old oaks be cut down for 2–3 forints apiece. One should thereby consider that the waste of material by manufacturing French oak staves amounted to 65%. Each cubic meter of manufactured barrel materials required between 2.5 and 4.5 cubic meters of raw wood, depending on the skill of the workers. In 1880, for example, the minimal price of a giant oak was 20 forints. Even with such prices, one could hardly make a profit – with the annuity value of land taken into account. The price of a forest spreading over an acre of land and containing 15 oaks older than 160 years amounted to 350 forints. When coppice (*ophodnja*) is calculated into the production expenses, not even a ten-fold increase in price was enough to make the production profitable! In the years after old oaks were cut down, a usual coppice of 60 to 120 years was introduced. In the period between 1881 and 1913, only in the region of the former Military Border, a total of 1,030,616 oak trees had been cut down (with an average value of 4.25 m³).⁴¹

In the period between 1850 and 1852, a series of regulations were adopted concerning the organization of forestry, forest management and conservation. However, these regulations were not applied when they were most needed – in times of increased economic activity and demand for cash. According to an opinion expressed during a Forestry Society session in 1880, the extent and the future of forestry

40 ŠL 1 (1883), Kesterčanek, “Prilozi za povijest šuma...”, 19–20.

41 ŠL 4 (1880), Rasprava F. Kesterčaneka, 180–182; ŠL 1 (1885), “Hrvatski veleposjed prema šumarskom društvu”, 1; ŠL 1 (1883), Kesterčanek “Prilozi za povijest šuma...”, 19–20; ŠL 1 (1877), *Izvešće o prvoj glavnoj skupštini*, 4–6; see: Galić, *Problemi agrarne politike u Hrvatskoj i Slavoniji*, 3–4; Mira Kolar-Dimitrijević, “Kratik osvrt na povijest šuma Hrvatske i Slavonije od 1850. godine do Prvog svjetskog rata”, *Ekonomska i ekohistorija*, 4 (1) (2008), 76, 78–80; Milivoje Erić, *Agrarna reforma u Jugoslaviji 1918.–1941.* (Sarajevo: 1958), 33.

production in Croatia-Slavonia was determined in Trieste, Marseille, Bordeaux, Lille, London, and Vienna. Members of the Society criticized the local nobility for their attitude of despair, “which they had succumbed to until recently”, in the face of the poor state of their forests. And indeed, until 1850s, these forests were effectively left to dry out and rot. Around 1880, rumours spread among forest managers and the nobility that their finest beech forest became worthless. However, “at the same time, technological and use value of beechwood was recognized, so this type of wood was soon put into circulation”.⁴²

During this period, of 430 members of the Forestry Society, only ten of them were large estate owners, the overall size of their estates comprising approximately 400,000 hectares (i.e., slightly more than 26% of the overall area under forests in 1882). Among the most notable members of the Society were: “Archbishop Mihalović, Bishop Strossmayer, Count Ladislav Pejačević, counts Rikard Sermage, Ivan Drašković of Trakošćan, Miroslav Kulmer, and Artur Nugent, Baron Fedor Nikolić, the manager of the Valpovo estate owned by Baron Prandau, Count Eltz of Vukovar, and the Society’s patron Duke Lamoral Thurn und Taxis”.⁴³ Forest products became the subject of merchants’ speculations. Namely, owners of large estates recognized the potential benefit of their forests – by exploiting their wealth they could cover budget deficits and compensate for what agriculture could no longer provide (due to new social relations). Consequently, there was excessive deforestation and previously uniform forests soon transformed into forests of irregular type, dominated by middle-high trees, or into ravaged pastures punctuated by stripes of land overrun by weeds.⁴⁴

In 1883, a complaint was voiced that “the Forestry Act is poorly obeyed, forest workers not respected, nor their reputation protected”. In a later document, one issued by the Virovitica County, a progress was reported concerning the state of forests in the year 1888. According to this document, violations of the forest order at large estates were rare exceptions. Forests were not cut down “uncouthly” as before but were managed by “the principles of forestry science”. Large estates were committed to compensate for each cut oak by additional afforestation “to increase the acorn value of forests to the extent of one hectolitre per acre, “under tillage among the beeches” (*pod motiku među bukvama*)”.⁴⁵ In the entire Virovitica County, over 4,562 acres had been reforested in the natural way, while a little over 5,854 acres had been reforested “by hand”.

42 ŠL, 4 (1880), Rasprava F. Kesterčaneka, 181.

43 ŠL, 1 (1885) Hrvatski veleposjed prema šumarskom društvu, 1–2.

44 ŠL, 1 (1883), Kesterčanek “Prilozi za povijest šuma...”, 19–20; ŠL 4 (1880), Rasprava F. Kesterčaneka; see also: Kolar-Dimitrijević, “Kratok osvrt...”, 76; Klepac, “Stare šume hrasta lužnjaka...”, 13–15.

45 Report by the Royal County Deputy Prefect on the Activities of the Virovitica County, January 1 – December 31, 1888 (Osijek: 1889), 125–128.

In the Provincial, forest damages were common and difficult to tone down. In 1900, foresters in the former Military Border strived to establish authority over holders of rights who, as a social group, enjoyed certain privileges that forestry experts considered to be unfounded. One of the voiced objections regarded discrimination between perpetrators of misdeeds – whether a perpetrator was a holder of rights or not – the law, as was claimed, had to be the same for all. The journal *Šumarski list* often reported cases of murder or attempted murder of forest rangers. In 1884, the journal reported on a case of a forest ranger who managed to survive a grave assault due to the assaulters considering him dead, while he was only unconscious. Concerning forest theft, experts often stressed the negative role of merchants – by holding unreasonably high prices at lumber auctions, merchants actually stimulated theft of wood. Prices were always 20% to 50% higher because of the competition “going wild”. In 1890, the starting price of an oak was 7 forints per cubic meter, while the final price could go as high as 14 forints. A thief would pay 7 forints to the owner from which a tree originated and would then sell the tree to a merchant for 10 forints. In case he would be caught, the fine was 1,01 forint per cubic meter of wood. That is, the profit from damaging forest amounted to almost 2 forints per cubic meter of oak.⁴⁶

Another case from the end of the 19th century is also worth mentioning. In a certain municipality, 40–60 years old oak trees were spread over an area of 15 acres. The municipality planned to remove the unhealthy and dry trees. Stimulated by good wages, the workers cut down healthy trees leaving intact most of the trees that were supposed to be removed. In this case, as in many other cases, the jurisdictions of local authorities and forest rangers overlapped, so the misdeed was covered up. The forest owners were happy to “employ as rangers individuals who would walk through forests turning a blind eye”. At the beginning of the 20th century, auction prices fell by 25%. (Until then, for a cubic meter of oak one could get 7 forints.) For example, in the summer 1900, 1,813 oak logs from the forest owned by the Town of Koprivnica were sold for 82,600 kronas, while their estimated value was 108,000 kronas. A similar situation arose during an oakwood auction organized by the company Deutsch and Sons in Kupčina: despite the estimated value of oak logs being 110,000 kronas, the logs were sold for 92,000 kronas. With such prices, merchants practiced oak trade only if no alternative was in sight.⁴⁷ As to the forest estate trade, some estates remained unsold even after three consecutive auctions, which was unprecedented.

46 ŠL 8 (1900) Komentar Josip pl. Aue, kotarski šumar, 451 et passim.

47 Ibid., 451 et passim; ŠL 1 (1884), Tomo Bogojević, “Selske šume u bivšoj Krajini i njihovo stanje”; ibid, “Slučajevi ubojstva”; ŠL 2 (1884) “Pokušaj ubojstva šumarskog osoblja”; ŠL 1 (1890) Pismo iz Slavonije.

Oak trade in Slavonia underwent different phases. After an initial period of “lively competition”, during the mid-1860s the trend reversed. The problem was that the “wood was valued according to its origin, not its quality”. After finding it unsuitable for shipbuilding, French shipyards stopped ordering oakwood from Slavonia. In reality, the merchants that supplied the shipyards could not tell the difference between the English oak and the sessile oak: English oak (*quercus robur*) was indispensable in barrel production, while sessile oak (*quercus petraea*) was mainly used in shipbuilding until the introduction of steel.⁴⁸

By the time the port of Rijeka got its railroad connection with European markets, the Carpathian forests were already connected to these markets. This reduced the demand for lumber from local forests and prices shrank. Moreover, by 1881, forests owned by the Investment Fund of the Military Border Area were open to exploitation which also contributed to the reduction of prices. By 1888, modernization processes transformed not only the forestry industry of the Military Border but also the forestry industry in Bosnia. This terminated a long period of domination of Hungary and the civil part of Slavonia in this industrial sector. Before 1888, these two regions managed to satisfy almost 80% of the French market’s needs for staves; after that, the production of staves in these regions declined dramatically. In 1893, the foresters protested the wholesale of forests and the following question was raised: “Wouldn’t it be more opportune to return to the retail sale of forests”? To some foresters this seemed “not only useful but also appreciative regarding the efforts and sacrifices that the first Bohemian and Croatian foresters, together with domestic merchants, invested into the cultivation and protection of forests”.⁴⁹ In places where railroads had been built, domestic merchants were “pushed out” of forests.⁵⁰ Moreover, the domestic wood industry was also lagging behind.

1.3. Segregation in the civilian and the military parts of Slavonia and the management of forests

The Segregation Process (*segragacija*), in the sense of land reform, can be defined as the “division of large feudal forests and pastures following the liquidation of serfdom”.⁵¹

The final liquidation of the feudal system by the Royal Patent of March 2, 1853 led to land division. The process itself included regulation of urban and similar ownership relations. The peasants received a stake in urban land and personal

48 ŠL 1 (1892), Radošević, “Pabrici...”, 23–24.

49 Ibid., 23.

50 Gross, *Počeci moderne Hrvatske...*, 251–252; Bičanić, *Agrarna kriza u Hrvatskoj...*, 15; Report by CTC Osijek, 1881, “O narodno-gospodarskom stanju Slavonije do konca godine 1881”, Croatian edition, 61, 92; ŠL 4 (1893), Radošević, “Razvitak drvarskog obrta, trgovine i industrije...”, 128.

51 Bratoljub Klaić, *Rječnik stranih riječi* (Zagreb: 1986), 1204.

ownership rights. The Land Government had to pay, on its own expense, an appropriate compensation to the trustees “for all rights, products and responsibilities originating from the urbarial union and feudal jurisdiction in the form of 5% of land-debit debentures issued by the Kingdom of Croatia and Slavonia”.⁵² Land consolidation was made possible by the parliamentary law of 1870, for a two-year period. The same law also allowed for an individual division of municipal pastures, provided that individual trustees expressed their interest in such a division. In addition, the re-parcelling of land (*komasacija*), with a two-year time limit, was made possible by a parliamentary decision from 1870.

Land settlements between the nobility and its subjects in the Provincial had also been implemented prior to Segregation. The Royal Patent issued by the Emperor Francis II of December 23, 1817 prescribed that a reliable land register (cadastre) (*katastar*) was to be established in all countries of the Habsburg Monarchy. Of special importance for Croatia-Slavonia was the “Land Provisorium” (*zemljarski provizorij*) established between 1819 and 1821. Its purpose was to facilitate the process of determining the net income of individual land plots by use of land measurements, maps and land value estimates. Besides, it allowed for a more precise regulation of the serfs’ right to feudal forests exploitation. Among other things, it prescribed that feudal lords could sell wood products only after the serfs’ needs had been satisfied. After the information-gathering work had been accomplished, the land consolidation process commenced in 1836, registering land plots and “sessions” (peasant homesteads). Once the necessary revisions were made and land re-parcelling carried out, the land register (cadastre) could finally be adopted in the Parliament, which took place in 1847. In subsequent years, until 1864, new cadastre measurements and land estimates were carried out, and by 1875 additional updates completed. By these procedures, serfs’ rights to lumber and other enjoyment rights related to feudal forests had been defined. As already stressed, the *Land Provisorium* was the foundation for both the land register of 1849 and the Land Segregation that took place subsequently. Due to these regulations, pastures, that were owned by urbarial municipalities and for the most part “overgrown by trees, usually by the highly-valued oak”, were later excluded from the register.⁵³

The legal arrangement of relations between feudal lords and their former serfs led to more stable relationships between these parties, so urbarial municipalities created by the Segregation Process were able to freely exercise their property rights (particularly regarding pastures and forest). Conflicts over jurisdiction began during the revolutionary years (1845–1858). In these years, as forestry experts claimed,

52 Galić, *Problemi agrarne politike u Hrvatskoj i Slavoniji...*, 3–4; *ibid.*: Regulation on the Enjoyment of Forests, Royal Patent of May 7, 1857.

53 ŠL I (1883), Kesterčanek, 15; ŠL I (1877), Izvješće o prvoj glavnoj skupštini.

long-lasting habits were formed concerning the ways people treated their forests. In 1848, forced labour was abolished by a Parliamentary ruling (article 27), and the right to wood and acorn exploitation, grazing and similar activities was recognized (article 27). These rulings also prescribed the obligation of cultivating and preserving local forests. In places where pastures had been destroyed, former serfs, “appealing to their ill interpreted freedoms”, poured into “landowners’ forests as if these were golden mountains”. However, as soon as revolutionary conditions subsided, previous claims of the landowners re-emerged. In cases when the remaining pastures were covered with forests, the former serfs had to compensate the landowner for wood. It often happened that the landowners were compensated by less valuable and fragmented land, typically faraway from villages, or by parcels that were difficult to overview.⁵⁴

Each soldier or peasant had a logging right “in forests of their former feudal lords” or their former military district (the so-called “Imperial Forests”), or the right to be compensated by an appropriate part of a forest which they rightfully used for logging (in accord with some previous legislation). This right preceded civil laws and private property in general. The Patent of March 2, 1853 (Article 7) defined the maximal size of forest land that could be used for compensation to former serfs – half an acre and not more than 6 acres per 1600 square meters. In exceptional cases, this surface area could be larger, but could not exceed 9 acres. By compensation, it was necessary to ensure sustainable logging. These newly obtained forests, given as compensations to former serfs, were legally controlled by institutions called ‘land cooperatives’ (*zemljišne zajednice*) and treated as municipal forests. Municipal forests were not allowed to be sold without the consent of the land cooperative members, and in some cases, the Land Government. In 1900, a royal forest ranger by the name of Gašo Vac made an interesting note about land cooperatives, praising their successful management which enabled the survival of forests and forested pastures throughout the country.⁵⁵

Useful information on land cooperatives can be found in the article “Land Cooperatives, their Origin, Development and Organization” (*Zemljišne zajednice, njihov postanak, razvoj i uređenje*): “If everyone would present examples of organizing land cooperatives from their own home region, we would have the complete material on this topic. Differences are significant among areas, and even more significant in the

54 Erić, *Agrarna reforma u Jugoslaviji...*, 33; ŠL (1) 1883, F. Kesterčanek, 20; ŠL 7 (1900), Gašo Vac, “Zemljišne zajednice, njihov postanak, razvoj i uređenje”, 405; Galić, *Problemi agrarne politike u Hrvatskoj i Slavoniji...*, 3–4.

55 ŠL 4 (1900), Vac, “Zemljišne zajednice, njihov postanak...”, 231; see also: Hrvoje Volner, “Urbarnjalne šume Županije virovitičke: prilog povijesti zemljišnih zajednica u Hrvatskoj i Slavoniji do 1919. godine”, *Scrinia Slavonica*, 18 (2018), 237.

country taken as a whole. A significant difference exists between the so-called Provincial and the former Military Border, between former serfs and feudal lords, etc.”⁵⁶ The article was published in several issues of the *Šumarski list* at the beginning of the 20th century. Legally speaking, each group or community of trustees, who inherited their rights from times prior to the “introduction of the civil law”, enjoyed certain lands. “These provisions apply particularly to groups or communities, regardless of the class of their trustees, i.e., whether they belong to noblemen, commoners or ex-borderers (*krajišnici*).”⁵⁷

The Royal Patent of May 17, 1857 recognized the existence of joint pastures, i.e., of joint ownership in general, before the urbarial settlement and the Segregation Processes was initiated. The Patent determined that in cases in which individuals enjoyed grazing rights in feudal forests, based on land re-parcelling from 1836, a certain part of a forest or other real estate should be allocated to them. Also, a complete ownership over pastures (or forests or reeds) that were legally detached (or were liable to legalization) was granted to former subjects.⁵⁸ However, counties and feudal lords interpreted Segregation regulations arbitrarily. “Fierce fighting over forests ensued” between former serfs and the nobility.⁵⁹ Forests were segregated according to the number of “homesteads and their creditworthiness”. As a rule of thumb, less acres were to be exempted from mature forests, and more acres from younger ones. “Instead of Segregation being performed with respect to the enjoyment of actual rights and the rent being established according to the capital value” (this value also determining the size of the forest), Segregation was performed “with respect to the arbitrary quantities of urbarial homesteads”.⁶⁰ Forests, pastures and reeds, singled out through the Segregation Process, constituted the property of land cooperatives. By cultivating agrarian production, many reed lands were “drained and dried, and are now used as pastures because these parcels had been co-owned since the olden times. This phenomenon [was] especially present in the river Drava basin.”⁶¹

In 1881, the area of responsibility of the Chamber of Trades and Crafts in Osijek, i.e., the entire region of Slavonia, was still known for its old, hardly passable forests. Forests were owned by the state, by municipalities or by individuals. Forests stretching from Zemun to Jasenovac were owned by the state and municipalities, while those

56 ŠL, 4 (1900), Vac, “Zemljišne zajednice, njihov postanak...”, 219 et passim.

57 Ibid., 227–228.

58 Ibid., 227–228.

59 Kolar-Dimitrijević, “Kratak osvrt...”, 76.

60 Josip Bösendorfer, *Agrarni odnosi u Slavoniji* (Zagreb: 1950), 189.

61 ŠL, 4 (1900), Vac, “Zemljišne zajednice, njihov postanak...”, 230.

in the river Drava basin, Fruška Gora and Krdnija by municipalities or individuals. The total surface area of these lands added up to 524,442 hectares or 29.79% of the overall territory under jurisdiction of the Osijek Chamber.

**Forest land in the administrative domain
of the Osijek Chamber of Trades and Crafts in the year 1881**

		Forests in hectares	Surface area (%)
County	Požega	139,146	54.95
	Virovitica	190,56	40.87
	Srijem	39,705	16.40
District	Gradiška	53,928	27.55
	Brod	58,719	26.62
	Petrovaradin	1243,383	12.20
		524,442	29.79

Source: Report by the Osijek Chamber of Trades and Crafts, 1881, 61.

Until the Croatian-Hungarian Settlement of 1868, the largest complexes of forest land in Croatia, i.e., the state-owned forests, were administered from Vienna. The Land Government in Zagreb had authority only over municipal forests in the Provincial. The aim of the Land Government was to establish control over feudal forests, and this was not achieved before the end of the 19th century. On the other side, forest that were administratively created after the demilitarization of the Military Border, i.e., municipality forests enjoying a special status, came under the control of the Land Government in 1882. Forests remaining in the possession of the state came under the control of the People's Council⁶² – the highest authority of the State of Serbs, Croats and Slovenes which was established immediately after the end of the First World War. (This short-lived state was soon united with the Kingdom of Serbia and the Kingdom of Montenegro into 'Kingdom of the Serbs, Croats and Slovenes' and subsequently, in 1929, re-named into 'Kingdom of Yugoslavia' – its most established designation.)

62 Kolar-Dimitrijević, "Kratak osvrt...", 78–80; see also: Janko Ibler (ed.) *Gospodarsko-šumarska jubilarna izložba Hrvatsko-slavonskog gospodarskoga društva u Zagrebu 1891* (Zagreb: 1892), 173 et passim.

1.3.1 Forests of the Slavonian districts until the beginning of the 20th century

The forests of the Military Border, since the very establishment of this administrative entity, were given to its inhabitants for free use but remained under the control of the state as its formal owner. With the *Imperial Patent* of 1850, the borderers became owners of meadows and fields. Forests remained state-owned and their value increased with the development of transport infrastructure. In 1860, the state adopted *The Ordinance on Servicing Forests* which limited the exploitation rights of military deputies. Under the pretence of rationalization, 50% of forests had been converted into imperial property. Since 1871, i.e., the beginning of the demobilization process, the Land Government expected to establish the control over the remaining forest resources in the Military Border Area but the state allocated forests to former soldiers (borderers) – more precisely, to the so-called *forest property communes* (FPC).⁶³ However, by 1877, as forestry experts had determined, forests were considerably thinned down during a 50-year period. This was attributed to poor administration and the development of trade. The Segregation Process in the Military Border lasted for ten full years. During this period, forest exploitation increased. By the end of the military administration period, the system of forest exploitation in the Military Border had been developed to perfection, and the value of commodity available for exploitation was immense.⁶⁴

Land cooperatives in the Military Border Area can be traced back to their legal establishment as border rights (*Gränzrechte*) recognized by the empress Maria Theresa in 1754. This document recognized the existence of “military fief” (*Militärgänzleben*) – an asset given to soldiers (borderers) for use in exchange for military service, both inland and abroad. It also regulated ownership relationships allowing ownership rights to be transferred to lawful heirs, the rights of sons thereby excluding the rights of daughters. In the case of multiple heirs, the rights were to be divided evenly, and the division of an estate was allowed only if the estate was sufficiently large to allow each heir to “pay his/her liabilities” from his/her part of the inheritance. Land parcels could not be testamentary granted to new heirs, and in cases when there were no legal heirs, the land was to be returned to the regiment.

63 The institution called “Forest Property Commune” (*imovna općina*) (FPC) was founded in 1871, after the demilitarization of the Military Border, with the purpose of managing and exploiting forests in the areas of the former regiments and for the benefit of their inhabitants. Forest property communes functioned under the same principle as land communes, their main tasks being road construction, building conduits and carrying out other public works.

64 Kolar-Dimitrijević, “Kratok osvrt...”, 78–80; see also: Karaman, *Privreda i društvo...*, 302–348; Klepac, “Stare šume hrasta lužnjaka...” 17; ŠL 1 (1883), Fran Kesterčanek “Prilozi za povijest šuma i šumskog gospodarstva kod Hrvata”.

These rights assumed “blood connection” with the military service and patriarchal organization of each household institutionalized in the so-called head of the family. Apart from military service, each borderer was obliged to do public service for free.⁶⁵ Forests of the Military Border were owned by the state, while the borderers had the right of use and enjoyment thereof.

In 1769, the Habsburgs adopted a regulation according to which forests had to be cultivated and oak trees left growing for at least two hundred years. In 1771, the emperor Joseph II issued an instruction by which forests in Slavonia, Varaždin and Banat had to be protected and professionally and diligently administered. Regular inspection of forests every two weeks was ordered, and firewood logging was permitted only from October to mid-January. The right of logging for building purposes was extended to February. Forest management and protection were grounded in an ordinance from 1788 regulating chamber taxation. The value of forests was calculated regarding the value of land and its “stands” (*sastojine*). The size of territory under forests was measured out precisely and it amounted to 1,312,417 acres. For borderers, it was of vital importance that pastures, forests and groves that had previously been given to them for use and enjoyment – the so-called local or municipal forests – had been excluded from this measurement. In an ordinance regulating forestry activities in the Military Border from 1787 (later to be adopted in the “Fundamental Law”), all these real estates were listed as *Gemeinde-Gut* (common-wealth), *Gemeinde-Wald* (common forest), *Gemeinde-Hutweide* (common pastures) etc. The state received income from forests in the form of taxes on construction-wood and firewood, acorn, grazing, ashing and pitching.

Forests in the Border Area were under a regime which required that a new tree could be cut down only after branches and tree debris had been collected and cleaned up. The wood that the military administration had placed at the disposal of borderers could not be sold to other inhabitants of the Provincial. All later legislative interventions regulating ownership rights in the Military Border were grounded in the assumption that the state owns everything, and that borderers and other military personnel may enjoy the crops and other products of the soil. Before a pricelist for forest products was introduced, everything in the state-owned forests was available to the borderers for free. And even after the introduction of the pricelist, the enjoyers of forest rights had the privilege of paying only half of the price that was required from civilians for the same item.⁶⁶

65 ŠL 7 (1900), Vac, “Zemljišne zajednice, njihov postanak...”, 401.

66 Kolar-Dimitrijević, “Kratak osvrt...”, 74–75; ŠL 8–9 (1939), Đuro Nenadić, “Austrijska kameralna taksacija i njen 150-godišnji jubilej”, 484–485; ŠL 7 (1900), Vac, “Zemljišne zajednice, njihov postanak...”, 404, 409; see also: Damir Matanović, *Između reformi i tradicije: Brodska pukovnija od sredine 18. do sredine 19. stoljeća* (Slavonski Brod: 2013), 93–101.

With the repurchase of the servitude rights in 1871, forest property communes (FPCs) were established, their task being to manage forests allocated to the inhabitants of the Military Border Area (borderers). The state thus confirmed the validity of the laws adopted in 1850 and 1860 by which the borderers were granted ownership over real estates and the right to use forests and pastures. The servitude rights pertained to border guards, while local communes were assembled from families of peasant-soldiers from one or more villages within a purview of the regiment that was being disbanded. Each FPC represented an autonomous entity under supervision of the army administration or the corresponding state officials. Lands belonging to the FPCs were not used solely for exercising enjoyment rights; their members “were entitled to receive a certain sum of money corresponding to the value of lumber”.

By introducing a monetary economy into the Military Border and by guaranteeing the inalienability of the capital fund of the landowners, the state ensured the survival of the FPCs. Nevertheless, there was a disparity between the purpose of these newly formed legal entities and the political, military and economic needs of the borderers. According to the parliamentary rulings of 1848, the forests of the Military Border Area belonged to land cooperatives, but the borderers, in respect to their ancient rights, were entitled to free exploitation of wood for fuel and construction. Exempt from this entitlement were the “prohibited parcels” (*branjevine*) but even these could be enjoyed under condition that an agreement with the cadastre district was settled. As to the pasturage, livestock was allowed to graze on these lands for free.

Later, the Parliament also granted borderers the right to free gathering of chestnuts in state forests and free mowing and digging up fern. In addition, members of land cooperatives in the Military Border were free to mow clearings in forests. Beech could also be logged during summer, but civilians were not allowed to graze their livestock in forests without the FPC’s permission nor were they allowed to use the cadastre district’s pastures. With an approval of both district and military authorities, borderers could build forest huts and dwell in them. “The forest edges that were cut down and parcels outside hillocks along forests may be left to Borderers. We can fully legally determine that the Borderers have the legal right to enjoy forest in almost every respect.”⁶⁷

With the measures introduced by the state to limit its own authority over forests – e.g., the Military Border judiciary or the abolishment of servitude in the Provincial – the feudal system finally seized to exist. Land became a commodity, and the owners were granted full freedom of enjoying and disposing of this commodity. The state waived its initial ownership right without waiving its right to prescribe how forest land is to be treated.

67 Erić, *Agrarna reforma u Jugoslaviji...*, 35, 37; ŠL 4 (1900); ŠL 3 (1902).

The borders of the FPCs overlapped with the borders of the former regiments of the Croatian-Slavonian Military Border. The segregated area comprised 662,228 cadastral acres (c.a.) and its estimated value amounted to 122,748,904 golden forints. This area was divided into the following FPCs: Otočac, Ogulin, Slunj, Banska I, Banska II, Đurdevac, Križevci, Gradiška, Brod, and Petrovaradin. FPCs were governed by a council of representatives appointed for a four-year period. Only the enjoyers of rights (*pravoužítnici*) or claimants were allowed to dispose of the income: local-, parish- and school municipalities, military boarder cooperatives, and the family members of the enjoyers of rights (trustees). These subjects, as legal successors of the former servitude trustees in state forests, had the right to free use of forests on the condition that they had residence on the territory of a “former Military Border regiment district and were in possession of their own land”.⁶⁸

The scope of rights that the enjoyers of rights were entitled to was reduced due to the increased exploitation of forests in the period following the reincorporation of the Military Border into the civil administrative system of Croatia-Slavonia. As the peasants of the Provincial, the former enjoyers of right, once ventured into forests owned by the nobility to exploit their resources, they now ventured into state-owned forests. According to a report by a district forester who was well acquainted with the mind-set and the activities of Slavonian peasants during the last decade of the 19th century, the “enjoyer of rights considers forest damages as something normal”. Moreover, there was a widespread attitude that “our ancestors behaved in the same way – and nobody had ever been hanged for forest damages”. Forestry administration in most cases was unable to control the entire territory. For example, in the forests belonging to the FPC in Brod, a single forest ranger had to cover approximately 10,000 acres of forests, while in Bohemia he had to administer only 2,000 acres.

Among the social consequences of the abolition of feudalism was the disintegration of household cooperatives. Essentially, a cooperative was irreconcilable with the idea of a private ownership over real estates. An individual enjoyed the property of a cooperative exclusively “if he/she lived within a family”. The similarity between the position of serfs and the position of cooperative members in the Military Border Area is reflected in the fact that both were “excluded from free disposal of real estates they enjoyed”. Productive changes brought about by introduction of civil laws released the instincts of the inhabitants who had a hard time adapting to changes that “pushed them from one extreme into another – from complete serfdom into free disposal of everything”⁶⁹. This factor contributed greatly to forest damages. Another factor was the birth rate increase which caused deficits in household budgets

68 ŠL 2 (1937) A. Perušić, “Komunalne šume u Jugoslaviji...”

69 Galić, *Problemi agrarne politike u Hrvatskoj i Slavoniji...*, 5; ŠL 8 (1900), Komentar J. Aue, 451–452.

and multiplied the need for wood as a means of providing. In the moment of the demilitarization of the Military Border, 30 cooperatives as enjoyers of ownership rights consisted of 30 households. Each household had “one whole and three quarters” homesteads (*selišni posjed*), “belonging to a single hearthstone (*ognjište*)”. After twenty years, the size of homesteads diminished (in relative terms) due to a twofold increase in the number of households in cooperatives.⁷⁰

The forestry authorities have criticized the habit of the Military Border residents to “throw a whole log into the fire in order to bring a cauldron of water to boil”. As was noticed, “the more one moves away from the district center, the fewer stoves one sees, so the use of stoves should be mandated by law.”⁷¹ At the beginning of the 20th century, foresters praised the settlers from Moravia, Hungary and Bohemia who “barely owned two acres of land” but had “a stove in each of their homes”. Compared to an average landowner of the Military Border who owned almost ten acres of land, the immigrants were much poorer. The main criterion for determining enjoyment rights was the number of houses (homes). The increase in the number of cooperative members was limited and dependent on the method of determining the membership status, the immigrants being excluded from membership. Estates or homesteads varied in respect to size and quality of the parcels. The largest and the wealthiest were under the jurisdiction of the FPC in Nova Gradiška, Brod, and Petrovaradin. In these communes, the size of a cooperative estate consisting of fields and meadows varied between 17 and 34 acres.⁷²

Records documenting forest damages in the post-Segregation period reveal deficiencies in the organization of the forestry profession. It should be noted that after the 1848 revolution, inhabitants of the Military Border were granted significant rights. For instance, it was forbidden to conduct home searches in cases of Forest Order violations – in contrast to the pre-modern period when home searches had been routinely performed if a borderer was suspected of theft. This partially mitigated the Forest Order of 1787 that allowed the military commission to inspect soldiers’ estates. Forests owned by the Military Border FPCs had a special status, “until they were given to cooperatives of claimants, respecting the principles of fair distribution – the cooperatives consisting of those holders of rights who were resident in the area of the respective cadastre district”. The same applied to forests and pastures that were “still jointly owned by the nobility and the former serfs, until they were disjoined, as demanded by the *Imperial Patent* from May 17, 1857”.⁷³

70 Kolar-Dimitrijević, “Kratak osvrt...”, 74–75, 77–82; ŠL 8 (1900), Komentar J. Aue.

71 ŠL 8 (1900), Josip pl. Aue, “Kako da stanemo na put šumskim štetama kod imovnih občina bivše Vojne krajine”, 460–461.

72 ŠL 8 (1900), Komentar J. Aue; Erić, *Agrarna reforma u Jugoslaviji...*, 36–37; cf. Szabo, *Demografska struktura stanovništva...*, 175–176.

73 Erić, *Agrarna reforma u Jugoslaviji...*, 39; ŠL 7 (1900), Vac “Zemljišne zajednice”; Matanović, *Između reformi i tradicije...*, 96; ŠL 8 (1900), Komentar J. Aue.

In the period of the military administration, potential employees of forestry offices in the Military Border Area were required to have a forestry degree from Maribrunn. Not only foresters educated in Austria, but also those with diplomas from Bohemia and Hungary were hired. By contrast, forestry experts educated in the domestic school financed by the Land Government could not apply for these positions: “until 1895, not a single individual who attended the Forestry School in Križevci had been employed in a state forestry office”.⁷⁴ The military administration had an interest in prolonging demilitarization so it could retain the control over exploitation of its most prosperous forests. This situation was deliberately prolonged until 1882 under the pretense of “accustoming the population to the new system” – with devastating effects. Forest exploitation during this period was ensured by appointing government commissioners as civil superintendents who were supposed to safeguard “the interests of the state and its imperial officers”. Ksavier Kesterčanek wrote in 1883 that the laws regulating the administration and control over forests in the Military Border were tailored in such a way as to neutralize the forestry expert’s voice in decision-making. By the laws passed in 1860, the control over forests was given to the Military Border authorities. Due to its poor management, forests incurred losses. As early as 1843, Ante Tomić fiercely criticized the deficiencies of such forest management. He even wrote a memorandum addressed to the Military Council in Vienna in which he condemned actions of the forestry administration – without any success.⁷⁵

To preserve FPCs, the capital value of forests had to remain intact; only the interests from regular forest incomes and incomes from other types of property could be used for expenditures. Later, in the Kingdom of Yugoslavia, FPCs were transformed into private-legal corporations “with a permanent purpose, communal and cooperative significance and elements of the public law”. After 60 years of their existence, in 1931, their members remained enjoyers of regular incomes coming, for the most part, from the untouchable principal. For, the right of disposal over this capital was still reserved only for its legal heirs – those who retained the right to opt out of a FPC or a village and use their individual property on their own will. The following characteristics of cadastre communes testify to their communal significance: they consisted of settlements, villages and municipalities that were represented through their delegates; they could be divided into smaller units; they distributed heating material according to inhabitants’ needs and materials for maintenance of old and construction of new buildings for “political-, school- and parish municipalities,

74 Among the experts educated at this Austrian school were the following individuals of Croatian origin: A. Benković, M. Durst, J. Ettinger, F. Kadić, J. Kollar, F. Šporer, A. Soretić, A. Stranković, A. Tomić, M. Vrbanić. See: Kolar-Dimitrijević, “Kratok osvrt...”, 74–82; Klepac, “Stare šume hrasta lužnjaka...”, 15.

75 ŠL. 1 (1883), Kesterčanek, “Prilozi za povijest šuma...”

regardless of whether all members of an administrative municipality (*upravna općina*) were also members of the FPC” or not; and their legal organization incorporated elements of the public law.⁷⁶

Certain FPCs (Banska II, Križevci, Gradiška, Brod and Petrovaradin) were especially keen to preserve their capital value. From the period of their establishment to the year 1935, they purchased 93,534 c.a. of forest whose value was estimated to 240 million dinars. They could finance these investments by selling overripe forest and buying new ones. In this way, they could “close logging gaps and make up for damages in forests”.⁷⁷ During the Great Depression, their annual budget amounted to approximately 60 million dinars, of which half was spent for overheads: “30% for public levies and 20% on commercial expenses”. According to the archival records for the year 1935, expert management was performed in 10 directorates of forests including 48 forestry offices and 650 forestry areas. With 105 forestry clerks, 15 accountants and 20 assistants, 925 forest rangers and other lower staff, it had a total of 1065 employees. In the overall national economy, FPCs of the Sava Banate (*banovina*) played a significant role: “Only their national property is worth at least three billion dinars, and their annual net income 30 million dinars”.⁷⁸

By contrast, many other FPCs, desperate to survive, ate into their capital value and – went under. Taxes also contributed to this unfortunate development by making forest co-ownership unprofitable. In 1938, financially troubled FPCs were advised to temporarily give up using their main forest income to strengthen their capital in wood mass. By introducing this measure, one expected that peasants would give up cutting lumber for satisfying their needs – which they hitherto did “even if they had to pay full taxes on it” – and that forest income would be rationally used for paying the cadastre commune expenses. According to data from the Ministry of Forestry and Minerals, financial aid was needed for the survival of the following FPCs: Otočac, Ogulin, Slunj, Banska I and II, and Đurđevac. For the maintenance of the necessary administrative and security apparatus, and for the recovery of forests, a sum of 6–7 million dinars was needed: “It is necessary to at least continue the practice of the former Hungarian government” who subsidized insolvent FPCs. The debts of the FPCs in 1936 amounted to 66 million dinars. This debt was not only a consequence of the global economic crisis but also of the structural crisis of these institutions themselves, together with the state’s takeover of administration and a general increase of public expenditures. Foresters employed by FPCs still insisted on their salaries being paid from the state budget and not from the ever-hollower FPCs budgets. In this case, the insolvency problem was solved by lowering wages.⁷⁹

76 ŠL 2 (1937), Perušić, “Komunalne šume u Jugoslaviji...”, 56.

77 Ibid., 57.

78 Ibid.

79 ŠL 3 (1938), Projekat uredbe o reorganizaciji, sanaciji i olakšanju stanja Krajiških imovnih općina.

1.3.2 The Segregation Process in the Provincial: Example of the Valpovo feudal estate

At the time of the passing of the Forestry Act in 1850, the Provincial had slightly more forests than the Military Border. Immediately after 1848, more than 90% of Croatia's forest land belonged to feudal lords. After acquisition of this land, municipal or urbarial forests were created. The enormous interest in purchase of this land is illustrated by the fact that by 1870 only half of Croatia's forests remained in the hands of the feudal lords. Municipal forests, together with all the entitlements of the former serfs over these forests, hardly exceeded 30% of the overall forest land. In the Virovitica and Požega counties, over 90% of all forests belonged to feudal lords, while the rest was owned by urbarial municipalities. In the Syrmia County, feudal lords owned more than 50% of the forest resources, municipalities slightly over 5%, while approximately 40% was segregated.

Free disposition of municipal forests created new habits. Forests in the Provincial were reserved for servitudes (*servituti*) who, on their part, were obliged to give the right of grazing and acorn to peasants (former serfs) living in the vicinity. The *Forest Exploitation Act* was often violated as a consequence of monetization – an economic measure that was criticized by forestry experts in the 1880s, and in those years a complaint could often be heard that forests had been sold “for nothing”. After 1881, when the Military Border Area was integrated with the civil part of Croatia-Slavonia, there was over 2.67 million acres of forest land which amounted to 36% of the country's territory. In the period before 1910, the area under forests was reduced to 2.48 million acres, i.e., by 185,284 acres. Parliamentary debates often resulted in interpolations concerning forests and breaches of the Forest Act. Finally, in 1894, an act was passed by which a forestry-technical service was established as part of the administration of the Kingdom of Croatia and Slavonia (as a constituent of the Austro-Hungarian Empire), while in 1895, a special system of regulations was introduced administering large forest estates. The forestry section within the Ministry of Internal Affairs was established to supervise forest administration, in cooperation with districts, counties and forestry departments. This section had jurisdiction over all forests, save those owned by the state.⁸⁰

In 1896, after reorganization of the forestry administration by districts, there were over 40,740 acres of forests in the Virovitica County, owned by 121 urbarial municipalities. These were supervised by 9 district forestry offices: Virovitica (6,117 acres), Slatina (11,998), Miholjac (3,255), Osijek (3,651), Đakovo (3,027), Semeljci (4,388), Levanjska Varoš (2,019), Našice (3,986), and Orahovica (2,295). In this

80 Kolar-Dimitrijević, “Kratak osvrt...”, 77, 79, 83; Szabo, *Demografska struktura stanovništva...*, 190–191.

territory, 168 forest rangers had been employed with a total earning of 10,557 forints, while the annual expenses for forestry staff amounted to 22,422 forints and 98 fillers. Logging in urbarial forests varied in profitability. Thus, in 1887 a total value of logs and forest products sold amounted to 312,000 forints; in the subsequent period, incomes of urbarial forests were lower than forestry staff expenses (nearly 25,000 forints in 1894, and slightly over 17,000 forints in the following year).

With an increase of forestry staff, the number of recorded forest thefts also increased because a larger number of reported damages was processed than in the previous years. The segregation of selected forest areas to the effect of satisfying inhabitants' needs for firewood resulted in peasants' again becoming dependent on their feudal lords – this time for their supply of firewood. Moreover, the process of reimbursement of feudal lords for the losses due to the abolition of feudalism lasted longer than initially predicted – until the 1876 Parliamentary decision in the reign of *Ban* Ivan Mažuranić. However, it was not until February 24, 1903 that a law was passed prescribing “a two-year period during which all feudal relations must be resolved or will otherwise terminate by themselves”. Due to their economic strength and influence, feudal lords preserved many of their feudal impositions on their former estates until 1905. Their attempts to “benefit as much as they can from the remains of feudalism” became the cause of rising tensions between the peasants and the nobility.⁸¹

The Valpovo feudal estate had 90,000 acres of forests, fields and meadows. It stretched over Miholjac, Osijek and the Našice districts. Until Segregation, the serfs enjoyed the right of exploitation of forests for their own needs. In practice, this meant that peasants could take from a feudal forest only what has been “damaged by natural disasters or what remained after logging”. Organization of homesteads was implemented between 1840 and 1845 by force of the *Urbarial Act* according to which the former serfs became owners of housing and land. A peasant had his own field, his meadows and a “joint common pasture”, and could satisfy his needs from the feudal forest until the Segregation. In the Donji Miholjac district, the Segregation Process lasted from 1860 to 1866. Urbarial municipalities were allocated only 8–9% of total forest land, i.e., 2,405 acres. All these processes were accompanied by an increased forest exploitation. According to eyewitnesses, tall, more than 160 years old oak forests were already overripe and devoid of areas dominated by young trees. By the end

81 Galić, *Problemi agrarne politike u Hrvatskoj i Slavoniji...*, 3–4; Kolar-Dimitrijević, “Kratok osvrt...”, 76, 78–80; Erić, *Agrarna reforma u Jugoslaviji...*, 33; ŠL 1 (1883), Kesterčanek, “Prilozi za povijest šuma...”; ŠL 1 (1883) Franjo Šporer, “O stanju šuma”; ŠL 1 (1877), Izvješće o prvoj glavnoj skupštini..., Govor Virgila Mallina, poslovođe društva; ŠL 1 (1877), Govor šumara imovne općine petrovaradinske Prokića; ŠL 3 (1884), Josip, “K pitanju uredjenja šumarskog gospodarstva naših općinskih šuma”; ŠL 7 (1900), Vac, “Zemljišne zajednice, njihov postanak...”; Izvještaj upravnog odbora Virovitičke županije za 1896 (Osijek 1897), 23–42.

of 1890s, ash and elm trees were literally exterminated for the purpose of wood-pulp production. By selling oakwood from urbarial forests, “a passive forest capital amounting to 600,000 forints” was created. By the end of the 19th century, municipal forests and pastures had been devastated, and all municipality forests in the Miholjac District consisted of trees between 20 and 30 years old. From a principal of oak trees value that could not be used for at least another 30 years, the peasants had to pay 6,000 forints in state taxes, 1,022 forints in municipal levies, 1,970 forints for forestry personnel – a total of almost 10,000 forints. Thus, more than 15 villages in the districts had no more than 3 to 4 thousand forints for satisfying their needs from feudal forests.⁸²

In organizing administration, the Land Cooperatives Act followed the model of the FPCs. Land cooperatives (*zemljišne zajednice*) could autonomously decide on what to do with the principal, although under state supervision. Ownership could have been divided among its members only by consent of state authorities (for forests) or of 2/3 of the trustees (for pastures). In the Provincial, the scope of enjoyment rights pertaining to land cooperative members depended on the size of the holding, i.e., of the urbarial land cooperative. According to the Act, each group or assembly of trustees that inherited their rights from the period before the introduction of the civil law were entitled to mutual enjoyment of certain pieces of lands. Provisions of this Act did not cover real estates with a special legal status, i.e., pieces of land owned by free cities under imperial protection, market towns or other administrative municipalities.⁸³

There were also forests, though not many of them, that were owned by land cooperatives prior to Segregation. Such forests existed in the Military Border Area where they were obtained from forested pasture lands owned by local municipalities. In 1890, the three mentioned types of land cooperatives in Croatia-Slavonia encompassed 982,480 c.a., of which 265,762 c.a. under forests. By the end of 1935, the quantity of forest land owned by land cooperatives continued to decrease – 403 land cooperatives had already been transformed into private property, and 311 of them were in the process of legal division. Although similar to FPCs, which were much larger in size, land cooperatives as legal entities were much more difficult to manage. Regulations adopted for preservation of this type of institutions failed to ensure their survival. Often, the fault was on the trustees whose mismanagement led to devastation and destruction of forests. Legal and economic relations in land cooperatives were finally regulated by a special law which was passed on 25th April 1894.⁸⁴

82 Volner, “Urbarijalne šume Županije virovitičke...”, 239; see also: ŠL 1 (1898), Gašo Vac, “Šume i šumsko gospodarenje u Donjo Miholjačkom kotaru”; ŠL 1 (1890), Stjepan Hankony, “Šume u slavonskoj Podravini”.

83 Erić, *Agrarna reforma u Jugoslaviji...*, 39; ŠL 7 (1900), Vac “Zemljišne zajednice, njihovo postanak...”.

84 ŠL 2 (1937), Perušić, “Komunalne šume u Jugoslaviji...”, 58.

Devastation of forests was significantly facilitated by high birth rates which consumed significant sums of money that would have otherwise been invested in forest preservation. Already in 1884, “surrogates” were proposed as a measure for those municipalities that were unable to “satisfy the needs of their inhabitants”. Apart from that, other measures were also proposed like “folk cultivation” of hornbeam, beech, elm, maple, poplar, chestnut, and other cultures suitable for pasture and grass and enabling high yield with very low coppice.

In 1907, forest exploitation and enjoyment rights were once more a topic of Parliamentary discussion. A requirement was voiced that “logging permits should be calculated by the number of living family members, not by dead homesteads.”⁸⁵

Under the new political regime established after the First World War, i.e., in the Kingdom of Serbs, Croats and Slovenes (later to be called Kingdom of Yugoslavia), cooperative ownership of forests remained a legal peculiarity. Slightly more than 31% of its territory was covered by forests. Of this territory, 11.6% was state-owned and 8.7% was communally owned. As to the territorial distribution, the Sava Banate had the greatest proportion of communal forests (684,778 hectares), followed by the Vardar Banate (511,978 hectares) and the Zeta Banate (409,113 hectares). Of all communal forests, the Sava Banate had the greatest share of forests owned by FPCs: 401,656 hectares out of the total of 459,690 hectares that were owned by FPCs in the entire Kingdom of Yugoslavia. The total share of forests owned by land cooperatives and joint owners amounted to 293,886 hectares, of which the greatest portion was again in the Sava Banate – 264,737 hectares. An important characteristic of forests in the Vardar Banate were local forests stretching over 476,798 hectares of land. This type of forest could also be found in the Zeta Banate (270,128 hectares) and the Morava Banate (110,805 hectares). The fraction of communal forests in overall area under forests was 27%. Excluding forests owned by city municipalities (which were mostly located in the Sava Banate – 9,702 hectares), communal forests were mostly owned by peasants, i.e., villages. For social reasons, this type of forest ownership was stimulated. The intention was to ensure regular income from which peasants could, directly or indirectly, satisfy their needs. Legally, forests were considered as common good created by “agreement between multiple actors who invested either their efforts or their property (forest) for the achievement of a common benefit”⁸⁶

85 ŠL 1 (1877), Izvješće o prvoj glavnoj skupštini... Govor Virgila Mallina, poslovođe društva; ŠL 1 (1877), Govor šumara Imovne općine petrovaradinske Prokića; ŠL 3 (1884), Ettinger, “K pitanju uređenja šumarskog gospodarstva naših općinskih šuma”; Kolar-Dimitrijević, “Kratok osvrt...”, 75.

86 ŠL 2 (1937), Perušić, “Komunalne šume u Jugoslaviji...”, 50–51.

Communal forests were used for logging (firewood and construction wood) and livestock grazing in most parts of the country. Such forests were mostly situated near villages. Since animal husbandry was an important economic activity, harvesting of main forest products and rejuvenation of forests were mostly for the purpose of livestock breeding. In the larger part of the county, livestock had not been kept in stalls, but could freely graze on common pastures and in open forests: "In years of good acorn yield, pigs are taken into oak and beech forests, and by the end of summer forest leaves are picked for fodder used in winter."⁸⁷ In order to increase agricultural production, various models had been recommended, which, from the point of view of the forestry profession, were mostly directed against *latifundia*. Among the recommended measures were the following: further colonization, regulation of peasants' inheritance rights, public works, swamp draining, agricultural regulations, industrialization of rural areas, and education programs. However, it was obvious that it would take decades for such measures to bring results. At the same time, the authorities tried to keep the balance between the legislation and the peasants' needs. As a solution for reconciling peasants' needs with sustainable forestry, acorn and pasture forest type were recommended. However, such forests existed only in non-karst areas. "In Slavonia, an area famous for its precious oak groves, a special consideration had to be given to important by-products – acorns and galls. Besides acorns and galls, the inhabitants also had an abundance of pasture in such forests."⁸⁸

There were also other types of constraints due to other economic factors. Forests close to villages had been under constant pressure of local inhabitants. Irrational logging practices were common due to a lack of firewood and the need for construction material. To satisfy the monetary needs of the communes, the basic forest capital was used. Besides, some of the forests were at the upper vegetation limit or located in high-altitude, hilly or rocky areas which made them non-profitable. These inconvenient forests also included forests near waterfronts or at the foot of mountain torrents where it was essential to prevent sudden discharges of accumulated water. Even privately-owned forests became a matter of public safety and land protection against floods or avalanches. Peasants' interests, expressed and protected by land cooperatives or institutions of communal property, were often in conflict with recommendations of forestry experts. This is why, from the viewpoint of national economy, communal forests were not a desired type of property. Looking at Germany, where many municipal forests, after the abolition of feudalism and with the development of local self-governance, "in short time became municipal property", domestic experts recommended that communal forests be turned into state forests or "be put under its control".⁸⁹

87 Ibid., 61–62.

88 Ibid.

89 Ibid., 62–63.

1.4. Slavonian lumber industry until 1918

In times when the value of Slavonian forest estates was expressed in “acorn yields and galls”, and the Jews still had no ownership rights, family business founder Salomon Heinrich Gutmann (1806–1890) grew up in a small Hungarian village called Gelse. As a young man, he moved to Nagykanizsa, a small town nearby, where he worked as a stockman for the merchant Lazar Strasser. Despite being a stockman, which was a rather modest position, Salomon mastered the merchant’s trade. In 1836, he opened an independent store which at first developed slowly. In 1840, by marrying the daughter of his former employer, “with a received dowry and one cheaply concluded lease, he significantly improved his material situation”. With hard work, Salomon became one of the wealthiest citizens of Nagykanizsa. He traded in cereals and processed oil from rapeseed and around 1856 ventured into lumber trade. This move was encouraged by a large demand for railroad sleepers, construction and barrel materials. Wherever there were railroads in the vicinity of forests, especially in Slavonia, he cheaply purchased oak forests with old trees ready for cutting. At first, he paid for processing of purchased logs, but in 1860, near a railroad in Nagykanizsa, he built a large wood processing facility with its own track. Lumber trade made Gutmann “too rich”, so he decided to enhance the reputation of his family with a noble coat of arms and title. His financially supported request was approved on December 26, 1869, when the Emperor Franz Joseph I issued a decree assigning Salomon, his wife and his children the status of the Hungarian nobility with a nobility particle “de Gelse” – after the place where Salomon, his father and grandfather had been born.⁹⁰

The famous 1,000-hectolitre barrel, manufactured in the aforementioned facility and presented at the Paris World’s Fair in 1878, brought Salomon the Legion of Honour. For years, his company supplied brewers in Bohemia, France and other countries with barrel staves.⁹¹ Due to exceptional quality of his products, in 1889, his heirs received the Knight’s Cross of the Order of Leopold, so the 1880s can be considered as a period during which Salomon gradually transferred his company to his sons Edmund, Vilim, Ladislav and Alfred. Nevertheless, the most significant and most profitable, in the long term, undertaking started in 1884, with the establishment of a wood processing company in the Slavonian town of Belišće. This move

90 Hrvoje Volner, “Drvena industrija Slavonije s posebnim osvrtom na obitelj Gutmann do kraja 1918”, *Historijski zbornik*, 65 (2) (2012), 466; Edit Kerencsenyi, “A Nagykanizsai Gutmann-szalad felemelkedese a nagyburzsoaziaba kulonlennyomat”, *Zalaegerszeg*, 12 (1979), 147–149; Mirjana Gross, Agneza Szabo, *Prema brvatskom gradanskom društvu* (Zagreb: 1992), 418–419; see also: Josip Hekenberger, “Prilog poznavanju razvoja firme S. H. Gutmann”, in: *Kombinat Belišće kao činilac...*, 201.

91 Franjo Štrok, “Organizacija prodaje i nabave i utjecaj na proizvodnju”, in: *Kombinat Belišće kao činilac...*, 268.

was encouraged by a legal act exempting founders of new factories from taxation, provided that a new established factory improved extant industry or introduced new industrial branches into multi-ethnic regions.⁹²

The establishment of wood processing companies also benefited from international circumstances. Namely, the Franco-Prussian War of 1870 caused a significant slowdown in the sale of barrel materials but had in turn encouraged the increase of sawn timber production. The war caused significant devastation, so the demand for carpentry materials skyrocketed, especially in Paris after the fall of the Paris Commune. Since Alsace was occupied by Germany, lumber materials had to be imported from the Austrian-Hungarian Empire.⁹³ In that time, there were still no sawmills in Slavonia, so this deficiency had to be compensated for, as much as possible, by the skill of Slavonian craftsmen and their workers. At the same time, exporters purchased large parcels of forest land and started building large steam sawmills there. The success of such an undertaking largely depended on the location and the quality of forests.

In 1881, there were already seven sawmills and a parquet factory in Slavonia. The parquet factory was in Bårcs and it processed Slavonian trees. Lorenz Jäger owned two sawmills: Egmeč and Pustinja, both in forests of the Prandau estate, on the banks of the River Drava. A report by the Chamber of Trade and Commerce in Osijek from 1881 provides the data on production: “1,500 items of special goods, 4,100 items of splits, 4,500 items of construction materials of various dimensions, 7,500 items of mercantile planks, 3,700 items of mercantile boards, 3,900 cubic meters of beams, 8,000 items of parquet, 1,600 cubic meters of Wagen-schluss stumps, 50,000 akovs of barrel materials, 800 cubic meters of square carpentry materials. Egmeč employed 80 forest workers, 3 coachmen, 10 head saw workers, 13 workers on other saws, 38 helpers, 26 other workers, 24 workers with wages between 1.40 and 2 forints a day. Additional eight workers were employed in administration, among them one teacher with a salary between 75 and 200 forints a month. The workers were paid between 60 fillers and 1.90 forints a day.”⁹⁴ Furthermore, Marchetti Ch. & Lamarche sawmill from Belgium exploited forests in Đurdenovac owned by the Pejačević family. Annually, they produced 6,000 timbers, 18,000 stumps, and processed 22,000 cubic meters of wood. It employed 4 administrators, 48 factory workers (paid between 1 and 2 forints a day), 39 various labourers and handymen (between 60 fillers and 1.40 forints), 60 forest workers (paid monthly according to the work performed).⁹⁵

92 Volner, “Drvena industrija Slavonije”, 466; Edit Kerencsenyi, “Uloga tvrtke H. S. Gutmann u razvitku kapitalizma u Mađarskoj”, in: *Kombinat Belište kao činilac...*, 195–197; Josip Hekenberger, “Povijesni osvrt na bivšu Slavonsku Podravsku željeznicu (SPŽ)”, in: *Kombinat Belište kao činilac...* 201; Zdenka Frajtag, “Porodično stablo obitelji Gutmann”, *Glasilno muzeja u Belištu*, 6 (1982).

93 Report by CTC Osijek for the year 1881, 58, 71–72.

94 Ibid., 88.

95 Ibid.

Of all factory owners, it was only Jäger who provided school education for the children of his employees, at his own expense. In Egmeč, the school had between 40 and 50 pupils, and the school in Pustinja had between 30 and 40 pupils of both genders. Both schools were under the jurisdiction of the Royal School Inspectorate in Osijek. Workers, administration employees and their families had accommodation on the spot, i.e., in the vicinity of the sawmills, in a spacious building that has been built for this purpose. Egmeč also had an infirmary and a small pharmacy, while both sawmills had an inn. A settlement near Bàrcs had a fire department, a hospital, an inn, and an accommodation for workers and administrators near the Schmitt & Comp sawmill, while other companies provided “accommodation in kind” to their employees. Regarding the size of its land under forests, in 1881 Slavonia was able to produce 1.5 million cubic meters of firewood, although the actual production capacities were limited to 300,000 cubic meters.

After the financial collapse of 1873, economically more developed parts of the Monarchy restored their economic activities rather easily. Railroad construction was subsidized on a large scale, so the demand for railway sleepers increased. Production investments in Hungary can best be illustrated by the following statistics: in 1863, there were only 579 hp of steam engines working in Hungary’s lumber industry, while by 1884, this number had increased to 4,779 hp. The price of carved technical roundwood increased: in 1881, the Military Border Investment Fund paid 14.20 golden kronas for a cubic meter, while in 1910, the same quantity had to be paid at 68.20 golden kronas. So, the prices rose at an annual rate of 5%, significantly surpassing the general price increase in that period.⁹⁶

By 1892, according to the Chamber, the overall export from Slavonia into other parts of the Monarchy and abroad had reached 29 million forints. The share of lumber products in the overall value of exported industrial goods in Slavonia was 61.9%. These products were barrel staves, sawn timber and, to a lesser extent, tannin industry products. All companies established during that period used sawmills to process wooden raw materials. Most of the processing facilities during the 1880s and 1890s were in Sirmia (Srijem) – as much as 50% of all Slavonian forestry establishments. As to the number of companies dealing with primary wood processing, Slavonian Podravina was the leading region, at least according to the number of sawmills and workers employed in forest exploitation. In 1890, 85.7% of all Slavonian sawmill companies were in Podravina. By 1900, the number of sawmills in Slavonia increased from 7 to 18, of which only three were in the Virovitica County but they employed 982 workers or 44.59% of all sawmill workers in Slavonia. These three were S. H. Gutmann in Belišće, Neuschloss tannin factory and steam sawmill in Našice and a sawmill in Normanci

96 Kerencsenyi, “Uloga tvrtke H. S. Gutmann u razvitku kapitalizma u Madarskoj...”, 196.

owned by *Societe d'importation de chenes, Paris-Pantin*. During the mentioned period, Slavonia became the leading industrial region in the entire Croatia-Slavonia, at least according to the number of industrial companies and the number of their employees. In the overall wood processing industry, chemical industry played a significant role – especially the production of tannin, which was manufactured in five facilities, all of them located in Slavonia: Belišće and Đurđevac in Virovitica County and Županja, Mitrovica and Gunja in Syrmia County, engaging a total of 666 people.⁹⁷

In 1890, two thirds of the overall industry production in Slavonia came from wood industry. At the same time, in the entire territory of Croatia-Slavonia, there was only one large company of about 500 workers. In 1906, there were five companies employing between 500 and 1,000 workers and two companies employing over 1,000 workers – a fact revealing an increase of investments in this part of the Monarchy. According to a report of the Hungarian Ministry of Trade from that period, of the total wood industry production in Transleithania (the Hungarian part of the Austro-Hungarian Monarchy after 1867), which amounted to almost 70 million kronas in 1898, 18 million or 25.7% were realized by sawmills in Croatia-Slavonia. Croatian-Slavonian wood industry was for the most part export-oriented: of the mentioned 18 million kronas of goods, 12.5 million were realized through exports and only 3.5 million on the domestic markets (i.e., in Transleithania itself). As data for the year 1898 reveal, its products were exported to the following countries: Austria 13.5%, France 36.5%, Germany 15.6%, Belgium 14.3%, England 7.0%, Italy 5.8% and other 7.3%. Between 1884 and 1891, the prices of stumpage increased by 0.84 kronas per m³, and between 1892 and 1894 by 4.25 kronas. After that, the prices stabilized, except for the period between 1901 and 1902 in which they soared. At the same time, due to the competition from the United States and Japan, the prices of barrel materials and sawn timber dropped. Between 1890 and 1910, under the pressure of relatively cheap wood products from United States and Russia, the industrial structure of Croatia-Slavonia was forced to change. Many large industrialists, like the Gutmann Barons, the most important taxpayers in Virovitica County, domesticated themselves in this part of the Monarchy. The restructuring was also evident in the increase of the number of sawmills and wood processing facilities and the number of companies making their profits from forest exploitation alone.⁹⁸

97 Volner "Drvena industrija Slavonije...", 461; cf. Igor Karaman, "Društveno-ekonomski uvjeti razvoja 'Kombinata Belišće' do 1918. godine", in: *Kombinat Belišće kao činilac...*, 87–91; Igor Karaman, "Osnovna obilježja razvitka industrijske privrede u Sjevernoj Hrvatskoj do Prvog svjetskog rata", *Acta historico oeconomica Iugoslaviae*, 1 (1974), 52; Karaman, *Privreda i društvo Hrvatske...*, 302–348.

98 Volner, "Drvena industrija Slavonije", 463; see also: Karaman, "Osnovna obilježja razvitka industrijske privrede", 56; Karaman, "Društveno-ekonomski uvjeti razvoja", 92–100; Dušan Oreščanin, "Prometno-trgovinske prilike u drugoj polovici XIX i početkom XX vijeka", in: *Kombinat Belišće kao činilac...*, 72.

By the time of the foundation of Belišće, Salomon's son Edmund Gutmann (1841–1918) became aware that the changed circumstances would lead to a significant increase in the price of tall forest per acre and, consequently, in the price of the processed lumber. He purchased a real estate called Belišće from the Prandau family and this plot of land became the core of the future industrial settlement. The proximity of the river Drava also played an important role in Gutmann's decision to erect a settlement there. Steamboats transported goods via Drava to Danube and via Danube to Dalj. From the port of Dalj, goods could be further transported by railroad in two directions: via Borovo to Slavonski Brod and via Subotica to Budapest.⁹⁹

The overall economic situation in the Monarchy and in Europe forced industrial companies to increase their productivity and thus become competitive on the world markets. The structure of investments undertaken by the Gutmanns was in line with the Monarchy's economic policy. One of the cornerstones of this policy was the aforementioned Industry Act exempting from taxation those entrepreneurs who started new businesses or introduced new branches of processing industry. The idea of a long-term lumber exploitation and processing facility in Belišće must have sounded appealing both to the local government officials and to the working class seeking permanent employment.¹⁰⁰

On February 9, 1884 in Vienna, a partnership agreement was concluded between five parties: Edmund, Viliam and Izidor, as co-owners of companies *S. H. Gutmann* from Nagykanizsa and *Edmund & Izidor Gutmann* from Vienna, Aladar (Alfred) Gutmann and Ludwig von Pollak (husband of their sister Emma). The group gave the best offer on an auction for utilization of 3,800 acres of forests in the area Koška-Harkanovci-Lacići containing 173,000 trees – mostly oak, beech, ash, elm, linden, and poplar. The land was owned by the Baron Gustav Hilleprand von Prandau residing in Valpovo. Gutmann's offer amounted to 4,011,752 Austrian gulden for a ten-year right to logging, payable in forty monthly instalments. By the end of the year, on the plot of land purchased from the Prandau family, one of the most modern sawmill facilities of the time was put into service. The factory, covering an area of 9 hectares, was constructed under the supervision of a senior engineer Josef Schrittwieser. It was the core of the future settlement. During 1884 and 1885, on an area purchased in the tax municipality Bistrinci near Valpovo, 26 facilities had been erected for the purposes of production, accommodation and commerce, and were

99 Oreščanin, "Prometno-trgovinske prilike...", 72, 76; see also: Štok, "Organizacija prodaje i nabave...", 268 et passim.

100 Tibor Karpati, "Kronologija razvitka organizacije kombinata *Belišće* od njegovog postanka do 1978. godine", in: *Kombinat Belišće kao činilac...*, 243; see also: Dušan Klepac, Ivo Dekanić, Đuro Rauš, "Šumsko bogatstvo Slavonije i gravitacijskog područja Belišća u vrijeme postanka Kombinata Belišće i danas", in: *Kombinat Belišće kao činilac...*, 40; Volner "Drvena industrija Slavonije...", 467–468.

complemented by the workers colony buildings. Salomon's sons Edmund, Izidor and Vilim were registered as owners – both of the land and the buildings. In 1887, Izidor sold his share to his brother Alfred, and in 1900 the fifth brother, Ladislav, also became a co-owner.¹⁰¹

On the day of its putting into operation, the factory had 500 workers. A workers' settlement (colony) was built in 1884 and it consisted of six buildings of various purposes – for accommodation of wood processing workers, administrative staff and other personnel, dining room etc. While in 1880 only eight people lived in Belišće, by 1890 the number of inhabitants already exceeded 1,000. The settlement continued to grow reaching 1,461 inhabitants by 1900 and 1,560 by 1910. In 1889, the Company, as the majority shareholder, established the *Slavonia-Podravina Railroad Company Ltd.* (SPŽ) with headquarters in Budapest, other important shareholders being the State, the Virovitica County, and the City of Osijek. SPŽ has built 32 km of Belišće-Viljevo-Kapelna railroads – the so-called Gutmann's railroad which signifies the beginnings of the public railroad transportation in Croatia-Slavonia. In 1907, rail routes Moslavina-Crnac-Voćin, Voćin-Rupnica, Mislavac-Orahovica and Humljani-Slatinski Drenovac, with a total length of 73 km, were also established for public transport. The final section of the SPŽ was built in 1908 – 29 km of the Belišće-Osijek railroad. The SPŽ became an example of a local/vicinal railroad with a total of 184 km of tracks. The company also owned and served 151 km of industrial railroads.¹⁰² Since 1966, the narrow-gauge railway traffic has been gradually suspended as unprofitable, the last tracks being removed in 1970.¹⁰³

According to the 1893 edition of the *Pallas* lexicon, the Belišće settlement “was founded with a stroke of a magic wand. Belišće resembles the American settlements with a school, a hotel, long rows of workers buildings, two large railway stations, and a sawmill that is one of the largest facilities for oak processing in Europe”.¹⁰⁴ The workers had not only a roof above their heads, but also firewood, lighting, baths, roads and passageways, a school, a cinema, a community center, and were supplied with milk, corn and wheat from the Gutmann agricultural estate. A private elementary school was opened in 1886, with 66 students in two separate classes. In 1888, a process of establishing a municipality was underway; before that, Belišće only had a post office that served the nearby Zagajci, Bistrinci, Gat, and Veliškovac. In 1889, a barrel factory and a tannin factory began working in Belišće, in 1900 a facility for dry distillation of wood, and in 1902 a parquet

101 Milan Salajčić, *Staro Belišće, kulturno prosvjetni vodič* (Belišće: 2012), 13–14, 16, 45–48, 155.

102 Ibid, 29; DAOS 241, Box 39: overview of the SPŽ railroads, 1922.

103 Siniša Lajnert, “Likvidacija Slavonsko-podravške željeznice”, *Radovi – Zavod za hrvatsku povijest*, 44 (2012): 406.

104 Kerecsenyi, “Uloga tvrtke H. S. Gutmann...”, 196.

production facility. In 1906, the exploitation of the Radlovac quarry began, and in 1910 the Company started a fish farming business in Grudnjak fishponds near Zdenci.

The Company's business operations can be divided into primary and secondary. Primary operations included forest management, mechanical wood processing, tannin production, dry distillation of wood, licalit briquettes production, and fishery. Secondary operations included construction and repair of railway wagons, locomotives and diverse types of engines and machines, construction of wooden housing, power station maintenance, construction of wooden and steel boats, agriculture with pig farming, impregnation of railway sleepers, brick, and ice production etc. The annual production capacity amounted to 40,000 railway sleepers, approximately 2,000,000 bricks and 150,000 roofing tiles, 150,000 kg of ice blocks, and shipyards that could have launched 20 barges with a carrying capacity of 150 tons each.¹⁰⁵

After the expiration of the ten-year contract period, the company started exploiting forests of the Donji Miholjac feudal estate based on a contract concluded in 1889. Namely, in 1896, the Company purchased the Voćin estate from Count Janković, the purchase being completed with an agreement signed on October 9, 1902. The estate stretched over 38,629 c.a. of beech forest amounting to 7,376,120 m³ of wood mass. In 1897, the Gutmann company also purchased estates Orahovica and Suhomlaka from Baron Edmund Schrammn and an estate near Mikleuš from Duke Schaumburg-Lippe. In 1901, the Gutmann family were the largest landowners in the area spreading from Pakrac and Virovitica to Petrovaradin and Zemun with a total of 35,023 hectares of land. Some family members expanded their businesses interest into agricultural production, horse breeding, mineral water exploitation etc.

With the Belišće project, the Gutmanns became leaders of the technological revolution in wood industry – and not only in the realm of Croatia-Slavonia. Thanks to them, the productivity of this industrial branch increased several-fold, as well as the degree of timber utilization. In 1893, the Company was the largest wood industry firm and the largest exporter of sawn oak and beech timber to Italy, England, France, Austria, and Germany (among other countries) and the largest manufacturer of oak wood in Europe.

105 Mira Kolar-Dimitrijević, "Drvno-industrijsko poduzeće 'S. H. Gutmann' u Belišću i njegovo radništvo do 1941. godine", *Zbornik Historijskog instituta Slavonije i Baranje*, 17 (1) (1981), 53; Kerecsenyi "Uloga tvrtke H. S. Gutmann...", 195–196; DAOS, 241, *S. H. Gutmann d.d.*, Box 1, Jacket 1: statistics on industrial companies; *Šumsko veleobrtno d.d. Belišće; Godišnjak – glasilo muzeja u Belišću*, No. 9 (1985), 19; Mirko Korenčić, *Naselja i stanovništvo SR Hrvatske* (Zagreb: 1979), 696; Salajić, *Staro Belišće...*, 20.

The markets on which the Company placed its products had already been primed, and the Company's most important business contacts had already been established in the period of Salomon Heinrich. In 1904, 33 years after their father has succeeded in adding the nobility particle *de Gelse* to their family name, Edmund, the lifetime chief-director of the Company, Vilim, the first president of the joint-stock company (1918–1921), Ladislav, the president of the directorate (1921–1933), and Alfred, the Company's long-standing chief officer for railroads and their construction – all received the title *Barons de Gelse et Belišće* which could also be inherited by their children and grandchildren.¹⁰⁶

Sawn oakwood timber was a great commercial success of the Company. From ports on the river Drava, it was exported to their final destinations – mostly in England, France and Belgium – where it was used primarily for decorating important buildings, palaces, castles etc. The Company soon became the largest producer of sawn woodwork not only in the country but in the broader region too. Slavonian oakwood became widely known for its excellent properties – the fineness and softness of its structure, its even growth, and its impressive dimensions (height and tree thickness) – making its products more desirable than the products from other oak forests. The Company thus remained the main supplier of breweries in Bohemia and France with oak staves for many years. By 1901, it also became the largest supplier of railroad construction works in Slavonia.¹⁰⁷

1.5. *Našička Ltd.*

In Slavonia, the Gutmann company fought fierce competition with companies *Neuschloss* (*Našička Ltd.* since 1920) and *Societe d'importation de chenes. Našička* was established in 1887 by a merger between Hungarian Count Karlo Neuschloss from Pesta, Jacques Smidt from Strasbourg and Italian Count Luigi Marccotti. The three of them established a company for exploiting the pristine oak forests around the market town of Našice. As the company was stabilized in 1895, Ignatz Deutsch and Homeland Bank from Budapest joined it. Since that year, the company operated under the name *Neuschloss Tannin and Steam Saw Factory Ltd.*, with a share capital of 2 million forints and headquarters in Budapest. From its humble beginnings, a sawmill with four head saws and small tannin extraction, the company grew into a world-renowned enterprise for technical and industrial processing of almost any type of wood domestic in Central Europe. “Regarding the production

106 DAOS 123, Box 2463: Hugo Spitzer, *Meine Erlebnisse im Hause Gutmann, An Baron Arthur Gutmann*; Karpati “Kronologija razvitka organizacije kombinata...”, 243; Salajić, *Staro Belišće*, 32, 34, 40; Klepac et al., “Šumsko bogatstvo Slavonije...”, 39, *Godišnjak muzeja u Belišću* (1982).

107 Štrok, “Organizacija prodaje i nabave...”, 268; Kerencsenyi, “Uloga tvrtke H. S. Gutmann...”; Zvonimir Kulundžić, *Politika i korupcija u Kraljevskoj Jugoslaviji* (Zagreb:1968), 78–79.

of both hard and soft wood, *Našička* is unique and unmatched Europe-wide. The company is not only the leader in quantitative terms, but also in terms of the procedure, system and organization of production which determine the direction of the lumber trade”.¹⁰⁸

For instance, for transporting timber to the sawmill, a special railroad was constructed. The company was also responsible for the railroad connection between Đurdenovac and Šentiljevac, a village on the banks of the Drava River where a port had been established. Before a steam engine locomotive was purchased, the wagons loaded with timber were pulled by horses. There were also ironmongery and machining workshops for locomotive repair and maintenance, and a separate workforce for railroad maintenance. A tannin factory was built in 1889, together with a settlement for workers called ‘Tannin Town’. Its barracks, resembling stilt houses, were approximately 60 centimetres above the ground and were functional until the end of the First World War. Not far from the sawmill, the company erected a building with offices on the ground floor and apartments for administrative workers above. Due to the intensive economic activity, the settlement grew – among the newly erected buildings was the popular “Casino house”. A new, larger and modernized tannin factory was put into operation in 1918. In less than fifty years, the company used up all the forest in the immediate vicinity of Đurdenovac and was forced to obtain a concession for logging at Majlath and Prandau feudal estates. The *Našička* Ltd., established after the First World War, took over the tannin factory, the sawmill, the forests, and other properties of the liquidated Neuschloss company.¹⁰⁹

Našička was equally successful as its predecessor. According to the reported balances, between 1923 and 1931 it nearly quadrupled the value of its investments – from 12 million to 46 million – and the value of its forests and the reserve fund from 36 million to 60 million dinars. This success was mostly due to an outstanding organization of its commerce and industrial activities.¹¹⁰

108 Kulundžić, *Politika i korupcija...*, 75–79.

109 Mira Kolar-Dimitrijević, “Križa taninske industrije u Hrvatskoj i položaj radništva”, *Zbornik Historijskog instituta Slavonije*, 6 (1968), 40, 47–49; Toni Markotić, “Prilog proučavanju povijesti židovske populacije u Đurdenovcu”, in: Silvija Lučevnjak (ed.) *Židovi u našičkom kraju: Zbornik radova*, (Našice: 2011), 179.

110 Karpati, “Kronologija razvitka organizacije kombinata...” 243; Salajić, *Staro Belište...*, 32, 40; Klepac et al., “Šumsko bogatstvo Slavonije...”, 40.

2. Social and economic conditions after 1918 – estates at crossroads

2.1. “Gutmann’s Liechtenstein”

The construction of a large industrial facility and workers’ settlement in the agricultural area of Valpovo must have mesmerized the contemporaries. The settlement was constructed in a blink of an eye and the number of its inhabitants had already in 1890 surpassed the size of many of the surrounding villages. In that year, 28% of inhabitants of the town of Valpovo belonged to the Company’s settlement; in 1931, it was almost 70%. In Belišće, since the very beginning, a significant majority of the Company’s workforce were non-domicile workers. Inhabitants of the surrounding settlements did not recognize the potential benefits of the additional income from industry. The general attitude of the Valpovo area populace was that factory work was shameful. Thus, since only the poorest wanted to work in forests and factories, the workforce had to be brought in from other areas, this situation lasting for years.¹¹¹

Since foreign labourers constituted the majority of the Company’s workforce, Belišće had often been resented by the locals and the position of those workers was often worse than the position of common Slavonian peasants, especially during the periods of crisis. Planned construction of Belišće had also been often criticized. Thus, the local paper *Novosti* reported that “a man, aimlessly strolling through Belišće, would feel like a thief and would have to look around all the time to see if anyone is going to protest his strolling”.¹¹² Belišće was dubbed “Gutmann’s Liechtenstein”, which aimed to emphasize that in this place one could hardly distinguish between public and private, i.e., what is owned by the municipality and what is privately owned. It also meant that Belišće was a kind of semi-free and semi-dependent industrial settlement: looking around, one could only see Company’s property – a fact explaining emotional and physical dependency of the employees on the Company. In October 1906, when the labour unions organized their first actions in the workers’ settlement, Baron Edmund Gutmann appealed to the military to pacify the workers and prevent potential union agitation. This resulted in the prohibition of all entertainment activities on the public area of the town of Valpovo.¹¹³

111 Hrvoje Volner, “Tvrтка Gutmann i javno mnijenje međuratne Jugoslavije” u: *Zbornik Grad Belišće* 4 (Belišće: 2013), 55; see Vladimir Stipetić “Utjecaj ‘Belišća’ na stvaranje urbane aglomeracije Belišće”, in: *Kombinat Belišće kao činilac...*, 24–25.

112 DAOS 241 Box 33: reaction to the article “*Našička i Gutmanni*” published in *Novosti* on February 15, 1935.

113 Kolar-Dimitrijević “Drveno prerađivačko poduzeće S. H. Gutmann u Belišću...”, 58; see also: Vitoimir Korać, *Povijest radničkog pokreta u Hrvatskoj i Slavoniji II* (Zagreb: 1930), 398–399.

The creation and organization of the Company's facilities in Belišće was for the most part the work of Edmund Gutmann. In 1906, he built the *Paley Palace* in Belišće where he planned to move his entire family. However, since by that time the younger family members were already so well accustomed to the life in Vienna and Budapest, they resisted the idea. As a result, the palace was converted to the Company's administration building. Edmund mostly invested Company's profits into real estates. It was his idea to purchase large portions of forest land in Slavonia, in the Orahovica and Voćin estates. Apart from forests, he also invested into fishponds, quarries and agricultural land. Vilim (Vilmoš) Gutmann (1847–1921), unlike Edmund, had close business relations with Hungary. Thus, he was not so much involved in Slavonian industry as he was engaged in the Company's banking endeavors. In 1902, Vilim moved permanently to Budapest, but after Edmund's death in 1918 took over the responsibility for the family estate in Valpovo, his name being registered in the county's taxpayer list instead of his late brother's. The Gutmanns made their fortune through dedicated work, wise business decisions and marriage relationships. They continuously reinvested a part of their capital into the Company for the purpose of modernization and rationalization. Investments into raw material supplies turned out to be an excellent long-term strategy ensuring stability of the business for the generations to come.¹¹⁴

While Edmund was responsible for purchases of forests and estates on the mountain of Papuk, the youngest Salomon's son Alfred (Aladar) Gutmann (1857–1921) was responsible for industrialization. He was an engineer by vocation, and he applied his knowledge to modernization of facilities in Belišće. He also invested his private capital into various technical innovations, and by the end of the 19th century acquired a significant personal wealth. Ladislav Gutmann (1855–1933) completed a trade academy in Vienna. His life path diverged from the life paths of his brothers. After marrying Roza Klein in 1886, he became the owner of a large estate in Zalaber. By family ties, he was attached both to Vienna and his own estate, and rarely visited Belišće. Yet, in 1900, he became the co-owner of the Company. Since Ladislav's son Geza died in 1915, he trained his son-in-law Alfred Czuczka to take over the business operations in Belišće. In running the family business, Aladar was succeeded by his sons Viktor (1891–1946), Ernest (Ernö) (1887–1942) and, to a lesser degree, Otto. Edmund's son Arthur (1874–?) continued in his father's footsteps. According to the sources, as a sawn timber expert he settled in Belišće for a longer period. In 1904, he married the daughter of his uncle Vilim and thus increased his share in the company. After Edmund's death, he took his position in the company.¹¹⁵

114 Kerecseny, "Uloga tvrtke H. S. Gutmann..." 197; see also: Volner, "Drvena industrija Slavonije..."

115 Frajtag, "Porodično stablo obitelji Gutmann"; Salajić, *Staro Belišće...*, 16; Kerecsenyi, "A Nagykanizsai Gutmann...", 155–162.

Several members of the Gutmann family participated in the World War I, serving as officers in a cavalry “Hussar” Regiment. Ernest and Viktor returned from the Russian front, each awarded with several medals including an iron cross which was one of the highest military distinctions of the time. Baron Geza Gutmann, son of Ladislav, was killed in the war.¹¹⁶

In the unrests during the last days of the First World War, the Gutmann estate suffered significant damages. Riots all around the country, assembly of the People’s Council of the city of Osijek, insurgents determined to appropriate Belišće and other Gutmann estates – all this contributed to the impression that both the Belišće facilities and the Slavonia-Podravina Railroad Company were left ownerless. At the Orahovica and the Voćin estates, the situation worsened each day. Soldiers stationed near Orahovica started to burn down their own barracks thus destroying the nearby farmland too. This encouraged the peasants to join in the plundering, especially after the soldiers were gone and with them the appearance of public safety. In Orahovica, offices vanished in flames together with their entire inventory. Wine cellars, in which “a significant quantity of exquisite red wine was stored”, were broken into.¹¹⁷

Peasants drank up enormous quantities of wine leaving the rest to flow out of the barrels. Allegedly, one peasant got drowned in wine. Anything that could be taken away was plundered. “A peasant woman from Pištana took on a large bathroom mirror but returned it after few days – not out of remorse but because it couldn’t pass through the front-door of her house”.¹¹⁸ In Zdenci, the peasants formed a committee which decided that the Meierhof estate and the entire economy of Zdenci was to be appropriated and divided among them. Thanks to a timely reaction of the military, the peasants changed their mind. On Voćin estate, an old mansion from the period of Maria Theresa was burned down, and the entire inventory, including the wine cellar, plundered. As in Orahovica, a rich loot was taken away. In the Voćin zoo park, held by Baron Vilim, carcasses of fallow deer and other animals were scattered around, the unconsumed parts being left to scavengers. The peasants formed a long line of horse-drawn carts loaded with wheat and other cereals, leaving a trail of fallen load behind them. After the arrival of the Serbian army, a part of the stolen property was returned but a harmonious relationship between the local population and the estate owners was never restored, nor were the conditions of the pre-war period ever revived. Engineer Hinko Herz and lawyer Hugo Spitzer, both employees of the Company, take the credit for organizing the defense of the Company, preventing plunder and arson and enforcing the return of the stolen goods.¹¹⁹

116 Josip Hekenberger, *Autobiografija*, Belišće: 1982, 34.

117 DAOS 123, Box 2463: Dr. Hugo Spitzer.

118 Ibid.

119 Ibid.

With the dissolution of the Austro-Hungarian Empire, the position of the Gutmann family changed. With the passing of the older generation also passed the time in which the Gutmanns, as champions of industrialization in the Austro-Hungarian Empire, played a significant political and social role. The interwar period brought many challenges to the family, challenges that the next generation would persistently try to resist. The majority of the population in the newly formed state considered Jews as a foreign element, primarily due to their use of German or Hungarian in everyday communication. In addition, part of this Jewish population had Hungarian or German citizenship – a fact that contributed to their alienation. In October 1920, the Jews of Osijek, together with ethnical Germans and Hungarians, were erased from the voting lists for “not being Slavs neither by blood nor by language”. They were given the right to opt for their own national states since “the government and the society believed” they were not to be naturalized.¹²⁰

After the Jews were erased from the already completed voting lists, individuals tried to appeal the procedure. In his complaint, a famous Osijek butcher Adolf Fischer pointed out that, according to the cited law, a person on the voting list acquired the voting right on the basis of his/her citizenship of the Kingdom of Serbs, Croats and Slovenes, and that the principle of “Slavic blood and language” can only apply to “individuals without citizenship who are nevertheless domicile in a certain municipality...” Fischer voiced the opinion that denying voting rights to individuals who were born in Osijek but are of non-Slavic origin or do not speak the language is contrary to the law. Fischer’s complaint was not an isolated case; there were complaints drafted in the office of Hugo Spitzer too. That these complaints were most probably drafted by Jewish citizens of Osijek can be discerned from the following formulation: “barren of a national state, the person concerned can only turn to heavens above”.¹²¹

The first post-war restrictive action by the authorities of the Osijek District concerning the Gutmanns was organized by the Democratic Party with the aim of determining whether Baron Edmund, way back in 1909, had been validly registered as a native of the Valpovo Municipality, i.e., whether he was entitled to a citizenship of the Triune Kingdom of Croatia, Slavonia, and Dalmatia (as Croatia, being part of the Austro-Hungarian Empire, was then called). Incited by the case of naturalization of Barons Vilim, Alfred and Ladislav, the government, by a special decree, retained the right to amend the will of local authorities pertaining to naturalization of non-natives. By pulling a few strings, the Gutmanns were able to prolong their temporary residence permits throughout the entire interwar period. They even

120 Cf. Ivo Goldstein, *Židovi u Zagrebu 1918–1941* (Zagreb: 2004), 63; DAOS 6, *Poglavarstvo grada Osijeka*, Box 3216: list of nationals of the Kingdom of the Serbs, Croats and Slovenes (SHS).

121 DAOS 6, *Poglavarstvo grada Osijeka*, Box 3216: list of nationals of the Kingdom of the Serbs, Croats and Slovenes (SHS).

managed to cope with situations in which the public opinion turned openly against them and when politicians had high expectations of their resources. When, by a directive issued by the Ministry of Trade and Industry in May 1924, all companies were obliged to “lay off all foreign workers as soon as possible”, especially those who were not indispensable and could have been replaced by domestic ones, the Gutmann company – having 30 foreigners among 80 administration officers – laid off “only three local employees and not a single foreign one”. In case of the elderly family members, accusations of Hungarian nationalism that were raised against the Gutmanns were not so farfetched. According to Spitzer, baron Vilim could not put up with the situation that taxes and fees regarding the Company’s businesses and the Belišće settlement were to be determined and paid anywhere else except in Hungary. Later, in early 1935, during a media campaign against the Company related to the *Našička* Affair and led by the Zagreb newspaper *Novosti*, the accusations of transboundary actions became explicit. In an article published on February 1935, it was claimed that German was used for salutations, the Hungarian for issuing orders, and Croatian for cursing. The article also pointed out that business operations were conducted in Hungarian, information spread in German, while the workers were addressed in Croatian. And even in those rare situations when Croatian language had been used, “it was never proper Croatian but Croatian with a strong Hungarian accent, sounding something like: ‘Mister wanna buy lumbr? Ay, crisis be teribl!’”¹²²

During the interwar period Ladislav Gutmann took part in all important business decisions of the family. As his correspondence with family members reveal, “Lacika” was informed of, and involved in, the timber purchase activities, the selling of Orahovica estate, solving legislation problems in agriculture etc. Ladislav’s daughters inherited company shares after his death. His daughter Elizabeta’s spouse, Alfred Czuczka, gradually became the largest individual shareholder. A Romanian landlord Karol Neumann de Vegvar, who married the oldest Ladislav’s daughter Edita, also had a seat in the Company’s management. S. H. Gutmann borrowed money from a company owned by Neumann brothers from Arad at a very low interest rate that remained unchanged until the great economic crisis of 1929.¹²³

122 “Nacionaliziranje baruna Gutmanna”, *Jug*, August 12, 1919, No. 155; DAOS 223, CTC Osijek, Box 121: minutes of the plenary session of the CPC Osijek, February 26, 1925, Albert Rupp’s warning to the chamber members; DAOS 241, Box 15: “Našička i Gutmann. Baruni Gutmann su riješili socijalne probleme”, article in *Novosti*, February 12, 1935; *ibid.*, Box 14: letter by Henrik Herz of September 13, 1929.

123 Karpati, *Kronologija razvitka organizacije kombinata...*, 246; Zdenka Šimončić-Bobetko, “Društveno-ekonomski uvjeti razvoja ‘Kombinata Belišće’ u razdoblju između dva svjetska rata”, in: *Kombinat Belišće kao činilac...*, 113; DAOS, 241, Box 1, Jacket 1, Attachment 1: *Podaci o tvorcu*; *Ibid.*, Box 26, Jacket 219, Externe Korespondenz, 1924, Bank und Wechselhaus Czuczka, Kenedi & co.

In April 1918, the Gutmann company was transformed into a joint stock company. The Company was managed by a body consisting of 8 to 10 members with a chairman and a five-member supervisory board. The chairman was the oldest family member (which will eventually change, due to the market situation), and the members of the chairmanship were typically members of the Gutmann family, involved in all operations of the Company. The minority of the chairmanship members were persons of a distinguished political or economic background. Thus, two renown members of the stock company's chairmanship were baron Ivan Skerlec Lomnički, one of the last Croatian *bans*, and Dr. Stanko Šverljuga. Equity of the company on April 1, 1918 amounted to 20,000,000 kronas divided into 100,000 shares, each worth 200 kronas. In 1920, the equity increased to 40,000,000 kronas divided into 200,000 shares, each worth 200 kronas. In 1922, the equity was converted into dinars (the new currency) by a 1:4 ratio, so its total value amounted to 10,000,000 dinars, the existing stocks being listed with a nominal value of 50 dinars each. Likewise, in 1924, the equity increased to 40,000,000 dinars and 200,000 new stocks were issued with a nominal value of 200 dinars each.¹²⁴

After being transformed into a joint stock company, the Company gradually changed its ownership structure. It was not necessary to raise loans for purchasing raw materials since it had its own capital, and uncertainties concerning the implementation of the Agrarian Reform did not greatly influence its creditworthiness. Business connections of the family members with their European partners helped the Company to raise loans with significantly lower interest rates compared to the loans available to other companies in the country. A case in point is a loan approved by the Amstel Bank of Amsterdam by the end of 1925. The loan had a variable interest rate: in the first three years, the Company paid between 8 and 8.50% interests, and since the middle of the 1930s, the rate reduced to 7.25%. In 1931, Amstel Bank transferred its claims from the Company to the *Bruder Neumann* from Arad. In 1937, the Gutmanns were still repaying the loan, which included the previous debt to the Amsterdam bank in an amount of 6,228,532.56 dinars or 457,094.79 Swiss francs. The Neumann company had family ties with the Gutmanns, so the Company was able to repay the loan at an interest rate of 5%.¹²⁵

The generational change in the leadership of the Company resulted in a redistribution of shares which consolidated around the heirs of the four brothers – founders of Belišće. Family members could be grouped in two categories: those owning shares and collecting dividends and those owning a greater package of shares and influencing the Company's policy and business decisions. According to a statement

124 DAOS 241, Box 25, 2: National bank: repayment of foreign loans 1925–1928, Neumann brothers 1925–1938.

125 Ibid.

by the Company’s procurator Konstantin Dožudić, by the beginning of the 1930s brothers Ernest and Viktor Gutmann together with Alfred Czuczka gradually took over the Company’s business operations. In each moment, the Company’s treasury contained at least 20,000 shares as a condition for holding a shareholder assembly. In important matters, senior officers of the Company’s administration also had a say, since there was no strict division of duties and responsibilities at that level; rather, to enhance competitiveness, all chairmanship members were informed about all relevant matters.¹²⁶

In the first period of the Company’s post-war business activities, Edmund’s son Arthur had the final word. According to Spitzer’s memories, Arthur kept his cousins Ernest and Viktor away from the business. He denied them “any opportunity to prove themselves”, and with their brother Otto he had an openly hostile relationship. Arthur wanted to remove Otto from the Company’s executive committee and with that intent in mind managed to reduce his yearly income by several thousand dinars – a move which would elicit reaction even with someone resistant to financial losses. Moreover, he looked down upon Alfred Czuczka and treated him in a way that was “everything but cordial”. In the long run, this reduced Arthur’s influence in the company. By ignoring Czuczka Arthur also insulted Baron Ladislav, the Company’s senior. In the meantime, Arthur got into financial difficulties because of, allegedly, his wife’s inappropriate behaviour. She pulled money out of the Company, which prompted considerations about depriving Arthur of his right to independently make business decisions. Of course, it was impossible to enforce such a decision instantaneously without damaging the Company’s prestige and interests. So, finally, Arthur’s withdrawal from the Company was arranged for the end of 1929. He was accused by his family for many things: of being bribed by the competition, of taking commissions when negotiating with clients in exchange for giving them special benefits, of taking one-million-dinar fee from the *Eskontna banka* for approving the conversion of shares and an additional commission for influencing the reduction of stock value, etc. In financial terms, Arthur’s parting from his cousins turned out as not such a bad outcome for him: he was bought out for 20 million dinars which enabled him a fairly comfortable existence.¹²⁷

According to the documents left behind by Hugo Spitzer, after stepping down from all functions in Belišće, Arthur lived in Vienna and Paris and wrote an article on the global economic crisis. After leaving Belišće, he confided to Spitzer that he intends to be self-employed for a while, then travel to Brioni to visit his daughter and then join his wife in Paris. Spitzer had feared that Arthur, being “the embodiment

126 DAOS 123, Box 2473: Konstantin Dožudić; DAOS 241 Box 1, Jacket 1: statistics on industrial companies.

127 DAOS 123, Box 2463: Dr. Hugo Spitzer.

of hard work and diligence, will get habituated to idleness and easy life in Paris". By agreement concluded with his cousins, Arthur was allowed to use his residence in Belišće until the end of 1930.¹²⁸

The structure of the joint stock company changed again as a consequence of the economic crisis between 1931 and 1938. Indirect information on these circumstances is provided by a document by which the Company is required to make a statement concerning its ownership structure. Pursuant to an act by the Finance Minister from October 18, 1939, all joint stock companies domicile in the Kingdom of Yugoslavia whose shares were completely or partially owned by foreigners were obliged to file a report to the Foreign Currency Directorate of the National Bank. Namely, no dividend payments were permitted without the knowledge of the Foreign Currency Directorate which introduced this measure to prevent foreign currency flowing out of the country. As to the shares owned by foreigners, the shareholders were obliged to explain how they acquired them, i.e., "whether by subscription and payment at the time when a company has been established or by a subsequent purchase". In both cases it was crucial to specify how the foreign owners provided the sum for purchase and subscription of shares, and how this sum delivered in foreign currency has later been utilized.¹²⁹

The foreign Currency Directorate of the National Bank made inquiries into S. H. Gutmann Ltd. as to when and to whom Baron Ladislav Gutmann sold 20,000 shares after 1931. (Ladislav died in 1933, and the last time he was represented in the Company's assembly was in 1931, by Alfred Czuczka.) Besides, the Directorate wanted to know how and from whom British Yugoslavian Ltd. from London had purchased 40,000 shares of the Company, whether the purchaser had imported the capital for purchasing the shares, and if so, what was the total amount of the capital. Clearing up these matters was important because the English company did not seem to have existed before the business year 1937–1938. In 1941, a new shareholder emerged, *Creditanstalt-Wienerbankverein*, with a huge package of over 84,000 shares. The actual owner of these shares was Alfred Czuczka who transferred them to Switzerland, in order to sell them from there, via *Schweizerische Bankgesellschaft* of Zurich, to an Austrian buyer.¹³⁰

128 Ibid.

129 DAOS 241, Box 1, Jacket 19: CTC Osijek, No. 8726/1939; *ibid.*, Box 1, Jacket 1: statistics on industrial companies.

130 Ibid.

2.2. The Agrarian Reform

By a proclamation issued by the *Ban* Josip Jelačić on April 25, 1848 the serfdom was abolished, and processes instituted that would define the scope of the national economy – including both small estate and large estate owners. To become an independent farmer, a peasant had to purchase a plot of land from an estate owner. Notwithstanding that this directive had been confirmed by the Emperor himself in 1854, in practice it was useless for the peasants since they had no financial means to acquire land. In 1876, the state tried to solve the problem by enabling instalment repayments and state loans. The loans were provided by the Land Purchase Foundation and the debt was registered in the land-registry on behalf of the Foundation and induced in the tax assessment for each year. By 1895, the prices of agricultural products sank drastically (wheat from 17.1 forints in 1872 to 5.7 in 1895, rye from 10.8 forints to 5, etc.), and with taxes continuously rising many peasants decided to sell their family heritage and emigrate. With the conversion of the peasants' debt in 1891, by issuing government bonds with an interest rate of 4% and by the subsequent cancellation of debt, the repayment has been made possible. However, it was not before the end of the First World War, in the circumstances of a galloping inflation, that most peasants finally succeeded in paying off their debts and entering the new state more or less debt-free. Wage labourers and farm workers could not enjoy the land purchase right if they previously had not been in an urbarial relation with a feudal lord. During the reform process, a large percentage of the poor lost their land. Since there were no other ways of making a living, by the end of the 19th and the beginning of the 20th century a significantly large portion of the population emigrated to America and other overseas countries.¹³¹

The agrarian crisis of 1873 caused the accelerated impoverishment of the peasantry and the gradual collapse of feudal estates. Taxes that were payable in cash played a significant role in the process: to pay his tax, a peasant had to find a consumer for his products. This situation pushed many into debt, which caused changes in land ownership relations. Since many feudal lords were unable to recover from the abolishment of serfdom, those among them who hadn't owned forests, ran into financial problems. In the northern part of Croatia (excluding Slavonia), from 1880 to 1890, the total scope of plots belonging to large estates dropped by almost 34% due to a massive selling of land to traders, lawyers, medical doctors, industrialists, peasants ("peasants' cottages ate up lords' mansions"). Bičanić points out that "despite better tillage, a feudal lord could not compete with the peasants due to the difference between their life standards. In other words, a peasant paid for land acquisition with

131 Šimončić-Bobetko, *Agrarna reforma i kolonizacija u Hrvatskoj 1918–1941*. (Zagreb: 1997), 25–30; Bičanić, *Agrarna kriza u Hrvatskoj...*, 19–22.

his low standard of living".¹³² The sale of feudal estates did not cease with the end of the agrarian crisis. The conditions dominating between 1903 and the end of the First World War influenced a drastic drop in the number of feudal estates. In addition, for political reasons, many feudal families awaited the end of the war with anxiety.¹³³

In addition to the collapse of the nobility, the most important structural change prompted by the agrarian crisis in Croatia-Slavonia was undoubtedly the growing dissolution of household cooperatives. As the main cause of dissolution of this ancient form of economic community Bićanić sees the high birth rate, primarily during the period between 1880 and 1890 when the number of childbirths increased drastically. The period after 1890 is the period of the most intensive partitioning of land cooperatives. A sudden population increase, without qualitative changes in the way of life, made the increase of social tensions and the dissolution of cooperatives imminent.

With the dissolution of household cooperatives, an average arable land area in Slavonia decreased from 15.5 to 5 acres. During the observed period, and until 1905, a total of 17,299 cooperatives had officially been partitioned in Croatia-Slavonia and replaced by 32,270 smaller cooperatives and 21,538 smaller family farms with small holdings and a reduced livestock fund. The first substantial change of ownership relations in Slavonia after 1699, when large holdings owned by feudal lords were established, was the one brought about by the Agrarian Reform in the aftermath of the First World War. Feudal ownership relations prohibited the peasants to freely utilize local forests and meadows owned by the nobility or the state. With increased partitioning of holdings, the economic power of large families weakened. The introduction of a capitalist economy into rural areas coincided with the process of democratization of political life. One of the consequences of this process was that land remained divided into small units, the peasants retaining their ownership rights in exchange for their political support.

The end of the war brought dissatisfaction caused by mass mobilizations, war losses, requisitions and shortages, black market etc. Since the authorities showed no understanding for people's misery, discontent turned into riots and the voices demanding the end of the war and the demise of the Austro-Hungarian authorities became ever louder. Since October 1918, the number of *hajduks* (outlaws recruited from peasantry and impoverished workers) increased manifold, the riots spreading across the country. As the old regime collapsed and the conditions in the newly established Kingdom of Serbs, Croats and Slovenes (later to be called Yugoslavia) were extremely harsh, looting of military warehouses, private property – especially

132 Bićanić, *Agrarna kriza u Hrvatskoj...*, 24–25.

133 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 27, 31–37, 51–52 (Rudolf Bićanić, "Ekonomska podloga događaja 1903. u Hrvatskoj", *Historijski zbornik*, 27–28 (1974/1975): 50, 59).

stores and feudal estates – commenced. To calm the civil unrest, authorities in Croatia-Slavonia made proclamations about social equality, universal suffrage and agrarian reform. Looting and unrest continued until a final political settlement (“unification”) had been reached and the Serbian army entered the country.¹³⁴

The biggest unrest was in Slavonia. “By the end of October 1918, the looting of Trenkovo (army base), Kaptol, Marindvor and Alaginci in the Požega district was underway. Kaptol was burned down. In Našice, the manor’s warehouse and numerous Jewish stores were put to fire on October 27, and the mob attacked the offices of Baron Gutmann with a particular ferocity, destroying and looting everything they could put their hands on, especially the stables.”¹³⁵ At the same time, began the unrest in Orahovica where Gutmann’s estate was destroyed, and his mansion burned down. The feudal estate of Donji Miholjac was also plundered together with Gutmann’s estate in Crnac. Looting and burning continued in the districts of Virovitica, Slatina, Požega, Osijek, Dalj, Vukovar, all the way to Ruma.

Looting and burning in Orahovica and Našice started with the rebellion of the regular army troops of the 23rd Regiment stationed in Orahovica on October 26, 1918. The mutineers, who were headed for Našice, were joined by the organized gang of deserters called *Zeleni kadar* (“the green cadre”). The People’s Council, led by a pharmacist Nikola Koščec, send an envoy to intercept the army troops, but during the evening a mob already formed in Našice. Stores had been devastated and emptied of goods, warehouses and vaults plundered, and several cases of arson were reported. On the morning of October 27, looting of private homes of wealthier inhabitants was underway and the district authority office destroyed. From the nearby wasteland, the mob took all horses, cows and pigs. Outnumbered and inferior in firepower, an armed unit stationed in Našice were helpless against the mob. They shot dead a few looters and burned down all the houses in the nearby Roma settlement (since its inhabitants also took part in the looting).¹³⁶

After a whole night of looting and destruction, and after the army emptied the Pejačević’s wine cellar, someone came to an idea to cry out at the city square that the Hungarian military is coming, which caused the mob to disperse. The order was established by the beginning of November 1918, with the arrival of the Jäger (Hunter) Company from Osijek. According to a folk tradition, the freedom for peasants meant freedom to make schnapps without taxation, to grow tobacco at will, and to

134 Tomislav Bogdanović, “Kategorije zelenog kadra 1918. godine i osvrt na njihovo djelovanje u Podravini i Prigorju”, *Podravina* 12/23 (2013), 96–99, 101.

135 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 200–207.

136 Josip Wäller, *Djelovanje Komunističke partije Jugoslavije na našičkom području između dva rata* (Našice: 1980), 13; DAOS, *Povijest radničkog pokreta u Osijeku i okolici (1867.–1945.)*, ZK, 10, 11; see also: Ivo Goldstein, *Hrvatska 1918.–2008.* (Zagreb: 2008), 18–20.

log in the forests for firewood and construction material undisturbed by authorities. Captain Branko Kralj and his Jäger Company managed to pacify the Našice area, probably upon request of the local landlord. Without trial, thirty individuals were shot at the local cemetery in Našice. There are no official records regarding the real number of casualties. With the arrival of Serbian troops in Slavonia, peace was finally restored. Tensions escalated again when impoverished peasants claiming land realized that the authorities protected large estates and that those who had sown the fields would not be the ones who would benefit from the crops.¹³⁷

The central positions in the Temporary National Assembly of the Kingdom of Yugoslavia (then still called the Kingdom of Serbs, Croats and Slovenes) were taken by the traditional Serbian parties – the radicals and the democrats. A coalition of parties that were authorized by the regent to take control of the executive power – the democrats led by Ljubomir Davidović and the socialists led by Vitomir Korać – stood for social reforms, primarily the Agrarian Reform. In the spring of 1919, the peasants started “distributing land” on their own and the pacification of the most numerous social class was conditional on passing regulations to the effect of changing the agrarian relations. In August that year, the government prohibited “selling and mortgaging of large estates” in order to pre-empt the landlords from thwarting the Agrarian Reform. In September 1920, a temporary solution was adopted according to which the land belonging to large estates would be given to peasants into a four-year lease. From the early days of changing agrarian relations, the government acted restrictively against the ethnic minority members.¹³⁸

The deflation of the revolutionary spirit and the establishment of a new order brought about a new agrarian policy in which, under the leadership of the People’s Radical Party, corruption and unsettled property relations would override national and social interests. Repressive measures against political rivals had been more or less successful. Namely, one of the political motives of the Agrarian Reform was to weaken the political rivals in the newly annexed regions, especially the Croatian large estate owners and the nobility. Removal of large estate owners from public and economic life diminished their power and influence and, consequently, their reactionary potential. Already in February 1919, the Ministry for Agrarian Reform was established with the main purpose of colonizing the land holdings – especially on

137 Srećko Majstorović, *Našice kroz 700 godina (1229.–1929.)* (Zagreb: 1973), 96–101; DAOS: *Povijest radničkog pokreta u Osijeku i okolici (1867.–1945.)*, ZK 10, 11; Waller, *Djelovanje Komunističke partije Jugoslavije*, 13–14; Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 207.

138 Branko Petranović, *Istorija Jugoslavije I* (Beograd: 1988), 91, 94, 97–98.

large estates – owned by the citizens of hostile countries, under the pretext of securing national borders. According to the plan created on the island of Corfu on February 29, 1917, evacuated estates would be populated by the citizens of the newly established state. Domestic volunteers were bound to acquire 5 hectares of arable land, while persons whose mother language was Hungarian or German were destined to lose their citizenship and, consequently, their land. The plan also included the colonization of areas near the state border, especially the newly conquered regions. It was expected that the colonizers would play a significant role in reducing the influence of German and Hungarian ethnic minorities in the Danube and Sava river valleys.¹³⁹

For example, an owner of allodial land Edmund Gutmann, a native of Nagykanizsa, was in 1909 validly registered in the Book of Natives of the Valpovo Municipality. To discredit the Gutmanns as Hungarian citizens, a pro-government paper accused Edmund and his son Arthur to have been unlawfully registered. The accusation of being Hungarian citizens could have resulted in nationalization of Gutmann's estates and industrial facilities. After being removed from the Book of Natives upon a request of the Democratic Party, Vilim and Ladislav Gutmann, who owned 70% of the Company's shares, had to prove that they had Czech, not Hungarian citizenship. The real intention of the Democratic Party, which controlled the local government at the time, was to nationalize the Company, preserving Gutmanns' employees and business connections. That is why Edmund's son Arthur was proclaimed a foreign national in October 1919 and estates in Orahovica and Voćin subjected to sequestration, which was a common practice in cases of property owned by nationals of "hostile countries". Unsettled ownership relations as a consequence of the Agrarian Reform negatively influenced foreign investments, which made it more difficult for capable farmers to succeed.¹⁴⁰

Nevertheless, large estate owners who recognized the newly formed government, due to their traditional connections to Hungarian financial and industrial capital, became intermediaries through which capital entered the country. Their mediating role was to obtain concessions, aid and protection from the state. The "agrarian provisorium" was created with an aim of protecting large estates against people with land claims, but also to use them as means of extortion in the power game between estate owners and the politics. "The portion of land that previous owners can retain is gradually increasing" in Slavonia "where a *supermaximum* is approved and where forests are being manipulated". In 1925, land purchase was introduced through which the estate owner was expected to acquire financial means "for further maintenance of his

139 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 88–89, 131–135.

140 *Jug*, August 12, 1919, No. 155, "Nacionalizacija baruna Gutmanna"; *Vjesnik virovitičke županije*, October 1, 1919, No. 19, 133; John R. Lampe, Marvin R. Jackson, *Balkan Economic History, 1550-1950: From Imperial Borderlands to Developing Nations* (Bloomington: 1982), 352.

estate, its reorganization towards industrialization, or for implementation of some other solution, whereby emigration was almost a desirable outcome”. In the implementation of the Agrarian Reform significant ambiguities and differing interpretations occurred. This induced “widespread corruption and its utilization in political games, i.e., competition for voters”. The possibility of large estate owners to make a deal with the peasants, cooperatives or banks, foregoing the Agrarian Reform, was possible only with the consent of the minister, and obtaining such consent “reinforced ministerial influence and power”.¹⁴¹

Prior to the Agrarian Reform and state-controlled colonization in Slavonia, a private colonization was organized by the Croatian Agricultural Bank. During 1917 and 1918, this bank purchased numerous estates around Podravska Slatina and Našice, which were partitioned in the period between 1920 and 1923. After that, populations from other Croatian rural areas were settled there, mostly from Hrvatsko Zagorje, Podravina and Lika. Thus, by settling immigrants from Zagorje in an emptied area near Našice, the village Granice has been established. This private colonization had to be paid by the colonizers themselves, i.e., those who were seeking good arable land. In contrast, colonization organized by the state was free. After satisfying the needs of the volunteers, the chetniks (*četnici*) and the domestic land seekers, the state undertook a revision of allocated land plots in order to determine who lived and worked on the land. In certain cases, the given land could be seized. The allocated land could not be rented, the user had to work on the land on his own and agriculture had to be his primary occupation. By the Law on the Liquidation of the Agrarian Reform, passed in 1931, private colonists on large estates had to pay, as agrarian subjects, annuities to a bank of their choice or to the former owner directly. After the annuities were paid off, the land became their property. In the Našice district, for example, between 1918 and 1941, a total of 9 agrarian and 21 private colonisations were carried out with 7,340 colonists, from a total of 34,130 colonists that were settled in Slavonia in the mentioned interval by applying agrarian laws. Apart from the Našice district, the most colonists settled down in the Virovitica district – 7,500 of them (27 agrarian and 26 private colonisations). According to an estimate by the Department of Agrarian Legislation of the Banate of Croatia, between 1919 and 1941, as many as 8,798 Croatian families with 53,666 members moved to eastern Croatia from poor and overpopulated rural areas of the Dinara Mountain. These colonists mostly settled down in the already existing villages but also established 72 new settlements.¹⁴²

141 Mijo Mirković, *Ekonomska struktura Jugoslavije 1918.–1941.* (Zagreb: 1950), 11, 27; Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 90, 129, 132.

142 Ivan Lajić, Mario Bara, *Ratovi, kolonizacija i nacionalna struktura Slavonije u dvadesetom stoljeću* (Zagreb: 2009), 66–68, 70.

An interesting picture of the Agrarian Reform is provided by the Engineer and Architect Club in Osijek on June 17, 1919. Later that year, the same institution was established at the national level with the goal to contribute, by its expert advice, to the restoration and planning of the country's economic development. Apart from the legislation in the field of construction engineering, the Club proposed the introduction of public works for carrying out large projects such as railroad infrastructure and electrification. When asked by higher authorities about the optimal type of agrarian reform to be implemented in Slavonia, the Club drafted a proposal and sent it both to the government of the City of Osijek and the Ministry of Industry and Trade. Among other recommendations, the Proposal stated that "if one would really want to carry out an agrarian reform with a permanent engagement of the state", then, due to an especially fertile land in the Virovitica County, one could relatively easily and quickly "found all possible industries related to the processing of agricultural products". Interestingly, regarding the inviolability of private ownership, the intellectual elite of the Osijek Club saw no problem in allowing exceptions.¹⁴³

The Proposal goes on to elaborate: "Of roughly 130,000 acres of arable land currently cultivated by farmers who have in their ownership a surface area of about 100 acres, in order to meet the presumed need for agricultural land it would be necessary to allocate, against payment, at most 30,000 acres. This would still leave a surface area of 100,000 acres. After confiscating the needed areal for the purpose of its distribution among small estate owners, current owners would have to be forced to use the remaining land to establish a joint stock company. Once they do this, they would raise the initial capital for this company by contributing their movable and immovable property to the fund. In particular, they would need to invest profits from forests that were sold during the war".¹⁴⁴ The state would then take over a certain portion of this company's shares and place them on the market at its own discretion. "After a certain number of years, the state would seize all actions, including those left to the former owner at the time of the establishment of the company". The shares would be prevented from being sold abroad and the state would have the right of pre-emption. The authors of the Proposal believed that the establishment of joint stock companies of the previously mentioned type would be necessary considering the number of Germans and Hungarians living in Virovitica County. For instance, in the area "in which the Hungarians and Germans constitute more than 75% of the population" – i.e., the area belonging to villages Antunovac, Jovanovac, Ernestino-

143 DAOS 6, Box 3172, 13204: Association of Engineers and Architects of Osijek, statements on the state of various industries in the Kingdom SHS; cf. Smiljana Đurović, *Državna intervencija u industriji Jugoslavije 1918–1941* (Beograd: 1986), 73.

144 DAOS 6, Box 3172, 13204: Association of Engineers and Architects of Osijek, statements on the state of various industries in the Kingdom SHS

vo, Laslovo, Hrastin and Vladislavci – the supporters of emigration saw as much as 20,000 acres of arable land that would become available after the rest of the land has been distributed among interested parties. The former land would then be used for creating a single joint stock company. By including the settlements in the districts of Osijek, Našice, Slatina and Virovitica into the calculation, “we would get 5 joint stock companies with an overall surface area of 74,000 acres of arable land, while the remaining 26,000 acres would consist of small holdings of between 100 and 500 acres”. Hence, it is not surprising that among the first entries into the records of the Association of Merchants and Industrialists of the City of Osijek, dated to January 8, 1919, was an open call to all interested citizens to join teaching groups for learning the Croatian-Serbian language for the purpose of making their future business correspondence more literate.¹⁴⁵

Since the summer 1925, the state eased the control over its land assets (*zemljišni fond*) and a period of burgeoning land trade commenced. Prior to that, there was a revision of all subjects liable to Agrarian Reform, and in spring 1926, the agrarian offices started to issue official decisions to land lease claimants as to who among them would have his land confiscated and why. For example, at the large estate Clary in Retfala municipality, the revision discovered numerous misuses of benefits granted by the Agrarian Reform. Almost anyone who had an interest in abusing the Agrarian Reform had been involved in some kind of irregularity; misusers belonged to various groups – volunteers, colonists, domestic land lease claimants and chetniks. The irregularities typically had to do with the fact that the “donees” (*nadjelnici*) were not farmers by vocation and that many colonists never really settled at the allocated land which they themselves leased for cash rents. The settlers often rented a part of their land to residents of the surrounding settlements. Moreover, many land lease claimants paid neither taxes nor rents “for two or more years”. In such cases, once the appeal process was over, the land was confiscated and returned to the Agrarian Reform Fund or offered to the original estate owner. Examples of misuses can be found in many sequestered large estates. In Orahovica, Hugo Spitzer, as a legal representative of Baron Gutmann, protested dishonest conduct of the land lease claimants for failing to meet their payment obligations.¹⁴⁶

After the needs of the land lease claimants were satisfied, large estate owners were allowed to sell the arable lands, forests, grasslands and barren land plots that remained in their ownership, and get rid of their land: “No longer believing in the possibility of long-term farming, especially due to a lack of funds, machinery and

145 DAOS 225, Box 1: Association of Merchants and Industrialists of Osijek, April 1919, Croato-Serbian language course.

146 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 259; DAOS 6, Box 3559, 30490: Large-estate Clary, Municipality of Retfala – Revision of land claimants, March 30, 1926.

workforce (and being unable to get loans due to unsettled ownership relations), the majority of large estate owners in the north-western part of Croatia liquidated their estates and emigrated or tried to become members of the civil society...".¹⁴⁷

To purchase land from large estate owners, the peasants took loans from private persons and banks. In the northern part of Croatia, such practices caused significant social problems during the global crisis since many peasants fell into large debts and were unable to repay the interests. When taking loans, the peasants hoped for mild inflation, but global financial circumstances inevitably led to stabilization of the local currency (dinar), which in turn generated circumstances in which money economy gradually disappeared from rural areas. In Dalmatia, the debts showed a constant growth tendency and in 1924 reached the sum of 30 million dinars with interest rates between 10 and 30%.¹⁴⁸

On February 11, 1920 the state issued an order by which it took over the management of large estates, all large pieces of forest land being placed under sequestration. The sequestration authorities were obliged to take care of the forests and preserve them – not only for the revision of the Segregation Process, but for satisfying the everyday needs of the local population too. The proponents of the Agrarian Reform applied various measures to make this wide-ranging project work. The critics of the reform were opposed to the abolition of large estates. As already pointed out, the problems of the Agrarian Reform and the redistribution of forests to those in need lingered since the times of the Segregation. Both urban offices and cadastre regions were warning about the problems of land consolidation and quality of the redistributed land in general. The authorities tried to meet the factual needs taking into consideration the actual layout of arable lands, settlements and forests. Large estate owners strived to remove sequestration from their estates reclaiming the confiscated land, notwithstanding that this was clearly in conflict with the social principles that had motivated the implementation of the Agrarian Reform in the first place. In representing the interests of large forest estate owners, especially the estates with industrial facilities, many individuals will have earned significant amounts. In 1925, an article published in the magazine *Jug* under the title "Veleposjedničko udruženje" (Association of Large Estate Owners) targeted this problem. The association referred to in the article was an informal organization within the Radical Party's parliamentary group. According to the author of the article, "this group was represented by Svetozar Grgin, delegates from Vojvodina and various government officials".¹⁴⁹ Records from the *Našička* Scandal confirm the hypothesis that

147 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 259.

148 *Ibid.*, 259, 262, 263.

149 *Jug*, No. 35, August 8, 1925, "Obligatorni ili fakultativni otkup zemlje? Radikali i Radićevci u službi velikih posjednika".

the agrarian problems were deliberately neglected with the intention of enabling the political class – the very group that initiated expropriation problems – to get rich by enjoying various concessions. The authorities created a problem and, by not solving it, profited from various groups involved in the problem – large estate owners who were deprived of free disposal of their own property, industrialists who needed raw materials, and land-lease claimants. At the same time, representatives of these groups were expected to be politically loyal and sit at the same table.¹⁵⁰

Attempts to solve the problems of firewood, construction material and grazing within the Agrarian Reform framework resulted in adoption of numerous regulations. However, provisional directives failed to bring results. One such directive was passed on April 8, 1925 demanding expropriation of forest areas on large estates for the purpose of supplying agricultural workers with lumber and grazing (pursuant to Article 41 of the Constitution). Another directive, from June 23, 1926, prescribed that on large forest estates agricultural workers have the right to firewood and grazing (pursuant to Article 41 of the Constitution). However, neither of these directives had any effect. Finally, the Agrarian Reform and Colonization Liquidation Act of June 19, 1931, Article 24, demanded fulfilment of given promises and finding solutions to the pressing issues of expropriation and revision (pertaining to the Segregation of forest land).¹⁵¹

2.3. The economic situation in Croatia-Slavonia after the establishment of the Kingdom of Serbs, Croats and Slovenes (Yugoslavia)

Among other things, the dissolution of the Austro-Hungarian Monarchy was perceived as a liberation from the imperialistic pressure and colonial politics. Therefore, many economic factors from the parts of the Monarchy populated by South Slavic peoples awaited the establishment of the new state with high expectations. Small entrepreneurs saw the dissolution of Austro-Hungary as an opportunity to improve their market position. According to a popular opinion among the businesspeople, in the former state, it was only the privileged ethnic groups that were in the position to develop industry. This claim sounds true considering that “in order to push the industrial production to a more advanced level, a state needs to utilize its

150 Šimončić-Bobetko, “Izvlaštenje veleposjedničkih šuma u Hrvatskoj 1919.–1941. godine”, *Časopis za suvremenu povijest*, 25 (2–3) (1993): 232–233; Šimončić-Bobetko *Agrarna reforma i kolonizacija...*, 132–134; Jug, No. 140, October 27, 1923, “Veleposjed”; Ibid, Volner, “Plug – novine za zaštitu seljačkih interesa”, *Radovi Zavoda za hrvatsku povijest* (2005), 244; see also: Goran Antonić, Hrvoje Volner, “Korupcija državnih činovnika u Našičkoj aferi”, *Puls: Magazin o korupciji*, No. 25 (2004); DAOS 123, Box 2469: final request of the State’s Attorney Benjamin Murović, 7749.

151 DAOS 123, Box 2469: final request of the State’s Attorney Benjamin Murović, 7749.

developmental resources in such a way as to support innovations, cut production expenses, educate its workforce etc.” Yugoslavia (more precisely, its Banate of Croatia) simply “exploited its workforce with the effect of one million of our countrymen now living overseas”. “From the economic point of view, one should bear in mind that before the war approximately 60–70 million golden kronas had been transferred from America for the bare survival of our population”. So, much was expected from crafts and small and medium businesses which, according to some estimates, in 1930 employed over 200,000 people. In addition, the role of the industry was also emphasized: if adequately modernized, it could make domestic production of finished goods more competitive.¹⁵²

However, crucial political processes in the country amplified national, cultural and social differences between the Kingdom’s dominant nationalities. More developed areas in the northern and western parts of the country remained untouched by war operations and thus gained an advantage over devastated areas of Serbia and Montenegro. Although unable to compete with other nations of the country, being victorious in the war, Serbia managed to impose its hegemony over these nations. Discussions and recommendations of businesspeople gathered in the Association of Merchants and Industrialists in Osijek about how to improve the economy of the newly established country confirmed the “great expectations thesis”: “The old Serbia and Montenegro are about to become Yugoslavia’s California. We should connect to these fruitful and rich areas as soon as possible (...) because they are (...) a promised land for our industry”.¹⁵³ Entrepreneurship circles expected that “the creation of a unified national territory, with the prospect of a full capitalist development, will also enable the unification of economic resources of individual Yugoslav countries. However, considering the overall historic situation, political ‘gathering, unification and integration’ came before the economic one”.¹⁵⁴

The Serbian bourgeoisie, being victorious in the First World War, achieved administrative and political advantage over the Croatian bourgeoisie, notwithstanding the latter being financially stronger, technologically and organizationally more advanced and traditionally connected to business and financial circles of Central Europe. The centralistic model, which was imposed in spite of numerous protests,

152 DAOS 223, Box 121: minutes of the plenary session, April 6, 1930. Address of minister Demetrović.

153 DAOS 225: Association of Merchants and Industrialists of Osijek, Box 1, 120 (1919), proposal made by Oton Kraus on April 12, 1919; *Zavičajnici grada Osijeka 1901–1946* (Osijek: 2003), 437.

154 Đurović, *Državna intervencija...*, 18–19; Zdenka Šimončić-Bobetko, “Osnovne karakteristike industrijskog razvoja na području Hrvatske u međuratnom razdoblju”, *Acta historico-oeconomica Jugoslaviae*, 1 (1974), 61–62; cf. Petranović, *Istorija Jugoslavije...*, 70; Lampe, Jackson, *Balkan Economic History...*, 349–350.

presented a threat to democratic institutions of the pre-war Serbia itself; however, it still allowed its government to dominate, as much as this was possible, over economically more developed areas (especially the Vojvodina province). By the end of the war, Serbia had no more than 70 factories. At the same time, by way of comparison, Croatia-Slavonia had 960 factories, many of them even increasing their production capacities. A favourable economic situation, resulting from the increased export of agrarian products in the post-war period, encouraged the demand for loans which were mostly used for establishment or development of industrial companies. Utilization of natural resources of the country, combined with cheap workforce and protectionist measures, attracted foreign capital. However, it should be emphasized time and again that foreign capital investments were for the most part speculative, targeting industries which had no need for significant investments in their productive capacities. As much as 80% of joint stock companies in the northern part of Croatia were owned by Austrians and Hungarians. These entrepreneurs, due to their pre-war connections, accounted for most of the profits made in Croatia immediately after the First World War. Between 1918 and 1923, industrial investments increased by 40.49%, the highest rates being achieved in the north-western parts of Croatia. In the process of their expansion, large industrial companies and exporters relied on Croatian banks which were still in foreign hands. This occasioned a transformation of the management structure of such companies. A relatively small number of banks accumulated a significantly large amount of capital, these banks being mostly concentrated in the city of Zagreb – the centre of the economic power of the newly established country between 1920 and 1924. Compared to the rest of the country, as much as 50% of private capital of Yugoslav banks has been invested in Croatia-Slavonia.¹⁵⁵

At the same time, the economic situation in Yugoslavia was significantly affected by international circumstances. When Britain, during the process of normalization of its production in the post-war period, tried to preserve the gold value of its currency through price reductions, a general strike paralyzed the country. Depleted by the war, Britain handed the role of the leading international banker to the United States – the role which also included the maintenance of Germany's ability to pay war reparations, mostly to France, but also to Yugoslavia (as explained above). Until the crisis of the 1930s, large amounts of money had been exported to Germany with the aim of preserving the golden standard of the German mark. On the other hand,

155 Petranović, *Istorija Jugoslavije...*, 60, 70, 80; see also: Mira Kolar-Dimitrijević, "Privredna kretanja, zaposlenost i nezaposlenost radništva Savske banovine 1929–1939", *Povijesni prilozi: Zbornik radova IHRPH*, 3 (1) (1984), 170–171; Šimončić-Bobetko, "Osnovne karakteristike industrijskog razvoja", 63–66; Mirković, *Ekonomska struktura...*, 22–23, 62; Ivo Banac, *Nacionalno pitanje u Jugoslaviji* (Zagreb: 1994), 163.

the policy of excessive appreciation of the domestic currency (*dinar*), resorted to by the Yugoslav Government, characterized the entire interwar period. The same can be said of its policy of attracting foreign investments, securing the parity of the dinar in relation to the French gold frank, and facilitating the access of Yugoslav products to European markets. In all Balkan countries, national income has been strongly influenced by political decisions at the expense of the consumption potential of their citizens, causing the decrease of export compared to the pre-war period. This negative development can be accounted for by the interruption of traditional economic connections to Vienna and, to a lesser degree, to Budapest, together with the demographic peculiarities of the Balkan countries. The lack of investments, being one of the most significant obstacles to economic growth, remained a constant consequence of the banking sector's business policy in the entire interwar period. Domestic economy, during its transition period from the handicraft phase to a full-blown industrial production, has been fully exposed to foreign capital and merciless competition of imported products.¹⁵⁶

Economic problems of the Kingdom emerged already during the unification process, due to the domestic industry protection policy. This policy choice revealed the unreadiness of the new holders of power to suitably utilize the resources that the newly annexed areas contributed to the common state. Immediately after the establishment of the Kingdom, the dilemma arose as to which economic activity – agriculture or industry – were more profitable. Despite the issue being discussed by state officials, entrepreneurs and experts, “among the highest ranked state officials an opinion could be heard that, due to the unprofitability of the agrarian production, the country's economic structure must be changed by all means, i.e., the development of industry should be stimulated.”¹⁵⁷ The choice of the transition path was not the result of the change in opinion; rather, the state administration simply took the easier way – wheeler-dealing with foreign capital and reserving for itself the exclusive right to concessions. In 1929, P. T. Popović from Vojvodina – the agriculturally most developed region – wrote in the Serbian Chronicle (*Letopis Matice Srpske*) about the inevitability of industrialization and the state not being rich enough to improve both industry and agriculture. However, it seemed pointless to him to implement the industrialization policy without previously transforming primitive agrarian production into rationally organized farming. According to Popović, industrial protectionism was a product of blind political will, not a mindful economic policy constituting the basis of a national economy.

156 Peter Temin, “The Great Recession and the Great Depression”, *Daedalus*, 139 (4) (2010), 115–116; Lampe, Jackson, *Balkan Economic History...*, 329–330.

157 Đurović, *Državna intervencija...*, 152 et passim.

Advanced agricultural production was distinctive of the more developed regions situated in north-eastern and north-western parts of the country (Vojvodina, Slovenia, parts of Croatia and northern Serbia). After unification, the export of agricultural products increased for a while. This was due to favourable international circumstances in the aftermath of Russia's withdrawal from the war and its exclusion from the world economy which lasted until 1929. In such circumstances, the countries importing agricultural goods lost their supply markets, this loss affecting both their households – lacking wheat, corn, rye, meat, and fat – and their industries – lacking raw materials like hemp, wool, hides, hairs, horns, bones, hops, tobacco etc. Due to trade and transport disturbances, the countries depending on the import of agricultural products (like Austria, Italy, Germany, and Czechoslovakia) turned to countries of Eastern and South-Eastern Europe as their main providers of these products. During the interwar transition to peacetime economy, northern Croatia, trying to sidestep internal barriers, developed extensive trade activities such as exporting wheat, lumber and industrial consumer goods to western markets. According to the Ministry of Trade and Industry, between 1919 and 1923, 236 factories had been established in Croatia-Slavonia with over 700 million dinars of capital investments and over 22,000 employees and slightly more than 1 hp per employed individual: “Neither various state prohibitions nor unsettled monetary issues followed by high inflation could prevent the post-war accumulation of capital.”¹⁵⁸ Nevertheless, companies that were forced to rationalize their production or failed to attract foreign capital from Croatian banks went under in 1924 and 1925. The National Bank of the Kingdom stopped directing the investment funds towards Croatia. The state tried to compete with the former regions of Austria-Hungary by establishing joint stock companies under a strict supervision of the bank as their creditor. In addition, inadequate customs tariffs also presented a burden to small businesses – Yugoslavia had one of the highest protection tariffs in Europe. When introducing these tariffs, the Ministry of Finance leaned on the principle that industries processing domestic raw materials, as those important for national defence, should be favoured. For example, due to the abundance of natural resources, the lumber industry enjoyed lower customs tariffs. Import customs tariffs protecting domestic lumber products were relatively low, but the supply of raw materials for these products was safeguarded by relatively high export tariffs. To stabilize public finances, the state imposed high customs tariffs on all imported materials indispensable for domestic production. From the standpoint of industrial capital, such practice was a significant developmental obstacle revealing a lack of prudent administration.¹⁵⁹

158 Kolar-Dimitrijević, “Privredna kretanja...”, 170–171; cf. Petranović, *Istorija Jugoslavije...*, 65–78.

159 Đurović, *Državna intervencija...*, 176; Rudolf Bičanić, *Ekonomska podloga hrvatskog pitanja* (Zagreb: 1938), 148; Mirković, *Ekonomska struktura...*, 27.

Customs tariffs played a key role in industrial development; economic experts called this type of taxation a plan for “laying down the country’s economic and social structure”. As an interventionist measure, customs tariffs protected old industrial powers not only against the newly industrialized agrarian countries, but also against the new overseas powers such as America and Japan. After the war, Yugoslavia adopted the customs tariffs of the former Kingdom of Serbia (introduced in 1904) which had all the characteristics of a non-industrialized country. On the one side, by introducing customs tariffs one encourages the export of agricultural products, raw materials and cattle. On the other side, however, domestic producers are not being paid on time, which directly endangers liquidity. Despite being an instrument of protection and development of domestic production, customs tariffs suffocated industrially more developed parts of the country. During the 1920s, tariff-free import of machinery, tools and various raw materials was granted, but in the same period export tariffs had been introduced for “fiscal and prohibitive reasons”. After the unification, these tariffs had been justified by the need to limit or prohibit the export of certain types of goods. Despite being aware of its bad consequences, the government still insisted on introducing customs tariffs because it firmly believed that export should also bring profit to the state. So, instead of being protected, domestic industrialists became “victims of the Serbian customs tariff” which reached 30% – the second highest rate in Europe – before they were reduced in 1927. The population’s purchasing power and the state of the industrial products markets can be aptly illustrated by the following comparison: in 1912, a citizen of Croatia-Slavonia could have purchased 8 to 10 boxes of safety matches for 1 kg of wheat, while in 1925 the same amount of wheat sufficed for slightly more than two packs of matches. Some economists considered the protection of domestic industry via tariffs as a sign of economic primitivism, so they advocated a policy that would relieve peasants from the need of buying expensive domestic industrial products.¹⁶⁰

Since 1920, and until the introduction of customs tariffs, industrial companies had the privilege of tax-free import of production materials. These import privileges were beneficial to the domestic economy devastated by war. With their abolition, industry found itself in a difficult situation. The disparity between the value of the dinar abroad and its purchasing power in the country became obvious. Companies tried to cope with this problem by lowering labour costs but the decline of prices of agricultural products, indirectly, made the situation even worse. New customs policy and the abolition of the existing import/export regime led to the introduction of customs tariffs on many materials that were essential for keeping the factories going. For example, customs tariffs on copper piping, that had not been produced inland, were introduced, while at the

160 Đurović, *Državna intervencija...*, 53–61, 78–83; Volner, “*Plug...*”, 238; Zvonimir Baletić (ed.) *Ekonomski leksikon*, Zagreb: 1995, 81.

same time copper had been exported to France and the US. Customs tariff amounted to 50–60 dinars per 100 kg of import, i.e., 25% of the value of goods. For instance, the country exported bauxite, aluminium, lumber, hemp, and many other goods, while importing products containing these very materials – with a customs tariff, of course.¹⁶¹

So, the inflexibility of the customs system and insistence on taking everything from the foreign owned industry one could put one's hands on had devastating effects, especially in a situation of unstable international markets. For example, during the period of low customs tariffs on South American tannin extract, tannin factories had been burdened with customs tariff on albumin – a protein used for tannin production that was not available inland. Until the adoption of the Customs Tariff Act in 1925, the additional production costs for imported albumin amounted to 10 gold dinars per 100 kg, notwithstanding the fact that factories received state subsidies for importing this very product. After new regulations concerning the import of this protein had been adopted, customs tariffs increased almost fourfold! The tannin factory in Belišće used six wagons of the protein annually and was thus – due to speculations of the Ministry of Finance – forced to pay almost 300,000 dinars of customs when negotiating trade agreements, which in turn contributed to the rise of domestic production costs.¹⁶²

The state also boosted the tariffs on petrol by abolishing import privileges in 1920 forcing industrial companies to pay import tariffs on lubricating and canning oils produced overseas, provided they were imported in barrels. The problem facing the Gutmann company, for example, was the very organization of import logistics. In need to obtain raw materials without any delay, the Company was forced to pay 30 dinars in gold for 100 kg of oil. The list of products for which the Company's management had authorized the Land Association of Industrialists to “negotiate lower import tariffs with the Ministry”, or corresponding custom exemptions, included the following: firewood (imported from Rumania under favourable conditions which applied exclusively for regions of Bačka and Belgrade), potassium hyperanganate (ingredient necessary for acetic acid production) and other important chemicals that had not been produced domestically, thread sealants made of cotton or hemp (since domestic production supplied only cold pipes, import of these materials had been unavoidable), unrolled or rolled iron, moulded iron, pipes and materials for connecting pipes, railroad materials, saws and weight measuring instruments – among other products. Notwithstanding the fact that a factory producing some of the required products existed in Osijek, the Social Policy Ministry refused to allow the company owning this factory to bring its managing director and the required specialists from Germany.¹⁶³

161 Mirković, *Ekonomska struktura...*, 82; DAOS 241, Box 17, 142: customs tariff proposal, 1925, letter to the National Association of Industrialists, Belišće, July 23, 1925.

162 Ibid.

163 Ibid.

The lumber industry met the introduction of customs tariffs with resentment. Tariffs had to be paid in gold or in securities, by an exchange rate determined by the Finance Minister. According to a prediction of the Company's management in Belišće, customs tariffs revision, as part of the newly introduced fiscal measures, was to come into effect as soon as the dinar would have devaluated. This prediction was based on the insight that the depreciation of domestic currency failed to bring about an increase in the population's purchasing power or a healthy economic growth. One of the consequences of the stabilization policy was a lower competitiveness of domestic companies, especially in Croatia where money economy had been more developed and significant sums invested into industrial development. Exchange rate fluctuations had also been felt by companies involved in export of agricultural and lumber processing products.¹⁶⁴

Customs tariffs should have been a general feature of economic policy, but they had been introduced without real justification, which would reflect the country's general economic needs. Industrial policy had been of secondary importance. Since the Ministry of Trade and Industry had been utilized for "paying the party bills", it is no wonder that such policy elicited a reaction by the wider society. One of the reactions came from entrepreneurs who criticized "the caste of professional politicians", together with the country's intellectuals who occupied crucial administrative positions while "businesspeople worked". Admitting that in other European countries talented professionals also have the habit of entering politics, entrepreneurs warned that "nowhere in the world are ministers and popular leaders, taken as a whole and on average, so ignorant, so unprepared and so unscrupulous like in this country, and nowhere in the world do they take on duties and responsibilities so easily."¹⁶⁵ Cheaper import had been limited only when this was in the interest of large industries, with detrimental effects for the general population's purchasing power. Overall, customs tariffs had discouraged industrial development of areas around the Drava River – Osijek, Našice, Virovitica, Koprivnica. Without the support of the banks, which were also engaged in speculative investments, these regions could hardly achieve any progress.

The entrepreneurs from ethnically Serbian regions outside Serbia proper demanded from the Ministry of Trade and Industry to liberalize trade and traffic, i.e., to finally bring unification to life. In March 1919, minister Ribarac just wasted words trying to explain to them "that political unity is an illusion if certain regions of the newly established state will be isolated from others by barriers of any type, and if trade between regions will be in any way conditioned".¹⁶⁶ Restrictions referred to by the minister

164 Šimončić-Bobetko, "Osnovne karakteristike industrijskog razvoja...", 69; Mirković, *Ekonomska struktura...*, 60–65.

165 Đurović, *Državna intervencija...*, 87–91.

166 *Ibid.*, 19.

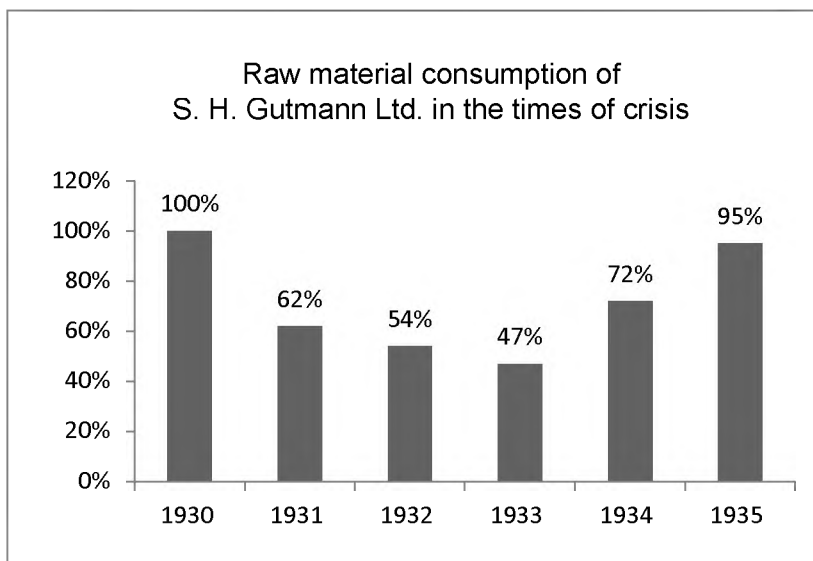
had been one of the factors with a negative impact on the integration of Yugoslav markets. These restrictions, which can best be exemplified by internal customs tariffs, were abolished as late as 1923, with the effect that merchants from Croatia-Slavonia, Slovenia and Vojvodina now faced the same impediments when exporting products regardless of whether they shipped them to Pančevo, Graz or Trieste. Even ten years after the unification, the transport expenses of goods shipped from remote regions of the country had still exceeded the costs of importing the same goods (including customs tariffs), notwithstanding the fact that these goods could have been produced cheaper at home. Such a ludicrous situation had not been the consequence of a grotesque policy only but of the inadequate traffic connections between the newly unified countries and regions, too. The surpluses of the domestic production had in most cases been smuggled to the west. Circumstances in which domestic entrepreneurs found themselves have perhaps most aptly been described by the president of the Chamber of Commerce and Trade in Osijek, Oskar Weismayer, who already in 1920 complained about entrepreneurs being overburdened by indirect levies, so that “our overall consumption has become more expensive”. According to Weismayer, what made economic circumstances in the Kingdom different from those in other countries is that “financial regulations in our country, together with its administrative procedures, are adopted without any system and proper consideration (...), without a proper discussion in the Parliament, and, naturally, without any consultations with the experts. That this is not an exaggeration is shown by the fact that time and again legal regulations have to be revoked, and the prevailing sentiment among the public is that our financial and political administration is permeated by a sort of dilettantism, a sort of volatility and, to put it bluntly, a sort of unbearable absolutism.”¹⁶⁷

An additional problem for the national economy issued from the fact that the four-year period of monetary unification ended in plunder. The aim of this process had been primarily to prevent the influx of Austro-Hungarian krone banknotes from other parts of the former Monarchy into the Kingdom, i.e., to prevent monetary instability. The process had lasted too long. According to the initial expectations voiced in Croatia, it should have ended no later than February 1919. However, regulations were adopted as late as November and December 1919. In Croatia, the delay was interpreted as deliberate procrastination, and by 1920, the dinar-krone exchange rate reached a 1:4 ratio. By that time, this ratio had probably been realistic but the dubious exchange procedure, failure to return the damaged banknotes to the Austrian National Bank, deliberate pumping money into the monetary system whose value has additionally shrunk before it was exchanged for dinars – all this is a clear indication of the government’s intention to profit from the situation. In addition,

167 DAOS 223, Box 121: minutes of the plenary session, speech of the President of the Chamber, December 18, 1920.

Serbia had been one of the most indebted European countries, its foreign debt prior to the First World War amounting to 953 million gold dinars. For comparison, the overall debt of the regions of the newly established state that previously belonged to the Austro-Hungarian Monarchy amounted to 110 million gold dinars.¹⁶⁸

The National Bank insufficiently credited the economy. For instance, previously underdeveloped areas of Croatia-Slavonia along the Drava river found themselves in a disadvantaged position due to the state prohibition of all investments into industrial establishments in the so-called turbulent borderline areas. Capital from domestic banks had exclusively been invested into highly profitable businesses linked to export, lumber processing industry for the most part. This in turn caused emigration of workforce – of peasants, who moved closer to additional income sources, i.e., into regions with more developed construction industry, such as Zagreb, Split and Sušak, and of qualified workforce who moved to Belgrade, Šabac, Kragujevac and other places lacking experts.¹⁶⁹



Source: Zdenka Šimončić-Bobetko, “Osnovne karakteristike industrijskog razvoja na području Hrvatske u međuratnom razdoblju”, *Acta historico-oeconomica Iugoslaviae* 1 (1974): 61–62.

168 Lampe, Jackson, *Balkan Economic History...*, 351; Boris Kršev, *Finansijska politika Jugoslavije 1918–1941* (Novi Sad: 2007), 64–74, 124–128, 258–259; see: Bičanić, *Ekonomska podloga hrvatskog...*, 32–33.

169 Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 261.

Banks often lacked money, and the value of the dinar depended on loans for its stabilization: with more realized loans, its value stabilized, but only to weaken again soon. The Finance Minister Milan Stojadinović managed to stabilize the dinar in 1923 by taking loans in dollars. He tried to cover import by export and separate policy making from interests of entrepreneurs. Stabilization meant money shortages and, consequently, implementation of deflation policy measures in the hope that the latter would cause prices to drop. By a regulation of January 1923, the state enabled borrowing from foreign loan institutions and dealing with foreign currencies in general. In that period, the Ministry of Finance executed strict control over businesses in foreign currencies. Due to the regulation on “turnover with foreign currencies and currencies in general”, stock companies were given freedom to do business. From the same year onwards, the sale of foreign currency in tobacconists’ shops was prohibited on pain of a fine that could reach 300,000 dinars. According to a decision of the Ministry of Finance, the following local banks from the northern part of Croatia received a license to do business in foreign currencies: Maks Mautner from Zagreb, Petar Rupčić Bank from Zagreb, Bernard Mandl from Bjelovar, David Kramer from Karlovac, Josip Kraus and Partners Bank from Osijek, Ladislav Polak from Jaska, E. Sason from Zemun. By a ruling of September 29, 1922, among a total of 23 banking institutions in Yugoslavia, seven banks from Slavonia, together with the Stevo Petrović Bank from Split and Šušić Kalder and Grbić Bank from Dubrovnik, were granted such a license. “All other exchange offices and individual companies” lost their trade licenses and had been removed from the trade register.¹⁷⁰

As much as the stabilization of the dinar brought an end to the period of inflation, in 1923, due to money shortages, domestic industry (especially in Croatia-Slavonia) ran into difficulties which grew into a crisis. The crisis additionally accelerated after the value of money was linked to the value of gold and the quality of economic life fell below the pre-war level. At the turn of 1924 to 1925, there were two clear indicators of an imminent crisis: the decrease of import and the fall of general production to the values from 1913. At the same time, the arable land area increased, and the domestic consumption grew by 2.1 points compared to the pre-war value. In such circumstances, many of the so-called national companies were repossessed by the “aliens”. By 1926, deflation initiated an overall economic crisis. Economic development dropped and, in contrast to the more developed capitalist countries that experienced a significant economic growth between 1923 and 1929, domestic economy slumped, industry investments dropped, the loans were scarce and the whole economy lagged. The repayment of pre-war debts and the financial

170 Đurović, *Državna intervencija...*, 37; DAOS 6, Box 3324: foreign exchange turnover, circular (no. 9904 Pr) sent by the Presidency of the Provincial Office in Zagreb on October 23, 1922; cf. Lampe, Jackson, *Balkan Economic History...*, 364, 382.

support for production and consumption in the underdeveloped countries became more difficult since the United States – the world’s greatest monetary power and banker (together with Great Britain) – endorsed a protectionist policy. For underdeveloped countries, this only meant additional borrowing, and the investors were warned off by the proverbial “dangers” of investing capital into high-risk countries. However, for American creditors for example, this kind of investment proved to be profitable: 40% of American national income came from the repayment of debts by the underdeveloped countries and the American export into such countries. It should also be added that until 1929 France and America together owned over 50% of the world’s monetary gold. Since there was not much left for all other world economies this caused deflation.¹⁷¹

Merchants, who were forced to undercut the prices tried to make up for the money shortages caused by deflation by relying on their own strength: “by issuing (money bills) that were financially covered by large industrial companies”,¹⁷² i.e., by compensating debts and by avoiding monetary exchange. Žiga Krauss, speaking about deflation, claimed that money shortage was not a domestic but rather a global problem. He went on to explain that, considering the overall coverage of the national economy with money, money that was in circulation had to end up in the state treasury at least two times in a year, and remained there for an unnecessary long time thus creating insolvency. Due to increased taxation that took place in 1923, “this money was destined to return to the state treasury even up to three times a year”. For comparison, according to the data from the end of 1931, each citizen of the Kingdom of Yugoslavia had 140 dinars at their disposal, while in France this sum was about 3,500 francs. Those most heavily affected by the 1925 crisis caused by the stabilization of the dinar were the farmers who faced grave difficulties servicing their debts, together with the entrepreneurs who had a hard time ensuring their working capital. Their memories of the former state still being alive, medium-sized entrepreneurs from the Osijek area wondered how to obtain loans from banks and, at the same time, force the banks to be more considerate in collecting their debts. “War and post-war consumption capacity had reached its peak. Poorly paid administrative staff lacked means for acquiring any goods. The farmers, allegedly left penniless after investing in wheat speculations, also purchased only the most essential goods”.¹⁷³ –

171 Nicholas Snowden, “What ended the Great Depression? Rhyme and repetition in an anthem from 1930s”, *Cambridge Journal of Economics*, 39 (2015): 1254; Barry Eichengreen, Marc Flandreau, “The rise and fall of the dollar (or when did the dollar replace sterling as the leading reserve currency?)”, *European Review of Economic History*, 13 (2009), 380–381, 389; Đurović, *Državna intervencija...*, 59–61; Lampe, Jackson, *Balkan Economic History...*, 376.

172 DAOS 225: meeting of the Association of Merchants in Osijek, November 30, 1923.

173 DAOS 225, Box 4: minutes, report on the results of the Zagreb Conference on Financial and Foreign Currency Issues given by the Vice-President Hugo Kolar, November 3, 1922.

These were the conclusions of an economy conference from 1922. Being aware of the country's social structure, the economists saw the growth of its social product predominantly in agricultural production which, during the Agrarian Reform, was reduced to expectations about "whether or not [the Almighty] will provide a good harvest". "Nowadays, the value of cash should be covered by the country's production and the work of its citizens, not by precious metals", added Hugo Kolar during a discussion among the entrepreneurs gathered in the Osijek Commerce Chamber.¹⁷⁴

In June 1925, deflation again gained momentum due to the re-stabilization of the dinar at parity, with the unrealistically high exchange rate of 9.13 Swiss francs for 100 dinars remaining until its administrative stabilization in 1931. This unfavourable development has mostly been felt in Croatia-Slavonia where banking, industry and wheat trade were more developed, and the overpriced dinar could therefore substantially harm the export. In addition, stable finances could be retained only at the cost of the weak purchasing power of the peasants who also had to pay higher taxes. These changes were followed by a plummeting of prices of agricultural products and real estates. The fall of the peasants' purchasing power in 1926 was a harbinger of the partial agrarian crisis already being underway. At the world markets, Yugoslavian agricultural products were sold with significant difficulties; due to higher offer, prices decreased by 60% on average, the profits falling beneath the value of production costs. Consequences were also felt in the decreased profits of exporters, especially in the northern part of Croatia where the profits from wheat trade were among the highest in the country. However, the living standard of peasants remained relatively unchanged. The debt of the central state, amounting to almost 100% of the budget, had been attenuated by higher agricultural and wage taxes. Tax burdens additionally impeded the purchasing power of most economic subjects, with the side-effect of restrictive loan policy, lack of both short- and long-term loans, and paralysis of the "economic sectors". The difficulties would continue until the Great Depression that hit this part of the world in 1929 additionally reducing the prices of raw materials and wages.¹⁷⁵

174 DAOS 241, Box 28, Jacket 226, Dopis poduzećima drvne industrije, March 2, 1923; DAOS 223, Box 121 minutes of CTC Osijek, December 18, 1931; cf. Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 262; Lampe, Jackson, *Balkan Economic History...*, 377.

175 Rudolf Bičanić, *Ekonomska podloga hrvatskog pitanja i drugi radovi* (Zagreb: 1995), 45–46; Lampe, Jackson, *Balkan Economic History...*, 376, 377; Smiljana Đurović, "Zavođenje dirigovane drvne privrede u međuratnoj Jugoslaviji", *Acta historico-oeconomica Iugoslaviae*, 10 (1983), 124; Šimončić-Bobetko, *Agrarna reforma i kolonizacija...*, 262; Đurović, *Državna intervencija...*, 59–61; cf. Mirković, *Ekonomska struktura...*, 13–15.

An extensive backwardness of the overall population (in 1925, there were 182 wooden coulter and 438 ploughs per 1,000 farms) manifested itself in the fact that foreign capital was invested exclusively into mining and industry – sectors that could ensure high profits with cheap labour. According to one estimate, of 10 billion dinars invested into the Yugoslav economy in 1938, almost three quarters, i.e., 73.8%, were investments in industry and mining. The participation of foreign capital in these sectors was 60% of the overall capital. Domestic industry contributed insignificantly to the production of the very means of production, and without such a contribution structural changes needed for the transition from agrarian into industrial society could not take place. The same negative effect was also visible in the structure of industrial production: consumer goods accounted for more than 70% of the overall production. Since raw materials, agricultural products and wood dominated the structure of exports (as much as 90% of mining production had been exported without prior processing!) and given the fact that in the period between 1919 and 1939 the Kingdom of Yugoslavia on 13 occasions had a positive trade balance in commodity exchange, it becomes clear why investment goods (machinery, technologies and knowledge) played such a minor part in the structure of import. In fact, there was even no plan regarding the type of economic development to be pursued.¹⁷⁶

The dominant position of foreign capital in the industrial exploitation of resources of the Kingdom had been criticized and seen as an obstacle to unification of the country's national economy. Clearly, however, it was the authorities themselves that had centralized the economic system to facilitate their own enrichment – by various forms of corruption and under the pretence of providing the capital owners with something that was already offered by the very logic of economic life. Management positions in companies were held by individuals in political positions or those connected to political structures. This fact had also contributed to the economic policy of low-level industrial processing of goods and export of semi-raw materials (as exemplified by the structure of the Kingdom's international exchange). Bearing this in mind, it is no wonder that foreign capital owners acted speculatively. "The Balkan states", in addition to being known for its rich natural resources, "in the Western business circles had a reputation of a poor destination for rational and safe exploitation, a place where even well-funded companies have a hard time achieving a continuity of work and turnover". Foreign capital abstained from larger investments even though in the 1920s in this part of the world "a rent of 20 to 30% was achievable, while in America and England capital owners had to satisfy themselves with 3 to 6% interests".¹⁷⁷ The main cause of this

176 Petranović, *Istorija Jugoslavije...*, 65–78; see also: Đurović, *Državna intervencija...*, 43.

177 Đurović, *Državna intervencija...*, 39, 42–50.

paradox was most probably the corruption of the elected political representatives and state administration members. The mission of a national (or civil) state was to ensure a safe climate for doing business including an institutional setting (the state and its institutions) in which economic contest can take place, without an investment requiring a huge and costly intervention. Clearly, a systematic corruption and kleptocracy (stealing as the essence of government) had gained the upper hand, and the only remedy for this menace could have been a fundamental change in habits of the ruling classes.¹⁷⁸

To the inhabitants of regions outside of Serbia proper it was obvious that, under the pretexts of compensation for significant material and human losses (25% of the population!) which Serbia had suffered during the First World War, they were being robbed! The fact that northern and western regions paid more taxes could not have been explained by the fact that these regions were industrially “overdeveloped” – that they achieve more and thus had to pay more taxes. For example, inhabitants of Vojvodina paid in 1925 on average 293.52 dinars of taxes, while inhabitants of Serbia and Montenegro paid 91.15 dinars. The domination of direct taxes in regions that had been parts of the former Austria-Hungary was supposed to equalize tax burdens. In practice, tax burdens in most cases were higher than the tax base, and this was made possible by introducing a system of extraordinary surtaxes calculated on the basis of direct taxes: 500% of average tax on all types of land and 30% on all other types of tax, apart from tax on business turnover, disability tax and payroll tax for state and municipal officials. Since tax policy in regions outside of Serbia proper generated over-indebtedness, tax evasions were common. Kršev explains that *Trgovačka and obrtna Bank* Ltd. from Novi Sad, for example, in 1925 had 10 million dinars of shareholder stakes and 5 million dinars of reserves. Based on reported profits of 2,328,932.18 dinars, the bank had to pay 4,336,912.86 dinars in taxes: “After filing a complaint, in the following tax year 1926, the bank still had to pay an amount higher than its tax base, but not double”.¹⁷⁹ Companies such as *Našička* Ltd. and *Gutmann* Ltd., to avoid such a taxation scheme, established their own political municipalities.¹⁸⁰

178 Eleanor R. H. O’Higgins, “Corruption, underdevelopment, and extractive resource industries: Addressing the vicious cycle”, *Business Ethics Quarterly*, 16 (2) (2004), 236, 241; S. P. Riley, “The political economy and anti-corruption strategies in Africa”, in: M. Robinson (ed.) *Corruption and Development* (London: 1998); Frank Cass; Georg W. Hoffman, “The Problem of Underdeveloped Regions in Southeast Europe: A Comparative Analysis of Romania, Yugoslavia, and Greece”, *Annals of the Association of American Geographers*, 57 (4) (1967), 640. When speaking about foreign capital invested in the exploitation of mines in the interwar Yugoslavia, Cass and Hoffman treat foreign capital as an obstacle to overall progress of the country’s national economy since, according to them, its sole interest was extracting semi-products and semi-raw materials from the country, rather than investing into final-product domestic industries.

179 Kršev, *Finansijska politika...*, 125–128.

180 Hrvoje Volner, “Nastanak i političko-upravni odnosi u općini Belišće u razdoblju Kraljevine Srba, Hrvata i Slovenaca”, *Scrinia Slavonica*, 12 (2012)

Merchants and craftsmen of the Osijek area had brought up interesting arguments by which they had substantiated their dissatisfaction with the government's economic policy. The government introduced many new measures which were met by almost universal resistance. For instance, social policy was pursued in the interest of workers and peasants, but its effectuation was constantly postponed. Numerous measures pertaining to social legislation had not been implemented in practice or their implementation had to wait for better opportunities. Such was the case with the regulation on working hours and opening and closing times of small business stores. The purpose of that regulation was to standardize the number of working hours for apprentices and thus enforce the payment of overtime work. In February 1925, the implementation of the regulation was postponed indefinitely, with a further clarification that the part of the regulation regarding the Sunday rest shall be implemented "throughout the entire industry". The entrepreneurs of the Osijek area viewed the regulation on the freedom of work with disbelief, especially the paragraph concerning the "Sunday rest". Among the opinions voiced were the following: "A modern entrepreneur works according to his client's demand" or "Opportunities for increased domestic production, that reduces imports, should be encouraged". They saw the Sunday rest as absurd but the authorities, in their efforts to enforce the compliance with the regulation, sent inspections on the ground and fined offenders (but no more than that, as it seems).¹⁸¹

Beginning in 1924, with a resolution adopted at the conference of economic corporations in Zagreb, delegates protested the ways in which laws and decisions are adopted in the department of "business professions". They noted that "authorized districts have almost never considered factual and expertly argued remarks, despite the fact that experience had taught us that laws and regulations adopted without the business community's input had often been detrimental for the state authority, for the proper development of our nation's economy and for its credit abroad."¹⁸² The resolution goes on to explain that the state had too often concluded international conventions of "pure economic relevance (...) despite the protests from economic circles (...). Our companies are left without adequate state protection against foreign competition, at the same time being deprived of the opportunity to receive the aid of foreign capital in situations in which such an aid would have been useful for our economy." Apart from the demand that the institution of the Economic Council, prescribed by Article 44 of the Constitution, finally be applied, the entrepreneurs also had other demands from the state: to terminate the practice of introducing new levies with retroactive power, that the same practice be abolished for existing levies

181 DAOS 223, Box 121: minutes of the CTC Osijek, plenary session, February 25, 1925.

182 DAOS 223, Box 121: minutes of the CTC Osijek, plenary session, March 26, 1924, the text of the Resolution from the letter to the Chamber of Trades and Crafts in Zagreb.

and that linear increase of levies be put out of use. Ignoring these demands, as was argued, will make any economic calculation all but impossible and rob the economy of any solid foundation for doing business. In addition, they demanded that the introduced orders and regulations be adopted only within the limits of respective laws and that they should by no means standardize something not contained in the law or contrary to it.

The entrepreneurs also demanded the impossible: “that all legal proposals concerning the economy be submitted to the People’s Council only after hearing the opinion of the chambers [of commerce], (...) according to the predetermined principles”; and if the government should not adopt them, that solutions presented by the entrepreneurs be submitted to the People’s Council “together with the governmental propositions”.¹⁸³ By submitting these amendments, the entrepreneurs relied on the common sense of the representatives not to adopt “irrational” norms. Additionally, they asked that, when considering new tax-, customs- and fee laws, the economically justified and equal division of tax burdens among all “social classes and regions of the country” be of primary concern. They also proposed that “the needs of the state be primarily satisfied via direct taxes” and that progressive taxes should never “go too far”, since otherwise “any savings and general economic development, especially the production of goods, will be harmed”. Moreover, they required from the state “to comply with its own obligations”, since the state demanded of its citizens to conscientiously fulfil their duties, especially in paying their obligations. Another demand read that trade, customs and industrial policy of the country be implemented in cooperation with the representatives of entrepreneurs, and that, with a “planned protection of all branches of domestic economy, foreign trade of domestic products be improved by favourable trade agreements”. The entrepreneurs also recommended that the “concession system”, inherent to the procedure of establishing industrial companies, be abandoned, “since this kind of system restricts the freedom of work, (...) and encourages biased treatment when issuing licenses for new businesses”. Of a total of 25 demands, the following are worth mentioning: “to ensure the participation of foreign capital in domestic companies and the support of the state in obtaining loans for industry and foreign trade, thereby avoiding any risk to its political or national-economic freedom; (...) to guarantee the independence of administrative and judicial authorities and to ensure impartial administration and jurisprudence in all branches of administration.”

Tax inequality as a form of internal reparations continued to be effective until 1929, marking the first decade of the interwar Yugoslavia. Protectionist policy introduced during the Great Depression had mostly been implemented by safeguard

183 Ibid.

duties which helped the developed industrial countries to increase the production and consumption of domestic products. (For example, the United States supported the unification of retail store chains thus enabling the local industrialists and farmers to achieve desired prices.) In such circumstances, underdeveloped agricultural countries got caught up in a trap since the customs tariffs decreased the value of their products. National debts could be serviced only by increased export. In agrarian production, this turn of events triggered a stronger stratification among agricultural producers. The only way out was to increase the competitiveness of domestic products by protective customs. However, the over-indebted state was incapable to effectuate such customs. During that period, the sentiment was voiced ever more openly – albeit with some naïveté – that the previous 10 years (until 1930) had been thrown down the drain.¹⁸⁴

184 DAOS 223, Box 121: minutes of the plenary session, April 6, 1930, the Speech of Minister Demetrović; Snowden, “What ended the Great Depression?”, 1252.

3. The lumber industry in the Kingdom of Serbs, Croats and Slovenes (Yugoslavia)

Regarding the number of companies, the amount of invested capital and number of employees, lumber industry was the most important industrial sector in the interwar Yugoslavia. Along with mineral resources, the biggest natural resource were forests that stretched from hilly areas of Slavonia and Slavonian flatlands to mountains of Bosnia, Croatia, Serbia and Montenegro, representing an excellent resource base for all types of wood processing. The existence of the entire regions of the Kingdom depended on forests, forestry and timber processing jobs. Forest and forest land surfaces amounted to 42.3% (i.e., 10,491,982 hectares), forests themselves covering 31% of the country. The percentage of forest land per capita by far exceeded domestic needs. The state's interest in large forest estates is visible from the ways it tried to gain control over all forms of forest ownership, mainly by legislative measures. The state was aware of the profits emanating from lumber trade, so it centralized all foreign exchange, insuring a stable inflow of foreign currency into the National Bank.

The contribution of the domestic markets to the development of lumber industry was negligible since almost the entire production was intended for export. One can get an impression about the importance of lumber in those days by appreciating the following fact: when exchanging kronas into dinars at the beginning of the 1920s, to ensure the asset coverage for the cash released into circulation, the state pledged a share of the state forest to the National Bank in value of 2,030,734 dinars. In the period between 1919 and 1929, the contribution of lumber industry, including mill and propulsion industries, to the overall industrial development of the country can hardly be overstated. At the same time, European countries advanced their industries in many other fields – energetics, steel production, chemical and automotive industries, road and railroad traffic, shipbuilding and cotton industry.¹⁸⁵

In the first years of the newly established Kingdom, until the establishment of the National Bank in Belgrade in 1920, trade and business-related institutions from the city of Zagreb enjoyed significant freedom of doing business and thus also an advantage over technologically underdeveloped regions of the country. During that period, many new banks had been established in Zagreb, which attracted capital from Austria and Germany, where high inflation threatened the economies of these countries due to unstable post-war conditions. The inflow of Austro-Hungarian kronas caused inflation, so many new sawmills had been built which could satisfy the rising

185 Đurović, *Državna intervencija...*, 49–51; Đurović, “Zavodenje dirigovane drvne privrede...”, 120.

need for lumber in the destroyed European cities. With the appointment of Milan Stojadinović as the finance minister and the stabilization of the dinar, a process of centralization of all international business transactions in Belgrade commenced and private banks lost their right to export business. These measures directly influenced the conditions in the fields of timber processing and lumber trade because the industrialists were not allowed to freely dispose of foreign currencies they received for lumber. Besides, a new, centralized system of acquiring permissions for timber harvesting was introduced, so the industrialists had to apply for permits by the Ministry of Trade and Industry. Since the system was plagued by corruption, foreign entrepreneurs had to be very skilful in adapting to the new situation. Post-war economic activity reached its peak in the summer 1920, followed by a period of stagnation and the recovery which lasted until 1923/1924 when the export from Yugoslavia, Czechoslovakia and Romania increased from 1.1 million tons in the summer 1920 to 8.12 million tons in 1924. Economic slowdown in 1924, huge insolvency and the policy of deflation fostered the entry of foreign capital into large timber processing companies. Foreign investors thus assumed the role previously held by banks which in turn led to the decline of small companies.¹⁸⁶

The crucial preconditions for the development of lumber industry in Croatia-Slavonia were the quality and quantity of timber, Slavonian oak above all. Oaks with similar structure could only be found in Germany, Japan and Poland, although in significantly smaller quantities. Ancient Slavonian forests were of a high value but had been thinned out due to intensified exploitation in the previous period. In Croatia-Slavonia, as much as 1,433,830 hectares or 33.2%, of the territory was covered with forests. The region of northern Croatia also had a favourable distribution of forest resources according to the criteria of representation of tree species and type of cultivation. According to tree species, the forest resources of Croatia-Slavonia consisted of 29,553 hectares of conifers, 255,361 hectares of mixed deciduous and conifer forests, 48,712 hectares of oak forests, 285,445 hectares of beech forests, and 696,610 hectares of mixed deciduous forests. According to cultivation type, 74.3% were tall, 3.4% medium, 19.6% low forests, and 2.5% brushwood. In this area, tall forests occupied the largest proportion of territory under forests – a very favourable condition for the development of lumber industry. As to the northern part of Croatia (the Sava Banate), approximately 3,000,000 m³ of timber had been exploited annually.

As to the ownership structure of Croatian-Slavonian forests, 332,718 hectares were state-owned, 625,878 hectares in communal ownership and 475,283 hectares

186 Mira Kolar-Dimitrijević, "Mnogostruka djelatnost Maksa Mautnera u gospodarstvu Hrvatske od 1908. do 1941. godine", *Acta historico-oeconomica*, 25–26 (1998/1999): 136–140; Đurović, "Zavodenje dirigovane drvne privrede...", 121–122.

privately owned. After the creation of the Kingdom of SHS, all forests and mines came under the control of the Ministry of Forestry and Minerals. The Ministry disposed of and managed the state-owned property and, in line with the legislature of the time, supervised all forests regardless of ownership. It also represented the state in all matters concerning forests and forested land.¹⁸⁷

Companies that had been investing in their production facilities since the second quarter of the 19th century, like *Gutmann* and *Našička*, had to invest less into these facilities, from sawmills to industrial railroads, during the interwar period. Indeed, the new social and political order conditioned large companies to refrain from any “complicated solutions” in designing their production processes. Companies relied on cheap workforce for which there had been no educational system that would make them endorse an entrepreneurial attitude. Since the employment structure of the population did not change, the abundance of quality raw materials was just enough to ensure high yields for “the colonial sector of the economy”, even in the primary processing stage. Good transport connections facilitated the development of lumber industry in Croatia-Slavonia: in addition to the direct railroad line connecting domestic industrial facilities with large markets in Italy and Hungary, lumber could be exported overseas via Rijeka and Trieste. The export structure during the period from the unification to the Great Depression had been marked by a constant growth of timber processing products. In years prior to the 1929 crisis, lumber industry had accounted for approximately a quarter of all exports of the country in quantity and slightly less than a quarter in total value. During the Great Depression in 1931, the share of exported goods in lumber industry amounted to 49.60%, despite an overall standstill of its processing activities – compared to 50.40% in agriculture.¹⁸⁸

Apart from large timber processing companies owned by foreigners, there was also a significant number of medium and small companies. For instance, in Yugoslavia, there were 347 industrial and 2,543 small sawmills registered. Of all industrial sawmills, approximately 180 of them had a capacity over 10,000 m³ of timber, of which 80 belonged to joint stock companies, while the others were in the hands of foreign owners. Other sawmills had a capacity under 10,000 m³, which was still sufficient to be included into the group of industrial companies. Propulsion power of all sawmills in the country amounted to approximately 66,670 HP, and their total annual production was between 14 and 15 million cubic meters of timber. Large companies, whose annual capacity ranged between 300,000 and 400,000 m³ of timber were owned by foreign capital, apart from *Šipad*, and they were located primarily in Bosnia (*Šipad*, *Ugar*, *Krivaja*) and Croatia (*Našička*, *Slavonija*, *Slavex*,

187 Zdenka Šimončić-Bobetko, “Drvena industrija Hrvatske u gospodarskoj krizi 1930–1934. godine”, *Radovi Instituta za hrvatsku povijest*, 8 (1976): 167–173.

188 Ibid, 176; see: Karpati, “Kronologija razvitka organizacije kombinata...”, 243–247.

Drach, Gutmann and others). In these regions we find the most developed lumber companies, while in other regions of the country we mostly find medium and small companies. The mentioned companies in most cases had their headquarters in Zagreb (49 of 56 joint stock companies located in the Sava Banate in 1931). During the interwar period, only 6% of overall investments in processing industries had been invested into lumber industry, which means that most of the lumber industry facilities in Croatia-Slavonia had been constructed during the period of Austria-Hungary. According to Josip Lakatoš, lumber industry in that period employed approximately 65,000 workers, and if seasonal workers are included the number amounts to 100,000–120,000 workers.¹⁸⁹

By comparing the structure of the active population employed in primary and secondary sectors for the whole Kingdom, the Sava Banate, and Slavonia, respectively, according to the 1931 census, it becomes clear that the creation of lumber industry facilities and industrial settlements opened new perspectives for the overall structural development. According to the cited census, the active population of the whole country was comprised of 76.3% employed in the agricultural sector, and 10.73% in industry and crafts. In the Sava Banate, 75.12% of the population worked in agriculture, while 11.66% were employed in industry and crafts. In Slavonia, 74.16% of the population (283,701 persons) worked in agriculture, and 13.50% (61,656 persons) in industry and crafts. The Gutmann company, for example, was the leading employer for those working in the industrial sector in the district of Valpovo, and of 11,641 active inhabitants of the district, 2,383 worked in industry or crafts, i.e., approximately 20%.¹⁹⁰

In the period between 1925 and 1929, the development of lumber industry depended on the general economic circumstances of the country. Many sawmills opened during the period of economic pick-up now demanded state protection in the form of providing raw materials through auctions. However, not even the Domestic Lumber Industry Protection Act from May 1929 could have ensured sufficient raw material for the whole lumber industry sector. Besides, the Act did not bring any advantages to small sawmills in Slavonia. Slavonian forests, based on long-term contracts, had been given to large companies for exploitation, and since the Act did not include oak forests, small industry could not have survived in that region. Regarding beech forest utilization, there were only very limited possibilities for ensuring raw materials because all such forests were privately owned by factories

189 Šimončić-Bobetko, "Drvena industrija Hrvatske...", 213; Ivo Vinski, "Procjena kapitala na području Hrvatske u razdoblju između dva svjetska rata", *Prilozi za ekonomsku povijest Hrvatske* (1967): 123–127.

190 Mirković, *Ekonomska struktura...*, 18; Mile Konjević, "Privredne prilike u Slavoniji 1929.–1941", *Acta historico-oeconomica Iugoslaviae*, 4 (1977): 93.

practicing dry distillation of wood, and they enjoyed a monopolistic position. Average forest tax for 1 m³ of timber ranged from 30 to 67 dinars, while large industry at the same time paid only 22.10 dinars because of long-term contracts. It should be mentioned that the Gutmann company did not conclude long-term contracts on forest exploitation with the state, and at the time when small timber processors campaigned for concessions, Gutmann Ltd. unsuccessfully tried to point to that fact in the Serbian media, especially in the daily newspaper *Politika*.¹⁹¹

In his book *Ekonomska podloga hrvatskog pitanja* (Economic Foundation of the Croatian Issue) from 1938, Rudolf Bičanić specifically targeted the issue of state forest concessions. He quoted forestry engineer Milan Manojlović, an author of several articles published during March 1934 in the Belgrade daily *Politika*, where he exposed the irrational management of state forests. He substantiated his point by comparing the domestic situation with the situation in Poland – a country with a comparable quantity of forest land – where revenues per hectare were 8 to 40 times higher. The cause of such mismanagement Manojlović attributed to the concession system allowing a “colonial” type of exploitation of large portions of state forests. It was a system that facilitated major abuses and high corruption, a one that, of all European countries of the time, persisted only in Romania and Yugoslavia. The problem was not in the profession itself, either its technological or its economic aspect; the problem was rather administrative, i.e., political. An apt illustration of this is the widely publicized “Krivaja Scandal”: Bosnian lumber had been sold at symbolic prices, with costs for the state budget rising to billion dinars (according to some estimates). Although foreign capital had often been blamed for corruption, it was common knowledge of the period that doing business without it was all but impossible. According to Bičanić, in a vast majority of cases, bribe had not been given for ensuring illegal benefits but for ensuring regular services, something every citizen had a right to.¹⁹²

Concessions for logging were given to large companies since they had been more able to satisfy the needs of the politicians. The lack of raw materials in small industry caused its weakening. Apart from that, there were also other difficulties plaguing the Croatian lumber industry: the planned production could not be realized due to currency fluctuations in countries to which products were exported and the increased competition of other exporting countries. Demands of the lumber industrialists were voiced particularly clearly in 1925, at conferences of trade chambers,

191 Đurović, “Zavođenje dirigovane drvne privrede...”, 123, 125; Šimončić-Bobetko, “Drvena industrija Hrvatske...”, 198, 204; DAOS 241, Box 15: campaign for the revision of the long-term forest exploitation contracts for the year 1928; see: Mladen Stojković, “Način rasprave o gospodarenju državnim šumama u novinama 1928. godine”, *Šumarski list*, 1 (2) (1998), 53–60.

192 Bičanić, *Ekonomska podloga hrvatskog pitanja*..., 85, 166–167; Petranović, *Istorija Jugoslavije*..., 79.

lumber industrialists and their associations, organized by the Ministry of Forestry and Minerals. The industrialists expressed the following requests: stabilization of domestic currency, larger participation of the National Bank in crediting lumber industry, simplified customs procedures in ports, exemption from export customs for oak sleepers, increase of tariffs for imported lumber, introduction of a simple tariff system on all railroads, procurement of railroad wagons, abolition of municipal taxes, reduction of contributions on workers' wages, introduction of a ten-hour workday, and revision of all long-term contracts for forest exploitation.¹⁹³

In the period between 1929 and 1932, export of firewood from Yugoslavia had dropped from 656,434 tons, i.e., 142.6 million dinars in value, to 192,272 tons, i.e., 31.7 million dinars in value. The export of lumber, timber products, extracts for leather tanning and railroad sleepers dropped too. The most impacted were the companies exporting Slavonian oak since the interest in the most expensive and products of highest quality diminished. The drop in consumption hit the lumber industry the hardest leading to the adoption of special foreign currency regulations in many countries. There were money shortages and loan reductions, and France and Algeria imposed fixed quotas on lumber import. The stagnation reached its peak in 1932. the lumber industry crisis had been triggered by disturbances in international trade, some entrepreneurs saw the state intervention as a solution to the survival of this industrial branch in Yugoslavia. Other solutions had also been proposed: from rationalization of exploitation to reorientation of production. A former member of the Chamber of Trades and Crafts in Osijek, Milan Ulmanky, the future Minister of Forestry and Minerals, and during the Great Depression the director of *Šipad*, the largest lumber facility in the Kingdom (after holding a similar position in Belišće), recommended an increased timber consumption on the internal market. He believed that "large companies should lead the whole branch out of the crisis because it is the duty of large capital to offset fluctuations between good and bad economic cycles in such a way as to amortize the effects of these fluctuations for the national economy. Despite losses, large companies should not limit their production because this leads to increased unemployment rates. Thus, production should be sustained regardless of losses."¹⁹⁴ Following that recipe, small producers continued to go under in such proportions that saving several thousand jobs in *Šipad* was an insignificant gain compared, for example, to the devastation of more than 130,000 medium and small estates in the Drava Banate.¹⁹⁵

193 Šimončić-Bobetko, "Drvena industrija Hrvatske...", 224–225; Đurović, "Zavođenje dirigovane drvne privrede...", 124.

194 Ibid., 127.

195 Ibid., 125–127; cf. DAOS 223, Box 121: minutes of the CTC Osijek, plenary session, June 21, 1929, inaugural address by Robert Wilhelm (In June 1929, Milan Ulmanky became a member of the Committee for Tariffs and Trade Fairs in the Ministry of Traffic. The main task of this Committee was to harmonize the traffic conditions in all parts of the country.)

Apart from state intervention, companies also sought exit from the crisis in cartelization. Namely, during the first depression in 1925, a Yugoslav-Romanian cartel called AKORD had been established. Its task was to stabilize the prices of raw materials and finished products, but the cartel did not last for long. A new Yugoslav-Romanian cartel, also comprising small and medium companies, for regulation of export prices in the Mediterranean, northern Africa and Spain was established in 1931. However, like the previous one, it also failed to significantly influence the prices. It was falsely believed that competition between Yugoslav and Romanian manufacturers was the cause of the price slump; in reality, timber prices were just another consequence of a global depression and the competition of the Soviet Russia.¹⁹⁶

Failed attempts at cartelization resulted in an increased interest of European manufacturers for achieving a unique agreement on economic recovery of the branch. To that effect, on April 25, 1932, the League of Nations organized a lumber industry gathering of representatives from 28 countries. The conference aimed at reaching an international agreement on forest exploitation and cooperation, i.e., on regulating lumber trade. In the hope of bringing order into the global lumber markets, a conclusion was reached that logging should be limited (via interim agreements) and that exporting countries should agree on export quotas and the division of markets. Moreover, state-sponsored institutions for controlling export of lumber were proposed. Respecting these guidelines, national economies would apply concrete measures to the effect of putting an end to the anarchy in their internal markets, thus preparing the grounds for new international agreements. After a conference organized in Geneva, conferences were also organized in Berlin and Vienna. Yugoslav delegates, upon returning from these conferences, took upon themselves to apply the reached conclusions and to ensure a stronger state control over the country's lumber industry. For these actions, the Yugoslav delegates received support from other participants of the conferences, especially from representatives of Austria, Czechoslovakia, Romania and Poland. These delegates, together with their Yugoslav colleagues, on June 9, 1932 established an organization called *Comité permanent international de la production de l'industrie et du commerce du bois* (CIB). In addition, during the session of the Economic Council of the Small Antanta, the members discussed the possibility of a greater cooperation in enhancing lumber exports. It was concluded that it would have been much easier to realize this idea if there was a central authority in charge of exports in Yugoslavia like the ones already existing in Czechoslovakia and Romania.¹⁹⁷

In March 1935, the journal *Industrijska obrana* (Industrial Defence) wrote that Yugoslavia should consider introducing countermeasures in case things start to

196 Đurović, "Zavodenje dirigovane drvne privrede...", 127.

197 Ibid., 127–128.

move towards a planned economy on the global level. The first sign of this would be an increased autonomy of national economies and the introduction of import quotas. As the author of the journal article makes clear, lumber industry will be the first to consider such measures. This again brought up the idea of establishing a unified and centralized system of regulating Yugoslavia's lumber export, especially after such a system had already been introduced in the USSR, Sweden, Finland, Poland, Romania, Austria, and Czechoslovakia. Analogue organizations had been established in countries of import, such as England, France, Italy and Hungary.

For this type of joint actions to be successful at the national level, all timber processors and merchants had to be assembled within a single organization. However, there was a major obstacle to this ambition: the already existing professional association of lumber industrialists and merchants whose interests were closely attached to Zagreb. A national level organization, the Association of Industrialists and Merchants of Forest Products in the Kingdom of Yugoslavia, was established in March 31, 1928. At first, the organization had 55 members, among others: Mavro Binder (owner of the *Binder and Polgar* Ltd. Zemun), Arthur Gutmann, Franjo Baum from *Tanin*, Albert pl. Deutsch Maceljski, Aleksandar Erhman, Otto Heinrich (the general director of *Drach*), and Ante Janeković. Among the Association's goals were "sustainability of logging, permanent and equal railroad tariffs, more just tax distribution and a more realistic policy and program of lumber industry, including forestation".¹⁹⁸ The group of industrialists assembled in the organization opposed state capitalism in the lumber industry. After the Central Committee of Lumber Industry for Yugoslavia had been established in March 1935, led by Milan Ulmanky, the Association refused to join that organization. Its members were afraid of being outspoken; they shunned collectivistic and centralizing tendencies that could lead to control and regulation of export trade, i.e., take away the freedom of entrepreneurs in Zagreb to move around, exchange their products as they please and utilize the markets they themselves had created.¹⁹⁹

At the beginning of 1936, the crisis of the lumber industry entered its seventh year. The year was made even worse by the economic sanctions imposed against Italy by the League of Nations (on November 18, 1935) because Yugoslavia lost its most important and closest export market. The whole of Slovenia, Bosnia, Gorski Kotar, Lika and the Croatian coastline were affected by the sanctions, since their almost entire lumber industries were dependent on exporting their products to Italy. Soon, the idea of a centralized export system reappeared. As an illustration, Slovenia alone had one thousand exporters, which increased mutual competition. Even entrepreneurs

198 Kolar-Dimitrijević, "Mnogostruka djelatnost Makse Mautnera...", 142.

199 Đurović, "Zavodenje dirigovane drvne privrede...", 128–129. For the same topic see: Kolar-Dimitrijević, "Mnogostruka djelatnost Makse Mautnera...", 128–146.

exporting no more than five wagons of lumber products were considered exporters. Experts supporting centralization of export voiced their opinion ever more loudly that in circumstances in which importing countries (like Italy, France, Algeria, Spain, or Hungary) are starting to implement autarkic restrictions and export quotas the domestic lumber industry cannot act in a disorganized manner, each producer on its own, since such an attitude will harm the entire domestic industry.²⁰⁰

Otto Heinrich, the managing director of the *Drach* Ltd. from Zagreb and a member of the Association, firmly believed that the domestic lumber industry did not need government grants and subsidies; what it needed was a unique forum that would protect domestic interests on international markets. Of all institutions established to support lumber exports, not even the Ministry of Trade and Industry promoted the interests of lumber industry. This was no surprise, since the greatest weight in foreign trade was on currency issues, and these were under the jurisdiction of the Ministry of Finance and the National Bank. In a situation in which importing countries introduced protection measures to protect their own currencies and the exporting countries (e.g., Poland and USSR) relied on the state for facilitating exports of their products or have centralized the export activities of their companies (like Austria), an unorganized lumber export from Yugoslavia was unsustainable.²⁰¹

An ascending economic cycle in the lumber industry began in the spring 1937, fueled by the needs of the war industry. After the Anschluss of Austria in 1938, demand for lumber from the Sava Banate dropped since the Third Reich turned to Austria for satisfying its needs for timber. However, this situation again showed the importance of steady business relations. In the same year in which export to Germany plummeted, export of lumber products to England – thanks to Gutmann Ltd. – reached one quarter of Yugoslavia's entire lumber export. Prior to the occupation of Yugoslavia, but after the unification of Austrian and Czechoslovakian lumber industries, German capital strengthened its position via *Jugoslavenska Udružena Banka* (United Bank of Yugoslavia), General Yugoslav Banking Association and *Prva Hrvatska Štedionica* (First Croatian Saving Bank), i.e., via banks that gradually came under German ownership. The importance of these changes becomes even more visible in the light of the fact that after 1935 the influence of Jewish entrepreneurs in the Kingdom of Yugoslavia begins to diminish. (Prior to that year, the share of Jewish capital in the lumber industry exceeded 63%.) This was partly caused by regulations limiting the rights of Jews in food product trade and education. Besides, already in 1933, the Kingdom of Yugoslavia started to implement restrictions in issuing residence permits to Jewish refugees from Germany, and

200 Đurović, "Zavodenje dirigovane drvne privrede", 134.

201 Ibid, 134–135; Kolar-Dimitrijević, "Mnogostruka djelatnost Makse Mautnera...", 142–144.

some Jewish entrepreneurs decided to withdraw their capital from Yugoslav companies already in the aftermath of the crisis, and to emigrate to England, Switzerland, United States or Canada.²⁰²

The post-war nationalization of the lumber industry which was predominantly in the hands of foreign capital was merely formal. In the case of the Gutmanns, the nationalization of the company took place in the early period of the foundation of the Kingdom of Yugoslavia SHS. However, notwithstanding its intention to nationalize facilities and real estates owned by the Gutmann family, the authorities did not go so far as to deport the Gutmanns as foreign citizens. They were very aware of the fact that no one was able to initiate serious business transactions and turnover of capital in the wood processing sector as well as those who had been involved in this industry since its beginnings. Thus, it was soon realized that breaching the property rights could not only have negative effects on the company's current business activities but could also prevent the inflow of foreign capital into lumber industry by destroying the long-standing and painstakingly established business relations, either of familial or another sort. Besides, huge companies as the Gutmanns had all the advantages of a concentrated capital and were able to carry out huge financial transactions achieving extra profits. The disruption of free circulation of such capital, from the standpoint of liberal capitalism, seemed unreasonable. A significant share of foreign capital of Yugoslavia's lumber industry had been invested in Croatia, predominantly in the form of joint stock companies. Until 1932, this share had been approximately 44.6%.²⁰³

The Swiss capital invested in the *Našička Tannin and Steam-Saw Factory Ltd.* was the largest investment in Croatian lumber industry. The company operated on a small share capital, but with large loans protocoled in Switzerland (which was the usual way of operation for foreign companies in Croatia-Slavonia). Thus, the company bypassed foreign currency regulations and transferred most of its profits abroad, in the form of interest for received loans. *Našička* owned shares of numerous smaller lumber industry companies. Next to the Swiss capital, according to the invested sum, was the German-Austrian consortium that financed operations of *Slavex Ltd.* This company belonged to the General Yugoslav Banking Association, and a significant package of its shares was owned by the *Wiener Bankverein*. Next in line was the English capital with strongest positions in S.H. Gutmann Ltd. from Belišće. After 1928,

202 Mira Kolar-Dimitrijević, "Strani kapital i Banovina Hrvatska 1939.–1941.", *Povijesni prilozi*, 9 (1990), 177, 179, 184; Goldstein, *Židovi u Zagrebu 1918.–1941.*, 450; Ivo Goldstein, "Dva antisemitska zakona u Kraljevini Jugoslaviji 1940", in: *Zbornik Mire Kolar-Dimitrijević* (Zagreb: 2003) 401. The two regulations discriminating Jewish population were the following: (1) *Regulation on the Measures concerning Human Consumption Activities* and (2) *Regulation on Enrolment of Persons of Jewish Origin in Universities, University-Level High Schools, Secondary Schools, Teacher's Colleges, and other Vocational Schools (numerus clausus)*.

203 Šimončić-Bobetko, "Drvena industrija Hrvatske...", 205.

company *Eksploatacija drva* Ltd. from Zagreb was transferred from *Creditanstalt* to the British owned *Freeeman Consortium*. This company owned shares of several Croatian lumber industry companies located either in Croatia or in Bosnia. The French capital had its shares in lumber industry *Moslavina Popovača* via companies *Kartel* and *Fouche*. The largest share of that capital was concentrated in the Association for Lumber Industry and Trade from Belgrade. This association dealt in wood impregnation, and its facilities were in Slavonski Brod. The Italian capital was present in the forestry industry *Ugar* with headquarters in Zagreb and facilities in Bosnia. Ugar was connected to *Primorska industrija drva* Ltd. from Zagreb.²⁰⁴

3.1. *Salomon Heinrich Gutmann Ltd.* and its business operations

For the most part, the Gutmann company supplied raw materials for its production from its own forest estates. On its estates in the vicinity of Slatina, Donji Miholjac and Našice, the Company lost to expropriation 5,555.65 c.a. of forests, for which it received a compensation amounting to 1,395,430.25 dinars. Regardless of the sequestration and the new socio-economic circumstances, from 1920/1923 to 1940/1941 the company had logged and processed over 4.9 million m³ of timber, which corresponds to 260,000 m³ of processed timber annually. As to the previous period (1884–1918), there are no available data, but it is certain that the intensity of logging depended on the processing capacity and the state of the market. The only available information is for the year 1910 – the year in which the domestic lumber industry came out of the crisis that started in 1907.²⁰⁵

During the economic crisis, raw material consumption also stagnated. If one takes 1930 as a reference year, it becomes evident that the recovery started in 1934, although in 1935 the raw material consumption still hadn't reached the 1930 level. However, in due course, the Belišće company adapted its business activities to the consumption decrease and the market prices of finished products. During the logging season of 1930/1931, the number of working hours in forests decreased by 30%, and the overhead expenses, due to the rationalization of the production process and the overall economization, by 10%. In the business year 1930/1931, wages and salaries were reduced by 8–10%; for the highest paid positions (e.g., directors

204 Ibid, 205–206. Našička had shares in the following companies: *Impregnacija drva i pilana Ltd. Karlovac, Kutjevo Ltd. Zagreb, Tanin Ltd. Zagreb, Podnavina Ltd. Zagreb, and Krndija Ltd. Zagreb*. The Swiss trust OFA, *Societe pour l'industrie de bois' Genève* also owned shares in large lumber industry companies in Croatia such as *Drach Ltd. Zagreb, Slavonija Ltd. Zagreb, and Narodna šumska industrija Ltd. Zagreb*. The Swiss capital also had shares in *Ukod Ltd., Sušak Ltd., and Thonet Mundusa Ltd. Varaždin*.

205 Šimončić-Bobetko, "Društveno-ekonomski uvjeti razvoja...", 111–112; Benič, *Iskorištavanje šuma na području...*, 129–130.

and procurators) even 20%. Since 1931, dividends were not paid since – due to the overall crisis – no profits had been made. The possible losses notwithstanding, the Company refused to stop its production to avoid “laying off of workers and administrative staff”. Until 1935, the Company’s income merely sufficed for paying the overheads. In a normal working season in the forest, the Company employed approximately 3,000 workers (1,500 off-season) and 80 full-time clerks – a ratio of 18:1, minimally (depending on the number of seasonal workers). The largest obstacles to doing business during the crisis was the lack of working capital, and this circumstance forced the Company to stop its operations, even in production areas in which it could normally find clients, and to shorten its workweek to five days or less.²⁰⁶



Source: Franjo Štok, “Organizacija prodaje i nabave i utjecaj na proizvodnju”, in: *Kombinat Belišće kao činilac privrednog razvoja*. ed. Josip Roglić, Osijek: 1980, 270.

The production of sawn timber and firewood was also reduced by 30%, while the prices of firewood and sawn timber, compared to the previous year, dropped by 15% and 25–30%, respectively. The Company was able to sell out all its produced firewood, while it sold 50% less sawn timber than in the (previous) season of 1929/1930. The tannin factory did not reduce its production, despite the 20–25% drop in sales and despite tannin prices going down by 15%. The fall in sales was both the result of reduced production in leather factories and of importing cheaper extract from overseas. Wood distillation plants reduced their business operations by 10% compared to 1930, and at the same time, the sales of acetic acid and charcoal

206 DAOS 241, Box 25, Jacket 217: Banks 1923–1938; Jacket 5: National bank, loans, 1931.

dropped by 30%. The number of products sold abroad also dropped by 20 to 50%, while achieved prices were 20 to 30% lower than in the previous years. Quarries did not reduce their production volume nor the prices of their products. The company had problems with the recovery of claims for the stone delivered to the state and the administrative districts (“banates”). Fishponds retained the same level of production (16 to 24 wagons of fish annually) but the prices dropped by 30%, which meant that the overall realization was worse than in 1930.²⁰⁷

In 1931, the Company’s real estates, facilities and machinery consisted of 42,000 acres of forests (including arable land), 650 acres of fishponds, 150 km of industrial railroads (with 11 engines and 500 wagons), a sawmill, a tannin factory, wood distillery, parquet factory, railroad workshop, quarry, administrative buildings, buildings used for housing of workers and clerks. Total market value of this property had been estimated at 450,000,000 dinars, and its balance sheet value at 84,986,050 dinars. Ensured value of buildings, facilities, machinery and provisions against fire amounted to 250,000,000 dinars. Raw materials needed for production were acquired predominantly locally, approximately 85% of the needs, while the rest had been imported. The domestic sale was mostly concentrated around firewood, acetic acid, charcoal, stone, tannin, and parquetry, amounting to approximately 44 million dinars. As to the exported goods, sawn timber was mostly sold to Italy, Austria, Czechoslovakia, England, and Hungary; tannin to England, Austria, Czechoslovakia, Hungary, and Poland; methyl alcohol products to Hungary and Austria; fish to Austria, Germany, and Poland, parquetry to Austria and Czechoslovakia. Export values amounted to 56,000,000 dinars. The goods were mostly sold for cash, while the Company was buying, as a trusted partner, by deferred payment (with payment periods of 60 and 90 days).²⁰⁸

After 1929, the Company refrained from new investments, and it exploited its forests faster than it managed to purchase new ones. In the period between 1925 and 1929, it had participated in large forest auctions less often than before. From 1924 until the beginning of the Great Depression, the Company’s board of directors included barons Ladiskav, Arthur, Ernest, Otto and Viktor Gutmann, Vaso Jovanović, Stanko Šverljuga, Karol Neuman and Hinko Herz. Arthur was soon replaced by Alfred Czuczka. In 1932, Otto, Ladislav and Arthur Gutmann – Ernest remained for a while – left the Company’s management and took up positions in the management of *Podravina* Ltd. After Arthur left, he was replaced by Czuczka, and after Ladislav lost his life in 1933, Konstantin J. Dožudić took his place as a delegate.

As to the Company’s ownership structure, most of the shares, 41%, belonged to the members of the family, either immediate or extended; the remainder of the

²⁰⁷ Ibid.

²⁰⁸ Ibid.: Statistics on granted loans.

shares was owned by other individuals. The largest proportion of shares were in the hands of Baron Ladislav Gutmann and his descendants and sons-in-law Alfred Czuczka and Baron Karl Neumann. Apart from them, significant shareholders were the brothers Ernest, Viktor, and Otto Gutmann. Aladar's son Otto laid down 3,000 shares at the general assembly of the company in 1932.²⁰⁹

Although barren of significant investments during the interwar period, the Company's facilities had been technologically modernized. The sawmill facilities had been reconstructed and upgraded, the improvements including modern circular saws, faster head saws, increased propulsion power, large storages for beech sawn timber etc. In the time of its construction in 1893, with its 8 frame saws, 11 circular and 15 band saws, and a propulsion power of 160 HP, the Gutmann sawmill was considered the largest oak processing facility in Europe. Additional modernization was performed in 1924, increasing its capacity to 70,000 m³ of timber. The annual capacity utilization continually increased until 1925 when it reached a peak of 45,528 m³ of processed timber, the production remaining close to that level until 1940. In that period, the sawmill had three steam engines of 600 HP, and the annual capacity of 70,000 m³ of timber stood as a steady warning to the unfair competition. In addition, the wood chopping and the wood boiling processes, the internal transport, the dry distillation chambers, the acetic acid production, the formaldehyde processes – were also modernized. An especially significant investment of that period was the construction of the licalit briquette production line that utilized the waste from the wood distillation process.

In short, the Company was the driving force of the entire economy of the northern part of Croatia. The Barons had broad perspectives, comprehensive education and delicate manners. Bearing all this in mind, the Gutmann company presents a prime example of the development of capitalist economy in Slavonia, or the entire former Banate of Croatia, between the two world wars.²¹⁰

The aim of the modernization process was to reduce the production costs. According to the Company's records for the years 1927 and 1928, the costs of processing a single fathom of wood (including wages, facility costs, payrolls, machine maintenance, oil and chemicals expenditures) amounted to 396.74 dinars. One fathom of wood in that period yielded 228 kg of charcoal, 66 kg of calcium acetate, 11.8 kg of methyl alcohol, and 2.8 kg of kerosene oil. Considering the actual prices in 1930, the sale of the mentioned products yielded – 0.80 dinars per kilogram of charcoal, 3

209 Šimončić-Bobetko, "Društveno-ekonomski uvjeti razvoja...", 120; DAOS 123, Box 2473, Jacket G: Erno Gutmann files; Ibid., Box 2466, Jacket *Viktor Gutmann*. According to available data, Viktor never had business relations with *Podravina*. See also: DAOS 241, Box 1, Jacket 1 and 19: letter to the Foreign Currency Directory of the National Bank of Yugoslavia, June 11, 1940.

210 Karpati, "Kronologija razvitka organizacije kombinata", 247; Stanko Badun, Marijan Brežnjak, "Povijesni razvitak 'Kombinata Belišće' – mehanička prerada drvna", *Kombinat Belišće kao činilac...*, 134–135.

dinars per kilogram of calcium acetate and 34.50 dinars per kilogram of acetic acid, 8 dinars per kilogram of methyl alcohol, and 3 dinars per kilogram of kerosene oil. Re-calculated, according to the average prices on both domestic and foreign markets, by selling one fathom of processed wood the Company collected 795.68 dinars. If other expenses – such as packaging costs, taxes and levies, social insurance, bank interest rates – are added to the mentioned processing costs, the overall costs amounted to 234 dinars per fathom processed in 1926 and 1927. With tax reduction and reduced packaging needs, the costs reduced to 150 dinars per fathom in 1930. Including all the previously mentioned costs into the calculation, one gets the following figures: the cost of one fathom of raw wood was 375 dinars, processing costs were 396.74 dinars, general levies (in 1930) 150 dinars, so the total production costs amounted to 921.74 dinars. Adding 795.68 dinars from the sale of dry distillation products, the Company achieved a profit of 126.06 dinars per fathom. With modernization of the dry distillation facility, it increased its acetic acid production from 11.8 kg to 17 kg, thus increasing its profit to approximately 217 dinars per fathom. The distillery in Beliše processed about 25,000 fathoms of wood annually.²¹¹

A barrel production facility was erected at the same time as the tannin factory, by the end of 1889. Barrels were initially used for storing tannin and dry distillation products. From a modest crafts enterprise, barrel production reached an industrial level in 1924, the production capacity reaching 30,000 barrels of 250 litre each. The parquet factory was opened in 1902, due to a rising demand for this type of wooden products and availability of raw materials. Parquet was mostly made from oak and beech. Because of production problems, production was suspended in 1911, and did not recommence until 1927, when two modern parquet production lines, manufactured by Weiss in Vienna, were installed. Raw materials for the factory were dried in a flue gas drier facility which had also been constructed in 1927. With the opening of the tannin factory in 1889, the Company's activities were enriched by chemical treatment of wood. By processing sawmill waste and oak logs (with sawdust as a by-product) tannin extract was produced, a raw material indispensable for manufacturing leather soles of shoes. The factory increased its capacity in 1927, at first by 33%, and then by 66%, despite a chronic shortage of raw materials preventing its capacity to be fully utilized. In 1928, to ensure a stable supply of quality raw materials, the factory started processing chestnut trees with chestnut extract as the final product. This extract was either used as such or mixed with oak extract.²¹²

211 DAOS 241, Box 14, Jacket 117: statistics on the acetic acid production for the year 1928, letter to CTC, October 12, 1928; Ibid.: Jacket 115: various data on distillation and production of acetic acid, 1920–1932, Appendix II.

212 Bađun, Brežnjak, "Povijesni razvitak Kombinata Beliše...", 136–137; Ivo Opačić, "Povijesni razvitak Kombinata Beliše – kemijska prerada drva", in: *Kombinat Beliše kao činilac...*, 139–140.

During the initial 20 to 25 years, tannin extract was placed on the market in the form of water solution with 30–35% of tannin. The so-called liquid tannin was transported in 250 to 300-litre barrels. A rapid development of this industry was due to a fierce competition in interwar Yugoslavia. With that in mind, experts from Belišće decided to purchase the equipment to produce solid tannin extract and, few years later, powder extract. A “Kestner” device for producing solid tannin and a grinding mill for crunching solid extract into powder were provided. Later, another device (called *nubiloza*) was purchased for the same purpose. The facility was powered by alkaline wood, while the surplus of thermal and mechanical energy was used in the dry distillation facility. Since the Company owned no chestnut forests, from 1926 onwards chestnuts had been transported from the region called Banija and from the vicinity of Slavonska Požega. In 1939, the company started growing staghorn sumac (*Rhus typhina L.*) on plantations in Belišće and Voćin. The cultivation itself was a complete success, but the production of extract from this plant never commenced because the factory failed to provide special diffuse batteries necessary for processing the leaves of the plant that were used as raw material. In 1930, the factory started to process large quantities of chestnut tree for the purpose of obtaining, by adding sugar, a high-quality raw material for the leather industry. With this product, the company tried to compete with imported mimosa and quebracho tannin extracts. Apart from these products, the factory in Belišće produced modified tannin extract used in oil and gas drilling under the trade name ‘belitan.’ The dry distillation facility started working in 1900 and had a destiny similar to the tannin factory. Since the first production phase included beech-tree processing, large quantities of top-class beech-tree had been used as raw material for dry wood distillation. After 15 to 20 years of operation, beechwood became technologically more valuable as raw material, so the distillation facility had to satisfy itself with second-class beechwood or with other species and assortments of wood. Such transitions to lower quality wood had more profound consequences for the quality of the final product than in the case of the tannin factory. At the beginning of the Facility’s operation period, the most important product of dry distillation was retort wood charcoal, while its necessary by-products – raw wood vinegar and retort gas – were unusable. This soon changed after the latter products found their way to the markets.²¹³

As by-products of the charcoal production process, large amounts of charcoal dust and fine-grained? coal were accumulated. Since these were of no commercial use and had to be stored or disposed of, plans for their utilization were considered: The idea was to grind the low-quality charcoal and mix it together with dust particles into briquettes, using wood tar and tar oils as binders. That is how the briquette

213 Ibid., 140–141.

factory came into existence. The factory was constructed mostly of discarded machines from all around Central Europe that were fixed, redesigned and put to new use in Beliše. The mixer was brought from Vienna where it used to mix bread, the grinder was from Prague, the press for forming briquettes came from Germany, while numerous smaller parts had been manufactured on the spot, in Beliše. The products of the briquette factory were mostly used by the Czechoslovakian company *Likalit*. Thanks to regular maintenance and continuous investments it remained in function for 40 years.²¹⁴

The production processes in the Company had been continuously modernized. Since 1937, acetic acid was processed into the so-called catalytic acetone, and in 1938, a modern facility for processing methanol was constructed. From that period on, the dry distillery produced approximately 45 different products, either primary or secondary, that were directly commercialized or used for further processing. The facility reached its production peak after its retorts had been reconstructed in 1929. Since 1937, the quality of the raw materials began to deteriorate: only third or even fourth-class wood was used for processing, and this affected both the quantity and the quality of the products. Before retort reconstruction, annual production amounted to approximately 11,000,000 litres with an average content of 8.4% of acetic acid and 17.2 per mille of alcohol derivatives. In the newly installed retorts, the annual production amounted to approximately 6,500,000 litres with an average content of 7.5% of acetic acid and 33 per mille of alcohol derivatives. However, approximately 4,000,000 kg of charcoal were produced in the new retorts, compared to 6,300,000 kg in the old ones. This difference was accounted for by the lower quality and the damped condition of the distillation wood that has been used in the new retorts. Facilities for acetic acid refinement and methanol processing had also been modernized. Thanks to these changes, large quantities of secondary products became available that were hitherto never produced in Croatia: formaldehyde, hexamethylenetetramine-amine, acetone, solvents, acetates, and esters, among others, and could now be used as raw materials in the production of varnishes, solvents, paints, textiles, plastic etc.²¹⁵

Apart from the production facilities, there was a repair workshop in Beliše since the establishment of the Company. It was used for the maintenance and repairment of machinery and other equipment used in factories and for railroad infrastructure maintenance of the Company railroad, *Slavonska Podravna Željeznica* (SPŽ), of various vehicles used on forest estates, of the railroad fleet of the Beliše factory, etc. To ensure the highest operational standard of the Company's equipment, in 1890 the

214 Franjo Vitner, "Povijesni razvitak proizvodnje drvnog ugljena u Kombinat Beliše", in: *Kombinat Beliše kao činilac...*, 146.

215 Opačić, "Povijesni razvitak 'Kombinata Beliše'...", 141–143.

Gutmans pulled together a group of expert craftsmen in a facility named ‘the Main Workshop.’ Its first manager and the founder of the mentioned repair workshop was Albert Hoffmann who retained this position for over 50 years. He was a renowned expert and inventor of many technical solutions. The expert workforce in the workshop consisted of people from all around Austria-Hungary. Administrative staff was mostly German, while highly qualified and qualified workers came mostly from Hungary. After the First World War, the number of workers of other nationalities increased – especially Czechs, Italians and Russians – and were soon joined by their domestic colleagues. The repair workshop remained operative until the German invasion of the country in 1941 when it was redesigned into a machine factory.²¹⁶

The company’s operations during the period between 1921 and 1928 was prosperous for the shareholders, and dividends of up to 10% were paid annually. This had much more to do with an increased forest exploitation than with a favourable situation on the world markets. From the business year 1930/1931 to the business year 1935/1936, the Company had not been paying dividends which, prior to the 1928–1930 crisis, amounted to 6% annually. Dividends had not been paid in the period from 1930 to 1936, and since the business year 1936/1937, payments had been realized through *Prva hrvatska štedionica* in Zagreb and its branch office in Osijek. Company’s shares had been traded on foreign markets for over 20 years but only the data for the period between 1929 and 1933 are available in the archives and can be used as an indicator of the volatility of the markets and its influence on the Company’s results. Beginning of 1929, the Company’s shares were worth 201.50 dinars; already by the end of that year, their value decreased to 183.10 dinars, and continued to fall: by mid-1930s, they were worth 150 dinars, beginning of 1931 – 132 dinars, middle of 1931 – 110 dinars, and 105 dinars by the end of the same year. The downward trend finally ended in the following year when the value of the Company’s shares settled at 110 dinars, never again to reach the pre-crisis levels.²¹⁷

For the Company, the Great Depression meant a fall in sales, drop of prices and taking loans under unfavourable conditions. Notwithstanding the fact that the Company sold its goods on credit only to the most solvent business partners, there were difficulties in billing due to a lack of monetary assets, meaning that the banks could not serve their primary purpose. The company managed to avoid running

216 Ladislav Podobnik, Drago Šuštar, “Remontne radionice i održavanje proizvodnih kapaciteta od osnutka do danas”, in: *Kombinat Belišće kao činilac...*, 187–188.

217 Šimončić-Bobetko, *Društveno-ekonomski uvjeti razvoja...*, 120; DAOS 241, Box 1, Jacket 19: letter to the Foreign Currency Directory of the National Bank of Yugoslavia, Belišće, March 7, 1940; *Ibid.*, Box 33, Jacket 280: newspaper articles on the factory and its production, 1923–1947; Jacket 7: newspaper articles on the Company, 1937–1947; Vuk Vinaver, “Ekonomska kriza i kursovi industrijskih akcija u Jugoslaviji (1929–1935)”, *Acta historico-oeconomica Iugoslaviae*, 12 (1985), 176–186.

losses thanks to large reserves and its wide variety of products on offer, some of which selling well regardless of the circumstances. Additional problems for the Company came from foreign currency regulations in Austria and Hungary which were based on clearing agreements. This impeded bill collection on the markets where the bulk of the Company's products were sold. During the same period, the sawmill in Belišće stopped working, so timbers had to be exported directly from forests to Hungary and Austria, which caused disputes with the trade unions. In 1938, trade started to decline, despite a recovery of prices (compared to previous years) and the gross production income showing a rising tendency. The first half of the business year 1938/1939 saw a new, significant crisis in firewood trade: firewood sales were down by 20% compared to the previous year. Overall trade fell by 8%, 13% compared to the business year 1936/1937. The decline would have been even greater if by the end of 1936 market demands hadn't increased and prices stabilized. During the entire period between 1936 and 1939, the Company paid regular dividends in the amount of 2.5%.²¹⁸

According to the Company's balance sheet for 1940, in the period between the business years 1935/1936 and 1938/1939, the sum of balance sheets amounted to 165.5 million dinars, indicating stable business operations. "Even if discounting the depreciation fund which was twice as high as in other companies", the structure of its liabilities had been completely healthy. In the business year 1938/1939, the net profit amounted to 1,884,000 dinars, or to 2.14 million dinars after adding the profit transfer from the previous year. Of that amount, 100,000 dinars were transferred into the reserve fund, one million for paying 2.5% dividends, 884,000 dinars to a new account, and the difference of 162,000 dinars was paid for royalties and the pension fund.

In April 1940, the Company's board members included: Ernest Gutmann, Dr. Karol Neumann, Eng. Viktor Gutmann, Eng. Hinko Herz, Alfred Czuczka, Eng. Jovan Božić, Dr. Cvetko Gregorić, Dr. Vladimir Havliček, Eng. Vojko Koprivnik, Robert Wilhelm, Sir Andrew McFadyean, Dr. Milan Vrbanić. The members of the Supervisory Board were Dragutin Jurković, Dr. Pavao Fischer, Ernest Panian, and Dr. Antun Adamović.²¹⁹

218 DAOS 241, Box 25, Jacket 217: banks 1923–1938, Jacket 5: *Narodna banka, kredit 1931*; Ibid., Box 33, Jacket 280: newspaper articles on the factory and its production, 7. newspaper articles on the Company, 1937–1947; letter to Yugoslav Lloyd, 1939; Ibid., Box 1: *Almanah bilanca*, "Narodnom blagostanju" (Appendix), Beograd, vol. 12, No. 16, April 20, 1940, 45.

219 Ibid., 46; DAOS 241, Box 40: Business Report on the 20th business year.

3.2. The *Našička* Tannin and Steam Saw Factory

The *Našička* Tannin and Steam Saw Factory Ltd. (*Našička tvornica tanina i paropila d.d.*), or simply *Našička* Ltd., was the largest competitor to the Gutmann company since its establishment. The company had sawmills in the following settlements: Đurdenovac near Našice, Ljeskovicica, the factory colony near Čaglin on the Krndija Mountain, Andrijevci, Podgračci, Karlovac, Zavidovići, Begov Han, Novoselec Križ, and in Donja Lendava. It also had tannin, barrel and furniture factories in Đurdenovac. Besides, the Company impregnated railroad sleepers and telegraph poles in its factory in Karlovac. In Karlovac, the Company also leased an impregnation and steam sawmill (*t.t. Impregnacija drva električna pilana i mlin d.d.* from Karlovac). The Company also made profit from parcelling land which was purchased from Count Gustav Norman Ehrenfels from Bizovac. In its own line of business, *Našička* controlled the following domestic companies: the timber industry company *Kutjevo* Ltd. from Zagreb and the mentioned company in Karlovac; as of abroad, it controlled *Našička Dřevodělné a.s.* from Prague. In addition, the Company owned the majority of shares in the following companies: *Podravina* Ltd. for parcelling and colonization from Donji Miholjac, Krndija economic and forestry industry Ltd. from Zagreb, *Dugoselo* Ltd. for timber processing from Zagreb, *Kelheimer Parkettfabrik AG* from Munich.²²⁰

Našička was part of the concern *Union des isines et des exploitations forestières de Nasic, S.A.* from Geneva, which was its main shareholder and financier. The concern also included the following companies: *Našicer Tanninfabrik und Dampfsäge AG* from Budapest, *Lomaser Waldindustrie AG* from Bucharest, and *Oesterreichische Holzverkehersgesellschaft GmbH* from Vienna. According to its balance sheet for the business year 1932/1933, the Geneva concern owned a share capital of 22,280,200 Swiss francs and various reserves amounting to 4,704,420 Swiss francs. The concern realized net profits in the amount exceeding 230,000 Swiss francs, it transferred profits from the previous year in the amount exceeding 330,000 Swiss francs, securities in the value of more than 14 million Swiss francs, trade receivables in the value of more than 13 million francs. The concern dealt exclusively in finances and it financed companies in its own line of business; the sale or production of goods were forbidden by the concern's statute.²²¹

Našička sold its products abroad either directly or via its sale offices in London, Amsterdam, Brussels, Paris, Venice, Milano, Zurich, Berlin, Prague, Vienna, Budapest, Bucharest, Athens, Tel Aviv, Cairo, Tunisia, Algeria, Casablanca, New York, and Buenos Aires. The Company had its own warehouse in Argentina. As to its domestic

220 DAOS 123, Box 2463: minutes of the meeting from March 31, 1934, *Našička* Ltd.

221 Ibid.

warehouses, they were in Zagreb, Slavonski Brod, Osijek and Gruž. Domestic sales offices (without warehouses) were in Belgrade, Sombor and Novi Sad. Regarding hardwood, the Company sold its products via sales offices of its sister companies in Prague, Budapest and Bucharest. In Budapest, the Company sold its products via another company, registered in Hungary, and the same scheme was applied to Austria and Germany. The Company received commissions from these partner-companies for each item sold, and it paid commissions for selling goods of its sister companies through its own offices. According to the *Union Nasic* headquarters, a company from Zagreb paid interests on loans and commissions to the Company, for which the Company had to pay an annuity tax. The Company's write-offs, which were significant, were primarily due to foreign exchange losses. For business years in the period from 1928 to 1932, the values of write-offs were as follows: 1,625,537 dinars for 1928/1929, 3,734,547 dinars for 1929/1930, 1,751,936 dinars for 1930/1931, and 4,418,069 dinars for 1931/1932, respectively. These sums represented account balances for exchange rate fluctuations for foreign currencies, especially Spanish, English, Hungarian and Austrian. In the business year 1931/1932, the losses were caused by the drop in the value of the dinar "whose agio amounted to 28.5% for almost all currencies". (A business year did not overlap with the calendar year: it lasted from October 1 until the end of September.²²²)

The Company's turnover for the business year 1928/1929 amounted to over 345 million dinars, for 1929/1930 over 354 million, while in the year 1930/1931 the turnover dropped to 265 million dinars. The downward trend continued in the following year when it amounted to slightly over 187 million dinars. Comparing the turnover value from the business year 1929/1930 to the one achieved in 1931/1932, the drop amounts to 47%. The main reason for this, apart from the global crisis, was the sales being reduced to the cheapest products: beech and fir products, firewood etc. Production of oak, beech and fir logs dropped in value from 274,690 m³ in 1928/1929 to 170,033 m³ in 1931/1932. During the same period, the production of railroad sleepers dropped fivefold. Sawn timber production, together with the production of other sawn materials, remained stable with slight oscillations, despite the crisis. The wholesale price of oak sawn material diminished from 2,329 dinars per m³ in 1929/1930 to 1,757 dinars per m³ in 1931/1932. The price of beech sawn material dropped from 1,082 dinars per m³ to 663 dinars per m³, fir from 598 dinars per m³ to 294 dinars per m³, etc. In proportion to the decline in prices, overhead costs were also reduced. Wages and administrative salaries in 1928/1929 amounted to slightly over 91 million dinars, while in 1931/1932 they almost halved amounting to approximately 46.5 million dinars.²²³

²²² Ibid.

²²³ Ibid.

During the crisis years, the Company stopped purchasing forests, and its profits, however insignificant, were used for payment of debts. In that period, its forest stock decreased significantly: in 1929, the Company owned 3,409,616 m³ of forests, while already in 1932 this was reduced to 2,320,824 m³. In the period between 1929 and 1932, the sale of forests and forest products increased by a rate of 7.84 dinars per unit. The peak of the value of forests owned was reached in 1930 amounting to 45,677,107.55 dinars which exceeded the value of the Company's regular business. Price increase of 3.84 dinars per unit "was sufficient to cover all business losses of the Company, and even to declare profit".²²⁴ The Company was also able to accumulate propulsion and food supplies, supplies of various machinery and other devices etc.

Based on its supply list, the Company calculated the value for all types of wood and materials in offer: oak, beech, softwood, firewood, sleepers, barrel materials etc. This was done by attaching a certain number of units (quality indicators) to all types of wood. For instance, a cubic meter of oak logs was estimated at 10 units, beech at 4 units, softwood logs at one unit, etc. Regarding sawn material, oak was estimated at 3 units, beech at one and softwood at 0.5 units. "The actual amounts of latent reserves of the Company by the end of 1931/1932 could not be determined", as reported by juridical experts. "Their values could be determined solely on the basis of extant estimates of the produced quantities", which were not given by juridical experts since that would have taken too much time. In any case, the Company was obliged to determine its latent reserves and report them for taxation, according to a law from 1932/1933. Should the Company have failed to declare its reserves, "or failed to report them in sufficient amount, i.e., corresponding to the volume of its business transactions", "the matter would have been settled by the tax assessment procedure for the year 1934".²²⁵

Records on salaries of the high positioned directors of *Našička* and *Union Nasic* from Geneva had been preserved. The income (salary plus "remuneration") of the general director of *Našička*, Aleksander Sohr, amounted to 598,037 dinars for the business year 1928/1929, 643,000 dinars for the following year, and 631,000 dinars for the year 1930/1931. The Company's vice-president, Geza Kovacs, received 598,037 dinars for the business year 1928/1929 and 631,000 dinars for the two following years. For the business year 1931/1932, both Sohr and Kovacs received their salaries at the expense of *Union Nasic*, in Swiss francs. Sohr received 42,794.49 francs or 569,166.69 dinars, while Kovacs received 36,411.10 francs or 484,666.69 dinars. Until 1931, all companies had been managed by Hermann pl. Rosenberg, who was the president not only of *Našička* but of all companies belonging to the concern.

²²⁴ Ibid.

²²⁵ Ibid.

Accordingly, Rosenberg's salary was paid by all companies of the concern since he was the one responsible for the prosperity of the entire concern. Only from *Našička*, Rosenberg received 1,380,495 dinars for the business year 1928/1929. This salary was exempt from tax since he was a Hungarian citizen and under Article 4 of the Convention Act between Hungary and Yugoslavia double taxation was to be avoided. Rosenberg lived in Budapest and spent only a few days each year in Yugoslavia to perform inspection and control. After being acquitted in the *Našička* Process, Sohr was given back his passport and he left Yugoslavia.²²⁶ Upon Rosenberg's death, in February 1932 Sohr and Kovacs took his place.

In Zagreb, the Company owned the "office building" at Marulić Square 18 and a residential building for its officials at Mažuranić Square 3, the latter being sold in 1931. Officials who were not accommodated in the Company's apartments received money for their rent. The rent wasn't paid as a lump sum but in the exact amount. The size of the apartment had been determined by the management on an individual basis, according to the official's position and needs (including the number of family members). Officials had to find apartments themselves, according to the number of approved number of rooms, and the Company paid the rent. The amount of rent paid had been controlled via receipts issued by the landlord. If married, a Company director was entitled to five rooms, procurators to four, while other officials to three or two rooms, depending on the number of family members. A five-bedroom apartment for a director in Zagreb had been rented at a price of 3,200 dinars.²²⁷

Našička annually produced 283,100 m³ of logs, 681,000 m³ of firewood, tannin wood and sawn timber, 445,000 items of railroad sleepers, 25,000 m³ of mining wood and telegraphic poles, 60,000 m³ of parquet, 90,000 molds, and 40,000 barrels. The annual value of the Company's exported production was estimated at approximately 200 million dinars. In 1935, the Company owned 10 sawmills (including those in Bosnia and Slovenia), 27 piston locomotives, and 47 yokes for cutting wood. It also owned the largest parquet factory in the country, a furniture and a barrel factory, a wood flaking facility, a wood impregnation facility, and a packaging factory. The tannin factory in Đurđenovac employed approximately 200 workers and was one of the largest in the country with an annual production of 1.2 million litres of filtered oak extract and 400,000 litres of chestnut extract. To this, one should add repair workshops for railroad vehicles and other machinery, foundries and various metalworks. The Company constructed 582 km of vicinal railroads served by 62 locomotives with 2,800 wagons, 2 tugs and 14 barges. It possessed two funicular railroads of 6 km in length, a private electrical power station and a quarry.²²⁸

226 Ibid.; Kulundžić, *Politika i korupcija...*, 212.

227 DAOS 123, Box 2463: minutes of the meeting from March 31, 1934, *Našička* Ltd.

228 Šimončić-Bobetko, "Drvena industrija Hrvatske...", 198.

In the period between 1925 and 1935, the Company employed approximately 7,500 employees, 4,000 seasonal workers and 108 administrators and clerks. In the tannin factory, the workers received the following salaries: unqualified workers received 22.22–26.50 dinars a day, qualified workers such as fitters and turners received 28.80–37.60 dinars. Supervisors, boilers, machinists, beltors and overseers received 1,026–1,750 dinars per month, i.e., between 39 and 67 dinars a day. Average worker's monthly salary in the Karlovac branch of the Company amounted to 700–900 dinars. (For comparison, the rent for the cheapest apartments varied between 300 and 400 dinars.) Most expert workers and clerks enjoyed free accommodation in workers' colonies Ljeskovica and Đurdenovac, firewood and lighting (in Đurdenovac). Each family member received from a consumers cooperative 15 kg of flour a month at a low non-market price of 0.3–0.9 dinars (the market price being 6.75–8 dinars) and 0.5 kg of pork fat at a price of 6 dinars (the market price being 39.5–41 dinars). In cases when the Company's management decided to replace old workers with younger and healthier ones, the management simply tossed the old workers into the street, as was the case with 15 workers (a total of 54 family members) in 1924. Since such eviction was illegal, the procedure was suspended upon an intervention of the trade-unions and local authorities (district government in Našice). Being more expensive (due to provision costs their family members were entitled to), married workers were at a steady risk of being discharged. The most difficult forest works had been performed by haulers (*kirijaši*), mostly from Bosnia. Logging jobs had been paid less than sawmill jobs since they were mostly seasonal and therefore not entirely covered by labour legislation.²²⁹

3.3. Social legislation in the Kingdom of Yugoslavia

Since its establishment, Belišće was a semi-closed company settlement (workers colony) with its own apartments, lightning, plumbing, roads, school, bath, community centre for workers and clerks, cinema, and other facilities. The Gutmann estate provided its employees with food products from its own production, and these products were more affordable than the ones from the local supply. Besides, trust between the employer and his employees was of crucial importance for the Company's success. The fact that members of both parties were mostly foreigners speaks a lot about their relationship. Immigrants from various parts of Austria-Hungary settled permanently in Belišće. Educated clerks, engineers, qualified and unqualified workers

229 Šimončić-Bobetko, "Drvena industrija Hrvatske...", 198, 268–269; Kolar-Dimitrijević, "Križa tanske industrije...", 47–51. Informant Josip Sabo, born in 1929 in Ljeskovica, reports on living conditions in the sawmill owned by Našička Ltd.

Mira Kolar-Dimitrijević, "Štrajkovi šumskih radika firme 'S. H. Gutmann' u Slanoj Vodi i Slatinskom Drenovcu 1936. godine", *Zbornik Historijskog instituta Slavonije i Baranje* 18 (1) (1981), 1.

responded favourably to the loyalty they experienced from the Company. The unqualified workers were for the most part seasonal domestic workers who were hired for forest works, for loading and unloading of timber or in the sawmill. "Provisions" were also given to workers living outside the colony "who own[ed] insignificant or no property".²³⁰

The lumber industry crisis at the beginning of the 20th century led to restructuring of production: sawn and barrel materials had no longer the leading role, dry distillation and tannin facilities were beginning to be built. Work conditions in these factories were hard, and the workload had to be adjusted to the capacity of the machines. Machinery maintenance had been highly appreciated, unlike production-line jobs which were considered as primitive. If necessary, the workers had to work seven days a week, without paid overtime. However, in the times of crisis, due to the reduced demand, they worked only two or three days a week, if at all. Working time, that was sometimes extended to 14 hours a day, often led to job-related injuries, and the Company had the highest number of disabled workers in the respective industrial branches. Around 1900, unionizing was forbidden; the Company enjoyed support from the authorities and received state subventions for developing industry in ethnically heterogeneous areas. In October 1906, as a response to the first strike, the state of emergency was introduced and maintained with the help of the military. As much as 1,200 workers participated in the strike demanding a 13-hour workday, 11 hours nightshift, and a wage increase. In 1907, the management succeeded in suppressing the strike by threatening the strikers with eviction, so married workers returned to work. Since the times of the first union actions the workers colony was referred to as "Gutmann's pashalik (*pašaluk*)", the name being changed to "Gutmann's Lichtenstein" during the Kingdom of Yugoslavia.²³¹

The absence of legal right to unionizing helped the Gutmanns to carry out their business plans and achieve cost reductions in the times of crisis. In 1907, in the period of the so-called Croato-Serbian Coalition, as one of the coalition partners demanded legalization of trade unions, the Gutmanns allowed Belišće metalworkers to join their trade union with headquarters in Budapest. It was the stance of the People's Party towards trade unions that aptly described the character of these organizations in the period between 1883 and 1903: "the unions, incipient under conditions of a reactionary political system hostile to any socialist type of organization", survived

230 Kolar-Dimitrijević, "Drveno industrijsko poduzeće 'S. H. Gutmann' u Belišću...", 53; Karpati, "Kronologija razvitka organizacije kombinata...", 245; DAOS 241, Box 33: newspaper articles on the factory and its production, 1923–1947.

231 Mira Kolar-Dimitrijević, "Razvitak radničkog pokreta u Belišću od kraja XIX. stoljeća do 1941" in: *Kombinat Belišće kao činilac...*, 421–423; Kolar-Dimitrijević, "Drveno industrijsko poduzeće...", 54; Salajić, *Staro Belišće...*, 45.

and developed as illegal political organizations, “unlike anywhere in Europe, apart from Imperial Russia”.²³² It is also telling that in the same period unionized workers in Croatia were labelled as “insolent rebels raising against those who provide them livelihood”. Since the ones “providing livelihood” were business owners, one assumed that market relations were not meant to be advantageous for the workers. Owners paid salaries to workers according to their contractual obligations – provisions were expected, as part of tradition and a form of servitude. Providing for their employees separated Gutmanns from other large companies in Yugoslavia. Living conditions in Belišće significantly deteriorated during the First World War. The situation is best described by the fact that the price of 1 kg of pork amounted to 30–35 kronas, while salaries were as low as 4 kronas a day. Unionizing had been forbidden due to war circumstances, and the factory played an important role in war industry. Thus, since the organization of work became subordinated to military objectives, any union activities were punished by jail or forced mobilization. Overwhelmed by war circumstances and separation of union members into sympathizers of the Russian Bolsheviks and their opponents, and into Croatian separatists and reformists, in July 1917, the Land Government of Croatia and Slavonia sided with the reformists who advocated legal forms of class struggle. As a result, the General Union of Workers (ORS) was legalized. In Belišće, despite the obstruction of district authorities, a branch of this trade union was established already in September 1917, and on the very day of its establishment started a strike that ended with wage increases by no less than 50%.²³³ Namely, due to intensified looting actions of the so-called “Green Cadre” in the second half of 1918, joined by POWs returning from revolutionary Russia, ideological instrumentalization of war deserters in Slavonia commenced. The Green Cadre had no impact on the Gutmann company since the Red Guard was already present there.²³⁴ ORS members, in cooperation with the military, kept the factory safe. Attacks by looters in October and November 1918 were successfully repelled, and this provided the workers with additional negotiating power against the employers. However, notwithstanding their loyalty regarding the Company facilities, the workers were also on strike during the turmoil, so Edmund considered sending the military against them. The bloodshed was avoided due to efforts of army command-

232 Korać, *Povijest radničkog pokreta...*, 47.

233 Kolar-Dimitrijević, “Razvitak radničkog pokreta u Belišću...”, 424; Kolar-Dimitrijević, “Dravno industrijsko poduzeće...”, 58; Korać, *Povijest radničkog pokreta...*, 129.

234 The Red guard (*Crvena garda*), an organization established on October 31, 1918 by workers for maintaining law and order. The Osijek newspaper *Die Drau* dubbed them ‘Peoples’ Militia’. According to the paper *Radničke novine*, “the Red Guard guards the industry – not the industrialists, and it does so in the interest of the entire population. In the public interest, the workers believed that the future state would strip all those who became rich during the war, and even those who became rich before the war.” See: DAOS: *Povijest radničkog pokreta*, zk 13.

ers who had their representatives in the Company's management since the beginning of the war. The strike ended with a wage increase by an additional 50%. Apart from that, as a reward to their loyalty during the turmoil, the Company erected a community centre building for the workers as a place where the cultural life of the settlement would take place. It included a reading room and a cinema, and the workers had their own theatre group. These institutions played a pivotal role in integrating the Belišće workers. With the aim of separating the workers from "the Bolsheviks" in the trade union, the Company financially supported the reformist union faction.²³⁵

Social and political work of ORS in Belišće was organized within the workers' Community Centre. The Centre hosted lectures on the importance of unionization, organized events, theatre shows, opened a reading room etc. In the early period of the new established state (the State of the Serbs, Croats and Slovenes), the trade union branch in Belišće was singled out as a role model for other workers. Its struggle for higher wages was successful, and an eight-hour workday was implemented in Belišće since January 1919. (The same norm was legalized throughout Slavonia in February 1919, and in the entire Kingdom in autumn of the same year.) Having proved themselves as efficient in the pacification of the labour movement, the Gutmanns took the leading position within their line of business when it came to social dialogue. Other companies followed their example, striving to establish similar relations with their workers.²³⁶

In July 1922, *Slavonija Ltd.* from Slavonski Brod announced that the company's management reached an agreement with the representatives of their workers to increase the wages for the lowest paid jobs by 7% and to guarantee them a monthly "provision" in the form of 1 kg of flour per worker and an additional 0.5 kg per family member. Beginning of June of the same year, *Slavex Ltd.* announced that their workers submitted a memorandum demanding a wage increase by 30%. Since the Company decided not to meet this demand, the workers went on a 10-day strike demanding an intervention of labour inspection. After the inspection visited the factory on June 19, the strike ended, and the wages and provisions increased by approximately 8%. *J. Frank & Co.* proudly announced that they raised the wages of their married workers because of their higher expenses, regardless of their work contribution being equal to the work contribution of their unmarried colleagues. In fact, the real reason for this concession was that married workers were considered to be more "permanent" and "obedient". The same company used a system of issuing provisions because it calculated that such a system would be cheaper since the operation costs depended on the costs of food products.

235 Hrvoje Volner, "Odnos poduzeća S. H. Gutmann d.d. prema sindikatima", *Studia lexicographica*, 2 (3) (2008): 103–105.

236 Kolar-Dimitrijević, "Razvitak radničkog pokreta u Belišću...", 424; DAOS 241, Box 28: payrolls of various companies in 1924.

An outstanding feature of the Gutmann Company was employment of seasonal workers. In July 1922, the Company reported about the production in their manufacturing sites being stopped due to a lack of raw materials and workforce, as most of the employees had been preoccupied with the harvest. In that period, an insignificant number of permanently employed workers lived on lower provisions and wages. An oak extract factory from Mitrovac reported that their workers, demanding a wage increase, pointed to the wages of their comrades working for the Gutmann company. Since the seasonal character of the lowest paid jobs was mostly determined by the harvest, the Gutmanns were advised to wait with wage corrections until the end of the harvest, after the situation regarding living costs would clear up. After a strike of their blue- and white-collar workers in October 1922, the Mitrovac factory management consented to a wage increase by almost 40%. The steam saw factory in Virovitica reported about its workers demanding that all payments-in-kind be transformed into base wages and that the latter be increased by 40%. By the end of May, this company increased the wages of their qualified workers by 18%, and by 10% for all other workers. *Našička Ltd.* reported that its workers received a 20% wage increase in May 1922. *Drach Ltd.* from Sisak reported that in July of the same year their workers demanded a 60% increase in wages. The management succeeded in postponing the negotiations until August in hope to reduce the workers' demands by 10%. After a strike in August, the negotiations finally commenced resulting in a 22% wage increase and provision of 1 kg of flour and 100 g of pork-fat per worker every two weeks. As a compensation, the company suspended clothing and laundry delivery. The tannin company from Sisak reported a wage increase by 22% after a five-day strike. An oak extract factory from Županja reported about their workers being deprived of provisions: "The wages we pay to our workers are known; in addition, we provide each member of the worker's family with 15 kg of flour at a price of barely 9 kronas, while other consumer goods – coffee, sugar, rice, candles, matches – are for them 15% cheaper compared to local prices".²³⁷

As a response to all aforementioned companies, the Belišće company announced that it had reached an agreement with their workers: "Increase [in wages] depends on worker's status: whether the worker is qualified or unqualified, married or single, with many or only few children. Workers with families receive a family allowance depending on the number of children under the age of 14 (with exception of children attending school). On August 9, the workers received a proclamation warning them to provide truthful information as to the number of their children under the age of 14, in order to avoid harm for themselves".²³⁸

237 Ibid.: Payrolls of various companies for the year 1922.

238 Ibid.

Commenting on the policy of the Ministry of Social Affairs regarding the workers' status, the Company issued the following statement: "We have always understood the needs of our workers. We have recognized workers' representatives, and we have negotiated with them about all issues relevant for their employment even before the adoption of the Workers Protection Act. For all our business units in Belišće, we signed intra-company collective agreements even before the Regulation of November 12, 1937. We do not oppose collective agreements; they are good and just, provided that the workers can fully appreciate them. It would be justified to facilitate the reaching of agreements in those companies in which the workers are accustomed to realizing their demands and defending their rights collectively, through organizations".²³⁹ In cases when workers saw no need for organizing themselves, according to Gutmanns, there had been no justification for ratifying collective agreements. It should be emphasized that the Gutmanns preserved its reputation of a company pursuing the right social policy vis à vis its workers – a policy guaranteeing continuity and security. Such an attitude can trick one into believing that life in Belišće was easy. However, during a tour of Belišće in March 1934, representatives of the District Office for Workers Insurance from Osijek noticed numerous irregularities concerning their work conditions and living conditions. For instance, regarding workers' housing in the colony, they determined that the settlement consisted of single and double-room apartments with a kitchen and auxiliary spaces, and that some workers converted their attic into an additional room. Larger apartments were intended for workers with families, while unmarried workers were allocated single-room apartments. The commission found that workers with families lived in single-room apartments: "These tiny rooms, into which one can barely squeeze furniture that a family needs, also contained a small stove used for cooking, preparing food and washing clothes".²⁴⁰

The reports of the Labour Inspectorate notwithstanding, the Company had put a lot of effort into improving the living conditions of its workers. Since the mid-1930s, the workers were able to build their own houses – an achievement that was possible not only because they were well paid but because the Company provided them with free building materials too. According to Hackenberger's testimony, throughout the entire interwar period, the workers' wages were higher than the ones in the competing companies (*Našička, Slavonija, Šipad*). In addition to the regular salary, the workers (together with their family members) enjoyed various privileges such as free housing, electricity, heating and free railway transport. Besides, the permanently employed workers (together with their family members) enjoyed free medical care. In the times when many social rights were

239 DAOS 241, Box 28: collective labour agreements, 232.

240 Kolar-Dimitrijević, "Drvno-industrijsko poduzeće...", 81–82.

still non-existent in the Kingdom of Yugoslavia, the retired workers (and their widows) in Belišće had the right to free housing, heating, lighting and financial compensation.²⁴¹

Living conditions of the workers in Belišće are aptly depicted by an Annex from September 14, 1928 entitled “Benefits enjoyed by the workers of Gutmann Ltd. Belišće apart from those provided by the Factory Order”.

Beneath the text of the Annex, a hand-written paragraph reads: “In lack of work, the workers are sent on an uncertain shorter leave without the legally prescribed one-week notice period. In such cases, they receive wages, and those who have a right to firewood are provided with it.”²⁴²

Overhead saw operators and their assistants, for each day, including holyday but not Sunday, shall receive 1/4 over their regular wage, the so-called *Spanngeld*. If two holydays should come one after the other, this applies only to one.

In all facilities, workdays shall last for 8 hours, i.e., 48 hours a week, excluding weeks with holydays.

In the case of a necessary extension of working hours, professional workers, including iron-turners, metalworkers, iron-founders, tinsmiths, carpenters, wheelwrights, coopers, beltors, painters, masons, welders, electricians, machine builders, supervisors, shall be paid 100% above their regular wage, and other workers 50%.

Urgent errands on Sundays and holidays, including: the first and second day of Christmas, New year, Epiphany, Palm Sunday, Annunciation, Second Day of Easter, Corpus Christi, the second day of Pentecost, Saint Peters Day, Assumption of Mary, Nativity of Mary, All Saints' Day, and Solemnity of the Immaculate Conception, shall be paid 100% over the regular wage. In addition, 100% above the regular wage shall be paid to those workers, regardless of their qualification, who, in cases of emergency, are called to work overtime.

Workers designated for assembly work outside the factory, e.g., repairs of bridges, scales, locomotives etc., shall be reimbursed for their railway travel to worksite and back. Their work hours shall be paid 50% and overtime 100% above their regular wages.

Piecework and the cost of piecework shall be determined in the presence of the workers commissioner.

On May 1, all operations in all companies shall stop and that day shall be recognized as workers holyday. Workers working on that day, such as steam boiler operators or

241 J. Hekenberger, *Autobiografija*, 34–35.

242 DAOS 241, Box 28: Werkstättenbericht, 235.

lighting and water supply workers, shall be paid 100% over their regular wages for each hour of work.

Workers transferred from a lower to a higher-level and a better paid position shall achieve successive wage for the latter job. Workers transferred from a higher to a lower-level position due to temporary difficulties are to be given due notice 8 days prior to the transfer. In such cases, workers shall lose their previous wage immediately upon the transfer; otherwise, they shall retain their old wage for a week.

According to previously determined provisions, propulsion metalworkers, the so-called locomotive kettle workshops, sanders, coppers, and welders shall receive two coveralls annually, while kettle workers in the tannin factory shall receive 12.5 dinars monthly and the same applies to masons working in the kettle for two hours a day.

Workers shall receive firewood after 6 weeks of employment regardless of whether they reside in Belišće or elsewhere: married workers one cart of scrap wood every 6 weeks during summer months and during winter months one cart of scrap wood every 4 weeks. Unmarried workers receive two carts of firewood during winter months only.

Workers not residing in Company's apartments shall receive a rent subsidy after being employed for 6 months: for 6 winter months 22.5 dinars, and for 6 summer months 17.50 dinars.

Labour commissioners are recognized representatives of the workers.

In the community, labour commissioners shall cooperate with the representatives of the Company with the aim of establishing a support fund for the elderly and the chronically ill workers employed in Belišće.

The Company will provide the workers organizations in Belišće with Workers Community Centre and a film projector for the cinema-theatre, with free lighting and firewood, as it did before.

With the aim of reconciling class differences in the spirit of reformed socialism, one tried to apply the Workers' Protection Act (ZOR), passed on June 14, 1922, during the period of "colonial type capitalism". The country's Constitution (the so-called *Vidovdan Constitution*), in 23 out of its 124 articles, takes on the socio-economic relations in the society. The ZOR can be viewed as further advancing the constitutional idea of "calming revolutionary sentiment after the First World War, modelled on the Weimar Constitution", acknowledging class differences. In its Article 23, the Constitution guaranteed a state protection for the working class appealing to the State to "take on a bigger role in the socio-economic domain, in the spirit of 'justice' and resolving social tensions". According to ZOR, the workers were called upon to elect their company commissioners to represent them in negotiations with

employers. However unrealistic constitutional solutions might have been, the positioning of socialist minded persons into the Ministry of Social Policy and Public Health reveals the State's intention to take an active role in shaping the relationship between the workforce and the capital. It is also revealing that the strongest opposition to ZOR came from the industrialists who considered the institution of workers commissioners as inappropriate under extant conditions.²⁴³

At the conference on regulations for implementation of the ZOR, held at the Ministry of Social Policy from 26 February until March 1, 1923, the industrialists defended their position claiming that "the Act in the present form is neither needed nor applicable since it requires participation of workers in managements of companies, and this participation will in reality depend on whether their elected representatives will be capable of taking their role seriously and acting upon it in the interests of workers".²⁴⁴ In general, the industrialists were appalled by the fact that the state got involved into their own domain ("attack on free market"), and it was obvious that they interpreted the welfare state concept differently from the social-democrats who tried to regulate labour conditions by law, i.e., via the Ministry of Social Policy. Gutmann Ltd., as other companies too, opposed state mediation expressing its concern regarding the "influence that a welfare state, and a later fascist government, would have over its citizens".

The representatives of the employers interpreted the problems with the implementation of the Workers' Protection Act as resulting from a deep distrust between the negotiating parties. According to their interpretation, the workers saw employers only as their enemies and were incapable of collective negotiations. Besides, workers' organizations were keen on positioning the trade union commissioners as representatives of the workers; they saw in them their main weapon in the struggle against the extant social order. The argument could also be heard that domestic workers were at a lower level of development compared to French ones; and this comparison was not picked by chance: it was French legislation that the authors of the Act had used as their role model in composing the Act. Thus, it was easy for the industrialists to argue that regulations of the Act could only be effective in a developed country like France whose working class was at a completely different socio-economic level than its Yugoslav counterpart. Applying such regulations to domestic circumstances would only damage the economy, as they claimed, and would result in the same mistake "that the legislators already made when adopting the idea of an 8-hour work time, which decreased the volume of work while retaining its – equally low – quality".²⁴⁵

243 Volner, "Odnos poduzeća...", 106–108; Petranović, *Istorija Jugoslavije...*, 130–131.

244 DAOS 241, Box 28: Ordinance on Working Hours, letter to the Chamber of Commerce in Osijek (January 11, 1923).

245 DAOS 241, Box 28: Ordinance on Working Hours; Ibid., Box 28: Conference on the regulations for the implementation of ZOR, 222, Ministry of Social Policy, February 26 – March 1, 1923.

The working class' legislative battle against the industrialists, who were united in their interest, was fought under the supervision of labour chambers and labour inspectorates. These institutions were organized according to administrative units. Labour inspectorate was as an appeal instance for labour commissioners in cases of violations of the law and were under protection and control of the Ministry of Social Policy. These inspectorates, as offspring of labour chambers, had often been powerless before the industrialists. They were more successful when intervening in smaller than in larger companies: an improvement of workers' status in a smaller lumber industry company could result in an improvement of workers' status in larger ones. Labour inspections acted independently, so it was not rare that disputes were settled in the interest of the companies and to the detriment of the workers. In some cases, the inspections deliberately failed to react to law violations.²⁴⁶

The industry in Slavonia developed rapidly, so it was often impossible to comply with the Ordinance on Hygienic and Technical Protection Measures, not to mention the environmental impact of industrial by-products.²⁴⁷ For example, *Nišička* had large drainage channels from which an unbearable stench spread around. A channel of filthy fluid from the tannin factory in Đurdenovac ran between the main road and a pedestrian walkway in the length of 500 meters. The labour chamber linked the outbreak of tuberculosis and other infectious diseases to the stench since the workers on their way to work had to pass by a fetid channel: "The channel smells awful, as if there is a weight on one's chest".²⁴⁸ And this was not the only such menace: as a labour commissioner reported, there was a sewer channel passing through the settlement which was covered only in places where it crossed with a road, and it also ran through a park. Such hygienic failures were in direct contradiction with regulations of the Labour Act. Also, protection measures for preventing accidents in machine works were inadequate, and it often happened that workers who were not trained in operating machines were nevertheless hired for such jobs, resulting in higher injury rates. Since all reports to work inspection remained unsuccessful, both companies, *Nišička* and Gutmann, were blacklisted as irresponsible employers, and they both offered the same excuse: "We cannot afford ourselves such an investment, and if you force us to do so, we will stop the production".²⁴⁹

There were as much as 150 metal processing companies in Osijek, but neither the Osijek Union of Metalworkers nor other sources have left any information regarding the number of workers working in these companies. The largest employer

246 Volner, "Odnos poduzeća...", 108–109.

247 DAOS 6, Box 3755, 14090: Workers' Protection Questionnaire organized by the Main Branch of the Workers' Chamber in Osijek, March 27, 1929.

248 Ibid.

249 Ibid.

was the Osijek Iron Foundry and Machinery Factory, and this company was at the same time the worst in terms of hygiene and working conditions: “The state of its workers is horrible and makes them desperate. (...) Workers are coming from Dalmatia and Lika, all large and strong men, to provide for their families back home; but they return after just one year, broken, crippled, miserable and bitter.”²⁵⁰ Their wages barely covered their basic needs, clothing excluded, “let alone (...) their cultural needs”. The workers were silent and if anyone dared to complain to the media about their working conditions, he would be “exiled” in no time. The labour inspectorate failed to take any concrete actions in that matter. The inspectors complained about the lack of administrative staff, but this was a problem that could have been solved by appealing to a specific article of the Labour Inspection Act according to which an unsolved problem could be transferred to other authorities, e.g., constabulary, craft precinct or district government. Workers chambers representative Eduard Fleischer explained that workers representatives could not get any help from higher authorities, except the police which “assisted them in performing controls”. Without the police assistance they wouldn’t have filed 24 complaints against violations of the Labour Act. Court hearings took place but to no avail: “If anyone was sentenced, the ordinance would have been enforced; since this was not the case, employers are hoping that [complaints] will be withdrawn, so they continue to violate it [i.e., the Labour Act]”.²⁵¹

According to the statistics of the Central Office for Workers Insurance for the year 1926, “it is obvious that the highest tuberculosis mortality is among workers between 23 and 27 years of age”²⁵² – those in the prime of their lives. Due to sick leaves on the account of tuberculosis, as much as 610,664 workdays were lost to this disease – a total of 15,074 cases and 34 million dinars of medical expenses. According to a labour commissioner estimate, treatment costs, other illnesses included, amounted to 2 million workdays and “100 million dinars” of medical expenses. Bearing this in mind, the workers’ leaders insisted on a new law being passed that would solve problems related to health and social security. As they pointed out, the costs of implementation of such a law would be lower for the employer than the treatment costs. However, the initiative failed, and the employers in industries depending on hard manual work rarely, if ever, medically treated their exhausted workforce. Almost no company respected the institution of labour commissioners: “if any labour commissioner would complain about working conditions, he would be offered a better position; and if refused to be bribed, he would be fired”.²⁵³ Acting as their only law

250 Ibid.

251 Ibid.

252 Ibid.

253 Ibid.

was money, employers actually dismissed the Labour Act and elected workers representatives would often lose their jobs if they reported illegalities. Notwithstanding the fact that they were entitled to a salary according to the Labour Act (as long as their mandate lasted), this had no real effect. Old labour commissioners are tossed out, while new ones cannot be elected, so “this institution gradually but inevitably vanishes, the employers unrestrictedly enforcing the worst kind of despotism and exploitation over their workers and clerks”. The only case of labour inspectorate siding with the workers was a case of laying off several labour commissioners in the Gutmann company. Even as late as 1938, refusal to implement the social legislature continued to be justified: “the workers need to bear in mind that a completely modern social legislation – a one that neither our administration nor our circumstances cannot live up to – has been enforced upon us.”²⁵⁴

The ZOR was supposed to be followed by an equally important Workers Insurance Act adopted on May 14, 1922. This act should have taken effect on July 1, 1925, but its implementation had been postponed due to the lumber industry crisis. Discussion concerning the implementation of this Act as a part of the Regulation on Implementation of Workers Insurance in the Case of Exhaustion, Old Age and Death once again actualized its implementation in 1936. According to the draft of the Regulation, obligatory contributions to the insurance fund would be prescribed by the Central Office in the place of residence. The employers objected to this solution by arguing that the legislator, instead of gaining a systematic insight into the conditions of the Yugoslavian society, once again adopts laws and regulations from countries with more developed social conditions. According to their experiences, they claimed, the ZOR “could hardly have been applied even in 50% of its scope.”²⁵⁵

Another act, the Regulation on Collective Agreements, adopted in November 1937, reveals the efforts of the Ministry of Social Policy to adopt the legal practices of the more developed European countries. This act also reflects the attitude of the industrialists towards social policy. The most objectionable regulation of the Act was the one enabling companies to hire only those workers who are members of the trade union that has signed a collective agreement with the company. The employers’ ironical comment reads: “the authorities need to understand that this does not mean that France is less developed than we are, or that we are as developed as France, but rather that France has the knowledge of Montesquieu, and we let ourselves get carried away, just like Mussolini, into artificially creating something new – in this case, the class consciousness and workers’ organizations – which is still obscure to those concerned

254 DAOS 241, Box 24: report on the second social issues questionnaire, Sarajevo.

255 DAOS 241, Box 29: Regulation on Implementation of Workers’ Insurance in Cases of Exhaustion, Old Age, or Death, 1936, general remarks on the Regulation.

and something for which they felt no need.”²⁵⁶ The abovementioned Regulation on Collective Agreements created a competition between various trade unions which tried to use this regulation as means of control over members and companies. For example, at the beginning of 1938 as much as 3,000 Slavonian workers were unemployed. The Gutmann company clarifies that these workers became “prey of those agitators who are the loudest and promise the most, i.e., they would quickly change organizations if a louder agitator would appear (...), so we have refused to sign collective agreements with forest workers. After 300 of them had no income for 6 weeks, at the beginning of negotiations we discovered they had no clue about what a collective agreement was. When they were explained that wages can be increased even without a collective agreement, the strike ended within 2 hours.”²⁵⁷ The Gutmanns proposed the Regulation be changed so that a collective agreement could be signed with workers’ representatives or their assignees, authorized by the majority of those interested in getting a job. In addition, they proposed the following to be included in the Regulation: “that for every self-righteous act, such as constraining the employers’ freedom of enjoying their own property, especially in the case of occupation of factories, facilities and land areas of the Company, all perpetrators be punished, their leaders receiving maximal penalty”. They added that the employer be allowed to “debar from further employment, without notice”, all individuals punished for such acts.

An attitude about harmful skipping of stages in social development by adopting legislation patterns from more developed economic systems of western countries was in an interesting way expressed by Hinko Sirovatka in June 1930, during a discussion about the economic situation in the Osijek Chamber area. According to Sirovatka, the state made a mistake in applying social legislation to the sphere of labour and business. This mistake was a consequence of its underestimating the disbalance “of [domestic] production powers compared to the production powers of Western Europe and especially America”. Turbulences in political relations among nations, being a characteristic of civil societies, “had an aim of creating an order in the field of cultural-moral, economic and social relations among nations, states and classes, such that each nation and each individual would be satisfied”. The lagging behind that can be seen in several parts of Europe “is reflected in primitiveness of social relations”. To illustrate his point, Sirovatka takes the examples of fascism and bolshevism which, “as state systems, use violence, not allowing any other opinion to be expressed apart from their own.”²⁵⁸

256 DAOS 241, Box 28: workers’ rights, the Sarajevo conference – collective labour agreement issue, 1938, 232. See also: Montesquieu, *Spirit of the Laws (O duhu zakona*, Beograd: 1989), Vol. II, Book 20, Chapter 19.

257 Ibid.

258 DAOS 223, Box 121: minutes of the CTC Osijek, June 30, 1930, speech given by Hinko Sirovatka.

4. The Great Depression – from the Dinar Stabilization Programme to the pre-WWII Inflation

4.1. The global depression and the depression in Yugoslavia (until the stabilization of the local currency)

The root causes of the Great Depression are a subject of considerable controversy up to the present day. Due to its cyclical nature, the slumps make an integral part of the capitalist economy development. However, the crisis originating in the United States by the end of 1929 and lasting until the Second World War had a somewhat unique backstory. The secular trend of growth as an inherent part of the development of the world economy is typically explained by long cycles in which periods of growth are punctuated by periods of stagnation, the latter impelling the emergence of novel forms of production. Complementing and stimulating each other, diverse industrial sectors contribute to overall economic growth by a spill-over effect. For instance, sectors playing a crucial role in the economic growth in the aftermath of the Second World War included housing industry, production of automobiles and other durable consumer goods, industries based in new technologies such as electric appliances, computers or jet propulsion, among others. Development of these industries was complemented by the advancement of public sector services such as education and healthcare. According to this theory, the Great Depression of the 30's was an intermittent stagnation followed by a period of economic growth that lasted until the 70's of the last century. Within this wave of prolonged prosperity, one can discern several distinctive shorter periods. One such period took place during the 1930's when military expansion, based on the application of new technologies, provided jobs which in turn prompted consumption. On the other hand, the wartime period, notwithstanding its broader destructive effects, enabled lower prices and full employment. Such a development was especially visible in the United States which were spared from the devastation that the war had brought upon the rest of the industrialized world.²⁵⁹

A period of relative stagnation that will eventually lead to a full-blown depression can be recognized by its duration. This idea does not fit in with the estimate that shorter conjectural waves typically last 3.5 or 6 to 11 years. Namely, what characterizes a cycle containing a depression period is that it tails off in a period of stagnation rather than gradually rising into a period of boom. If such a stagnation period sets in,

259 Daniel R. Fusfeld, "The Next Great Depression", *Nebraska Journal of Economics and Business*, Vol. 18, No. 2 (1979): 3-4; vidi i Bićanić, *Agrarna kriza u Hrvatskoj...*, 3-4.

one is keen on identifying its causes and finding ways out of it. Within mere weeks between October and November 1929, the Dow Jones fell by 40%. However, it recovered by March 1930 leading the investors into a false belief that what happened was nothing more than a bump on the road. Many suffered heavy losses but since no more than 2.5% of Americans owned stocks, these losses could not make a dent in the generally weak aggregate demand which continued sliding. Customs protections could have had some impact on the modest levels of trade between America and Europe making it difficult for debtor countries to repay their debts. However, 2/3 of American imports had not been subject to tariffs and Europe exported no more than 6% of its goods to America. As Irving Fischer noticed in 1933, it was the debt and deflation – the two consequences of the fixed dollar value (due to the then extant gold standard) – that caused the real decrease in prices, wages and profits, which, in turn, made debt repayment more difficult. Prices of wheat, corn and other agricultural products on the American markets decreased by 54% between 1929 and 1933. The situation inevitably spiralled downward.

In 1936, Keynes assigned the blame for the crisis to the lack of healthy aggregate demand. According to him, the consumers and companies were simply not spending enough, and the government ought to fix that. Those who opposed the idea of government intervention pointed out that the economic process is a self-regulating one and that government measures can only treat symptoms, leaving the real causes untouched. On such a view, the state measures typically bring more harm than good, in the long run. On the other hand, the proponents of government intervention, having observed that the depression dragged on for far too long a period during which the situation neither improved nor deteriorated, proposed increased government spending. The Croatian economic management of the interwar period, long forgotten in the era of the second Yugoslavia, welcomed the emergence of government interventions, certain reservations notwithstanding.²⁶⁰

The depression could also be attributed to other factors like different levels of technological development between richer and poorer economies or to the monopoly-dominated markets. During the entire interwar period, the global supply of capital had a detrimental effect on the consumption keeping the employment level far from its ideal highpoint – full employment. The robust increase in industrial production, driven by the needs of the First World War, accumulated the debt without an appropriate rise of the demand that would balance the increase in production. This disparity particularly affected the countries that lacked their own military production and were destined to satisfy the needs of military procurement by borrowing from the allies. The disparity between agriculture and industry also contributed to

²⁶⁰ Robert J. Samuelson, "Revisiting the Great Depression", *The Wilson Quarterly*, 36 (1) (2012), 36–40.

the crisis: the gap between the prices of their products widened and the gold standard had to be re-introduced for most national currencies. In addition, the restrictive monetary policy of the banking sector took its toll too.²⁶¹

The financial, the industrial and the commercial capital being mutually intertwined, a chain reaction ensued. Not only banks, but industry and the commerce sector too were stricken by a wave of bankruptcies. In a report from 1932 by Robert Wilhelm, the president of the Chamber of Trades and Crafts in Osijek, some important characteristics of the crisis were highlighted: “goods that are continuously being produced do not find their consumers, so the reserves keep building up and the gap between production and consumption widens. This in turn affects wholesale prices that continue to drop creating a disproportion between the costs of living. The production is becoming ever more extensive taking away the opportunity for full-time employment and income.” Almost every country suffered from currency disruptions, accumulations of gold and demonetizations of silver. Due to an overall lack of trust, there was a shortage of loans, especially long-term ones.²⁶²

The economic situation started to change in early March 1933, after Franklin D. Roosevelt took office as the President of the United States and immediately introduced a Bank Holiday to save the banking system from a complete breakdown. The time off that was imposed by this “holiday” proved successful in saving the bankers from the clients storming their counters. Most banks continued their operations. A month later, the gold standard was abolished. The “New Deal”, a program of general economic recovery, was introduced with industrial recovery and farm subsidies as its main prongs. The adoption of this program in Congress in 1933 allowed the president to enforce regulations intended to support wages and product prices. In addition, farm subsidies were offered to stimulate farmers to reduce the production of certain crops and thus increase their prices thereof. The measures introduced had effect: investments and consumption picked up and the long-term economic downturn was soon a thing of the past. Cheap-money (low interest rates) policy was introduced together with an exchange rate depreciation together with the measures securing full employment. The recovery would not have been possible without money being moved to where it was mostly needed – for funding consumer demand, and the latter in turn would not be possible without government spending. Government intervention in the form of investments in public works became the main tool of upholding the economic balance and propelling the economic cycle with full employment. This approach made all the difference when compared to the previous Federal

261 Snowden, “What ended the Great Depression?...”, 1245; Nathan Perry, Matias Vernengo, “What ended the Great Depression? Re-evaluating the role of fiscal policy”, *Cambridge Journal of Economics* 38 (2014): 349, 352; Kršev, “*Finansijska politika Jugoslavije*...”, 258.

262 DAOS 223, Box 121: minutes of the CTC Osijek, June 31, 1932.

Reserves' fiscal policies. Up to that point, the monetary policy was all about austerity and sustainable debt. Money supply was kept at bay under the belief that the economy would eventually self-regulate and inch towards full employment. Great Britain, on the other hand, reached for expansive fiscal policy (increase of money supply to stimulate corporate and consumer spending, tax cuts and increase in public expenditures). Such measures ensured that the monetary policy would be used as a complement to other factors influencing the recovery from depression. In England, the Depression ended two years earlier than in the United States. England was also the first to abolish the gold standard (in 1931). What played the decisive role in economic stabilization of both countries were military purchases along with robust aggregate demand which was maintained up to and during the Second World War.²⁶³

In the Kingdom of Yugoslavia, the position of the government was built around the opinion that Yugoslavia, being an agricultural country, will for the most part be spared of the consequences of the global crisis. This conviction was grounded in the assumption that the foreign trade surplus registered in 1930 would be preserved in the following periods, regardless of the prevailing volatility on the global market. (As it turned out, the trade surplus registered in 1929/1930 and 1930/1931 was the last such surplus until 1935/1936.) The economy cherished great hopes that the value of the domestic currency, which was pegged to French economy, would remain stable. Business-connected lobbies close to the King's regime believed that the time was ripe for the country to stabilize its national currency and thus provide a strong foundation for its future prosperity. This measure was also meant to be a message for international banking institutions signalling political stability and investment certainty. In the same year, Yugoslav exporters saw the prices of agricultural products on international markets go down – an occurrence that should have been a sign of an imminent agricultural crisis which was about to spill over across the rest of the economy and cause new disruptions in budgetary flow.²⁶⁴

In 1930, the economic downturn was still not felt among Croatian entrepreneurs. Purchasing power of the cities was still strong. In the rural areas, however, this was not the case: already in 1926, the situation started to deteriorate. The craftsmen were the first to feel the downward trend. Generally, it was thought that the obsolete technology was to blame for their decline. While everything seemed normal in public, 1930–1931 reports by the Zagreb Chamber tell a different story – the story about the excess of goods in stock and capital fleeing the country. By the end of 1931, the Craft Assembly in Osijek reported to the Banate Administration in Zagreb about

263 Temin, "The Great Recession...", 119, 121; Perry, Vernengo, "What ended the Great Depression?...", 353–356.

264 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; Kršev, *Finansijska politika Jugoslavije...*, 271.

staff reductions in all branches of trade that were hit by the crisis. As a consequence, crafts owners had to provide all the labour themselves and were nevertheless barely surviving. The employment Office reported about all-pervading layoffs in industry which were due not only to the crisis itself but to overtrading. The sugar refinery in Osijek laid off 551 workers. The layoff was partly due to the lack of work and partly to the periodic fluctuations in seasonal work. In May 1930, the Union steam mill laid off 11 workers. The Iron foundry laid off workers on several occasions but failed to report the layoffs to the competent body. In August and September of the same year, S. H. Gutmann laid off 89 workers “due to the lack of work or limited work”. At the same time, *Nasička* announced layoffs of 260 workers due to “generally grim business opportunities”. Throughout the year, wages were decreasing (*Nasička* implemented a 8–12 % wage reduction across all controlled affiliates). Non-skilled workers were laid off across the board. Facing a prospect of complete shutdown due to a lack of sales, workers were prone to accept reduced wages.²⁶⁵

In the moment in which the entire global economy was falling apart, the royal government decided to launch a currency stabilization program based on raising debt. The goal of the scheme was to gain access to more favourable loan facilities. The stabilization loan was executed by mid-1931 in Paris. The principal amount was 1.025 million gold Francs with a 40-years repayment period and 7% interest rate.²⁶⁶ However unfavourable this arrangement might have been for Yugoslavia, there was a conversion option within a 5-year period. The Government’s intent was to consolidate the country’s political landscape and boost its economic growth. It should be noted that the British and American investors, due to the crisis, refused to take part in the dinar stabilization programme. Besides, the Financial consortium gathered in Paris doubly conditioned the granting of the loan: all the war and pre-war debts of the Kingdom of Serbia were to be repaid and the country’s political situation stabilized. In 1930, the French issued a warning that the King’s dictatorship would not be tolerated indefinitely, and that the country should “transition to the constitutional and parliamentary system as soon as possible, making the financial support contingent upon meeting these conditions”.²⁶⁷ One of the creators of the loan plan was Stanko Šverljuga, Minister of Finance at the time, who served as a board member in the Gutmann company before starting a career in politics. Although the media regarded his appointment to be a concession to Zagreb and Croatia, there were also those who called his abilities in question, remembering his

265 Kolar-Dimitrijević, “Privredna kretanja...”, 177–179; DAOS 6: letter of the Association of Craftsmen of the city of Osijek to the Banate Administration in Zagreb, November 28, 1930., 51434.

266 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; *Ibid.*, Box 121: minutes of the plenary session, April 6, 1930, speech given by Dr. Josip Šilović.

267 Kršev, *Finansijska politika Jugoslavije...*, 271; see also: Đurović, *Državna intervencija...*, 99.

role in the downfall of the *Eskontna banka*, a bank that was solvent before Šverljuga took over its management. After signing the loan, Šverljuga disappeared from the public.²⁶⁸

The signing of the loan contract was covered by the media with headlines in government newspapers touting credibility of the King's government. The aim was to demonstrate, both to the local public and the foreign investors, that the agreement was a sign of faith (on the part of the international creditors) in "the economic strength of our country". "Most countries that were devastated by the war, and this holds particularly true in our own case, were indebted to those countries that were able to use the past war for their own advantage"²⁶⁹, since alliance always comes at a cost. As soon as the news broke that the loan was granted, international offers of "affordable long-term loans for motorway and railway constructions" started pouring in. By implementing the stabilization program, the parity between the dinar and the Swiss franc was shored up in the range of 9.12–9.14 for 100 dinars – an exchange rate that was in effect since August 1925. This exchange rate saw its historic low at 3.69 francs for 100 dinars on January 21, 1923.²⁷⁰

Yet, after the stabilization of the dinar, the Kingdom of Yugoslavia's budget took a significant blow from the Hoover Plan that included a moratorium for Germany's reparation payments. This was the first blow that the newly stabilized dinar would receive as the windfall from the reparations was supposed to be to the tune of 980 million dinars. Despite declining such an arrangement, Yugoslavia opened negotiations for a short-term loan facility with France for the purpose of providing funds for covering public expenditures. In addition, steps towards balancing the budget were taken, so government expenditures were cut to meet only the most basic needs. At the same time, an order was issued to all local (banate) administrations to shrink their budgets and cut their taxes, i.e., to reduce public expenditures. Of all the debts, the public ones were to be paid since these had detrimental effects for the competitiveness of rural areas and reduced domestic consumption. Besides, these debts reduced the interest rates and dividends on foreign capital which continued to flee the country. The economy became exposed to a fierce international competition which "suffocated certain domestic crafts" by flooding the country with cheaper industrial products.²⁷¹

268 DAOS 123, Hugo Spitzer.

269 DAOS 223, Box 121: minutes of the plenary session, April 6, 1930, speech given by Dr. Josip Šilović.

270 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; DAOS 123, Box 2463: Dr. Hugo Spitzer.

271 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; *ibid.*, Box 121: minutes of the plenary session, April 6, 1930, speech given by Dr. Josip Šilović.

Abolishment of the gold standard was an indication that the common wisdom accepted the notion that restrictive monetary and fiscal policy is harmful. England had abolished the gold standard and implemented currency stabilization through regulations, and the entire world took it as a warning shot. Stock exchanges closed, major exchange rates turned volatile, depositors stormed banks. The domestic business community expected a brief end of the economic crisis. As of autumn of 1931, the incoming reports of depositors dashing for their savings seemed like exaggerations. Just in case, the Financial Institutions Union issued a regulation on limited issuing of “deposits” – notwithstanding the general perception that there was no real danger for the domestic currency since the dinar was backed by assets denominated in French francs rather than in British pound. However, that was just a trick deployed to calm down the account holders. The real, though indirect indicator of the shaken economic relations was the fact that the abovementioned regulation had soon been implemented to the industrial sector too. That is, bank accounts of industrial companies and other economic entities fell under the limited pay-out regime. In line with the Keynesian practice, the government introduced a measure, typical of the period, designed to prevent capital from fleeing the country. To that end, a new ordinance on foreign currency trade was adopted which diverged from the basic tenets of stabilization. The law was drafted on the example of other European countries and its purpose was to keep at bay the outflow of foreign currency assets in the form of savings or profits. However, there was no comprehensive set of measures that would push down the unemployment and encourage private entrepreneurs to invest into government measures. The dynamics of the capital outflow corresponded to the chronology of the crisis on the international scale.²⁷²

The stabilized dinar retained its fixed exchange rate in the range between 9.05 and 9.08 dinars for one Swiss franc even though foreign exchange fluctuations increased the demand for the latter. Being an agricultural country, Yugoslavia did not experience disturbances like the ones experienced by the predominantly industrial countries, i.e., countries which had to rely on capital to a much greater extent. In late 1931, the liquidity reports issued by the National Bank were interpreted as a positive sign by the entrepreneurs, especially in the light of the fact that dinar backing was 37.36%, and gold backing 29.50%. All this had an encouraging effect on the medium-sized enterprises – e.g., on traders and craftsmen in the jurisdiction area of the Osijek Chamber of Trades and Crafts – who “despite the seriousness of the situation ... could fully confidently look into the future”. By the time the gold standard was abolished in England, in November 1931, Yugoslavia

272 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; Mira Kolar-Dimitrijević, “Nezaposlenost u Hrvatskoj od vremena velike svjetske krize i javni radovi”, *Ekonomika i ekohistorija*, 1 (1) (2005): 105.

adopted a law on minting silver coins of 10- and 20-dinar denominations in a total value of 450 million dinars. In addition, it placed into circulation 50- and 500-dinar bills.²⁷³

Such a development could have been a good sign for Yugoslav entrepreneurs provided that the crisis was but a minor disturbance in global markets – this is at least what they believed at the time. Since all countries resorted to protectionist measures in form of raising tariffs, Yugoslav entrepreneurs saw this as an opportunity for technological and structural innovations and a long-desired break from the severe competition of foreign industrial products. The intention of the government policy was indeed to keep the influence of foreign monopolistic industries and foreign capital at bay. It is worth reminding that Yugoslavia was an extremely stagnant society relying on income from its own estates and seasonal work, e.g., in forestry or construction industry. Since these sectors of national economy ran into difficulties as early as 1926, the ensuing deflation would finally drive monetary economy out of the countryside. This development was a consequence of the restrictive loan policy imposed by the government which, to be able to repay loans, was forced to maintain the stability of domestic currency. It was precisely the artificial nature of the exchange rate, designed for the repayment of the country's debt, that devastated the sector of small and medium size enterprises. Regarding other sources of state income, the various levies that relied on purchasing power of the farmers made up to 60% of the government's revenues – and this was what rendered the land rent inert. The permanent crisis of the agricultural sector prompted the crisis of commerce and crafts: "if a farmer cannot sell his products, his purchasing power drops to a minimum, making not only the crafts but industry and commerce too incapable of finding customers for their products".²⁷⁴

The prices of agricultural products dropped by as much as 70% between 1924 and 1931 and affected 75% of the population in northern Croatia. In other words, the overall decrease in prices increased the internal value of money. On the other hand, there were no loans since during crises people save in foreign currency and gold. In 1932, 36% of farms were in debt, while land tax additionally burdened smallholdings and estates not bigger than 5 hectares in size. A decrease in exports of agricultural products additionally pushed down prices on the domestic market. The price of grains in 1933/1934 decreased by 42.8% compared to the year 1926, and the prices of cattle decreased by 44.6%. When farmers most desperately needed money, the price of wheat bottomed outright. Its price after the harvest would

273 DAOS 223, Box 121: minutes of the CTC Osijek, October 15, 1931; *ibid.*: Minutes of the CTC Osijek, December 18, 1931; cf. Lampe, Jackson, *Balkan Economic History...*, 329, 385.

274 DAOS 223, Box 121, minutes of the plenary session, April 6, 1930, speech given by Dr. Josip Šilović.

drop to half of its pre-harvest level. Collection of tax revenues became ever slower, corresponding to the growth of tax burden. While the average share of tax in personal income amounted to 16.24% in 1928/1929, in 1932/1933 it rose to 23.8%. Pursuant to the Tax Equalization Act, land tax was estimated according to the net cadastral income, and this model, which was already in force in Slovenia, Croatia and Vojvodina, was applied to the entire country. However, since there was no cadastre service in Serbia, an order was issued that cadastres were to be established within a 10-year period (in 1938, this was still pending). The committees were supposed to assess the net cadastral income of every region. In 1929, the national income of Yugoslavia amounted to 60 billion dinars, which was halved by 1933, i.e., at the lowest point of the depression period. This disparity corresponded to the drop of prices, followed by the reduction of wages and other types of income, as well as to an overall decrease in production and trade. For the failure of the currency reform (stabilization) the pundits rightfully blamed the failed post-war nationalization of capital owned by “foreigners”. Nationalization had shaken the trust of the world creditors in the Kingdom’s political system. This circumstance postponed the stabilization of the dinar which, to make things worse, came in the wrong moment. The belief that due to stabilization the dinar became the strongest European currency lasted for exactly 102 days. Indeed, the dinar retained its “stability” until March 1932, when the gold standard was abolished, and the value of the domestic currency began sliding.²⁷⁵

The crisis had most severely affected the Danube region countries in which the prices of agricultural products had dropped below the level of production costs. At conferences in Geneva, and later in Bucharest, France attempted to find solutions for these European regions. Despite being two and half times smaller than Russia (in terms of population size), the purchasing power of these countries was higher. This very fact justified efforts towards securing their economic relief and recovery. From the political perspective, struggle for the betterment of the Danube River regions was also a fight for preserving the Little Entente. One of the main tenets of the Tardieu Plan was that agricultural products exported from Yugoslavia, Hungary and Romania find their markets in Austria and Czechoslovakia, economically isolating the former countries from Italy, Germany and Switzerland. Since these countries were able to export much more produce than Austria and Czechoslovakia were able to import, the plan would soon turn out to be no more than a futile attempt on the part of the French. A clearing payment system was introduced. Under this system, each party involved in a transaction would deposit money with its domestic central

275 Mirković, *Ekonomska struktura...*, 33; Marijan Matićka, “Odras privredne krize (1929–1935) na položaj seljaštva u Hrvatskoj”, *Radovi Instituta za hrvatsku povijest* 8 (1976): 296–297, 302, 330; Kršev, *Finansijska politika Jugoslavije...*, 124–134, 135, 270, 273–274; Bičanić, *Ekonomska podloga hrvatskog...*, 135.

bank, to an account belonging to its respective foreign beneficiary. Under such a system, export revenues were delayed. After a clearing agreement between Austria and Yugoslavia was reconciled, Yugoslavia had a 100-million-dinar surplus. However, for the amount to be final, a joint committee had to be appointed.²⁷⁶

In addition to clearing, countries and individuals resorted to barter as a means of maintaining a minimal level of trade. In 1931, exports decreased by 31% compared to the previous year, while import decreased by 29%. During the first two months of 1932, export decreased by 50%, and import by 60%. Statistics had shown further decrease in foreign trade. By 1932, global industrial production (excluding the Soviet Union) would drop by 37%. In the area of Sava Banate, three out of 25 industries (the textile, hospitality and power generation industries, in particular) operated without major disturbances. Bankruptcies caused by shortage of loans most severely hit the industry. However, large industrial companies weathered the crisis by relying on politics.²⁷⁷ The monopolies were established as a means of securing extra profits on the domestic market rather than as a reaction to the concentration of capital. City dwellers lived at the mercy of price inconsistencies between the cheap agricultural and the expensive industrial products. Since there were practically no jobs in industry, their purchasing power deteriorated. Compared to 1929, the number of employed workers decreased by 19%, women being increasingly hired due to their lower wages.²⁷⁸

Industry was unable to procure the required raw materials from abroad; facilities would be shut down and unemployment increase. Unable to obtain foreign currency, traders could not import goods. If the foreign supplier agreed to accept dinars, they would apply a surcharge between 10 and 15% which would in turn cause price increases. Because of the diminished purchase power of rural areas, the wages of workers and government officials dropped too. There was a tremendous stagnation in circulation of goods with severe consequences for trade, crafts and industry. After several large banks in Austria and Germany had collapsed, operation of the global currency market became severely compromised and trading in currencies extremely volatile. Developments in Yugoslavia mirrored those abroad; savings were being withdrawn from the banks and invested in real estate, gold, silver, foreign currencies, or housing.²⁷⁹

276 DAOS 223, Box 121: minutes of the CTC Osijek, June 31, 1932; Stephen Bethlen, "The Danube States and the Tardieu Plan," *Political Science Quarterly*, 18 (3) (1932), 352–361.

277 DAOS 223, Box 121: minutes of the CTC Osijek, June 31, 1932; Kolar-Dimitrijević, "Privredna kretanja...", 180 et passim.

278 Šimončić-Bobetko, "Osnovne karakteristike industrijskog razvoja...", 72.

279 DAOS 223, Box 121, minutes of the CTC Osijek, June 31, 1932.

The share of European creditors fell from 35–40% in 1926 to 10–15% in the 1930s meaning the collapse of Croatian banks. According to Lampe and Jackson, the 20-year period starting with the onset of the depression and ending with the consolidation of communist regimes in south-western Europe (apart from Greece) was a period during which the Western Balkans became ever more isolated from the European commercial and financial interests. In Croatia, the industrial crisis manifested itself as a crisis of extra earnings since the free workforce failed to be engaged in the domestic labour-intensive industries – which no longer employed seasonal workers – or find such engagement abroad. In June 1932, entrepreneurs of the Osijek Chamber area concluded that the crisis reached its peak and that its ending was not in sight. Under such circumstances, the domestic economy could have expected additional disruptions and constraints. It is significant that in 1930 both Yugoslavia and Bulgaria established agencies for purchasing grain produce at prices significantly above the ones paid for grains coming from international reserves. In Yugoslavia, that agency was called the Privileged Export Joint Stock Company (*PRIZAD*). Though national agencies ultimately failed to solve the issues plaguing the agricultural sector (various tax relieves for farmers, subsidized transportation, debt relief etc.), the Yugoslav authorities were the first to respond to collapsing prices by shoring up the price of wheat. However, for subsidies to reach the accounts of the private middlemen (unique in the Balkans of that period), privileged prices and effects of tax relief did not relieve the burden of the accrued debts, land taxes and other levies.²⁸⁰

It was the agrarian part of the society that made up the core substance from which public revenues were accumulated for covering various expenditures – from culture to infrastructure. Fragmented land ownership made the agrarian economy uncompetitive. In weak monetary economies, decreased prices of agricultural products generally have a devastating effect on the whole society. The innovation of combining an autarkic, rural economy with a free capitalist one could hardly be successful in conditions of disparity between purchase and sale prices of farm produce. As already stressed, the peasants had no choice but to sell their products on the free market since they had to pay their taxes or would otherwise be forced to do so. In the period of the agrarian crisis from 1873 and 1895, there was a disproportion in the decrease of the price of wheat on the global market: in the importing countries, this price was reduced to half of its prior value, while in the exporting countries it fell to one third of this value. Even in the years when wheat prices were favourable, the trade margins made a significant factor. When during the post-war conjuncture that lasted until 1925 wheat prices increased to 4.17 dinars, and the price of bread in cities to 5 dinars, the farmers who were isolated from the market, roads, railroad and river

280 Ibid.; Lampe, Jackson, *Balkan Economic History...*, 434–435, 449; Kolar-Dimitrijević, “Nezaposlenost u Hrvatskoj...”, 107.

transportation options, sold their wheat for 0.6 dinars per kilogram. “It was often the case that the farmers were cheated at weighting.²⁸¹ Some merchants deliberately gave peasants wrong weighting slips – slips obtained by weighting other, lighter, goods.”²⁸² Fair commissioners, activists of *Seljačka sloga* (Peasants’ Unity), an economic, cultural and educational organization of the Croatian Peasant Party, advised the farmers to sell their cattle only at the moment of weighting and at a previously announced price. They also advised them “to stop trading at fairs exactly at noon.”²⁸³

Speakers at the Osijek Chamber meetings attributed the causes of the crisis to the following factors: international policy, war debts and reparations, increased military expenditures, high taxes, and significant healthcare and welfare expenditures together with political antagonism, nationalism and the Russian revolution (loss of 150 million consumers). They were aware of the amassed debt, technological disparity and hyperproduction, the problems of “mechanization” and “rationalization”. Small entrepreneurs criticized the omnipotence of the “monopoly of large entrepreneurs”. In his address, the Chamber president Robert Wilhelm insisted that an international authority is needed, one that would, as a regulator positioned in the international chamber of commerce, act in a timely manner. What was also needed, according to Wilhelm, was an international system of issuing loans and exerting political pressure to the effect of “elimination of world war, disarmament, comprehensive regulation over monetary and loan systems, abolishment of custom barriers between countries; organization of agriculture and industry in such a way that intellectual potential can be rationally used and international laws mutually harmonized.”²⁸⁴

World loan policy of the interwar period was shaped by the forces exerted by gold reserves combined with fluctuations of the American Dollar and the British Pound. For countries that relied on holdings denominated in these currencies, depression-era devaluation meant downfall of their economies. Devaluation of the pound in 1931 led to the bankruptcy of the French national monetary institution, the debt being covered by the state. In the same year, the countries of the so-called Gold Bloc began liquidating their pound assets, but once the crisis erupted, they started selling the dollar too. The then-president of the Osijek Chamber arrived at a similar conclusion: according to him, instead of an international capitalist system with a single currency, state and legislation, the situation was “characterized by a fight over gold, the related struggle for political supremacy between England, France and United States, and the flight of capital.”²⁸⁵

281 Bičanić, *Agrarna kriza u Hrvatskoj...*, 8–11; Mirković, *Ekonomska struktura...*, 23–33.

282 Ivica Šute, *Organizacija i djelovanje Gospodarske sloge 1935–1941* (Zagreb: 2006; PhD thesis), 149.

283 Ibid.

284 DAOS 223, Box 121: minutes of the CTC Osijek, June 31, 1932.

285 Snowden, “What ended the Great Depression?...”, 1250–1252; see: Eichengreen, Flandreau, “The rise and fall of the dollar...”, 383, 397; see also: Thomas Hobbes, *Levijatan ili Grada, oblik i moć crkvene i građanske države* (Zagreb: 2013), 122, 147–148.

There were experts who opposed the notion of industry as an economic activity and proposed lowering import customs on industrial products. Such proposals seem rational. Tariffs decreased the purchasing power of rural areas and made the means for agricultural production more expensive. Instead of creating and artificially maintaining industries beyond an economic rationale, the focus of the economic policy should have been strengthening of the purchasing power of agricultural regions. Government funding of an industry is justified only in cases of military production, which should be financed through domestic funds, via direct capital injections so that strategic industries do not depend on foreign influence. Such attitudes, typical of representatives of the Ministry of Social Policy and Public Health, were initially expressed in a lecture held by Dr. Pešotić, a professor at the Faculty of Forestry in Zagreb. Only later would Minister Andrej Glosar argue that industry (as an economic branch) causes the same problems as the ones typical of the more developed countries of Western Europe, ranging from environmental to social issues (such as the emergence of the proletariat). He also took a stance against protectionism, demanding decentralization of industry. Only thus, as he argued, could industry secure a proper framework in which it could thrive on its own resources, without burdening the national economy – which was agrarian in nature. The industrialists, on the other hand, saw the agricultural crisis as a global phenomenon that, due to the decrease of purchasing power of rural areas, was causally linked to the industrial crisis – hyperproduction and low purchasing power. Their stance was that farmers should have been advised much earlier to farm more profitable agricultural products, i.e., not only corn and wheat. As a positive example of a country succeeding in developing its agriculture in far less favourable geographic and climate conditions, they mentioned Austria and its dairy industry.²⁸⁶

The industrialists concluded that after a ten-year period of neglecting agriculture it would be irrational to destroy the industrial sector by abolishing tariffs. They also pointed out that individuals employed in industry and crafts were direct consumers of agricultural products. The consumers from the industrial sector contributed with as much as 2 billion dinars to agricultural sector revenues, while as much as 90% of all municipal levies were being collected from industrial companies. However, the urban population still benefited a great deal from the price disparity effect – more so as the prices of raw materials of industrial products remained unchanged. The workers purchased their provisions from resellers, and this in turn increased food prices even more. What really stood in the background of the fight for the abolition of customs tariffs was another attempt at strengthening the position of foreign capital. The bankruptcies

286 Hrvoje Volner, "Poduzeće S. H. Gutmann d.d. u vrijeme velike gospodarske krize (1929–1934)", *Scrimia Slavonica* 7 (2007): 336–334; see also Mira Kolar-Dimitrijević, "Položaj radništva sjeverne Hrvatske u vrijeme Savske banovine", *Povijesni prilozi*, 1 (1) (1982): 258.

of smaller industrial companies that failed to find working capital for their survival during the crisis contributed to this development. Eventually, its outcome was the elimination of domestic competition and an economy dominated by foreign-controlled monopolies. The situation became even more complex in 1931, after tariffs jumped to 46%. On the one hand, both production and employment were on the rise. On the other hand, the rate of production increase was lagging behind the growth of available workforce, both in terms of skilled and unskilled workers, the unemployment outpacing the employment. Further economic development was undoubtedly affected by Yugoslavia's turning towards fascist countries in both its foreign and economic policies. From the government's viewpoint, after the investment activity failed to reach the pre-depression levels, alignment with Germany seemed to be the only way out.²⁸⁷

Companies that were not overburdened with credits taken for construction, overhaul or purchases of raw materials dealt with the crisis more easily. Even large companies, especially in the lumber industry, suffered from shortages of working capital and were faced with shutdown. To the industrialists, the conditions on the money market seemed abnormal since even the companies with undisputed creditworthiness found it difficult to obtain working capital required for their regular operations. They saw the disruptions in operations of domestic banks as the main cause of their woes. The share of income allocated for the government remained largely unchanged despite the crisis, and this only worsened the financial position of the companies. The industrialists agreed that the burden of financing the public expenditures, taxes included, needed to be alleviated. After the flight of foreign capital from domestic banks, the position of industry deteriorated even further. Lacking working capital, the industrial sector's relationship with the government and its financial institutions changed.²⁸⁸

The supply of loans for industry was significantly thwarted when the National Bank suspended crediting, introduced out-of-bankruptcy settlements, and implemented the Mediation Regulation by which 60% of industry's claims were erased.

287 DAOS 241, Box 35: customs tariff revision, 1930; See Kolar-Dimitrijević, "Privredna kretanja...", 186–187; Zdenka Šimončić-Bobetko, *Industrija Hrvatske 1918–1941* (Zagreb: 2005): 29–30; see also: Šimončić-Bobetko, "Osnovne karakteristike industrijskog razvoja...", 72.

288 DAOS 241, Box 25: National bank, credits, 1931; *ibid.*, Box 28: the Sarajevo Conference; see also: Đurović, *Državna intervencija...*, 142–144

DAOS 241 Box 25, 217: Banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, speech given by the President Vladimir Ark at the Governing Board meeting on March 27, 1934.

DAOS 241 Box 25, 217, Banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, *Jugoslaven-ski Lloyd* (newspaper clipping), Association of Industrialists, Governing Board session in Zagreb; *ibid.*: *Privilegirana industrijska banka*, letter from CTC Osijek to Juraj Demetrović, Minister of Commerce and Industry, March 19, 1934.

DAOS 241, Box 25, 217: Banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, petition of Eng. Vjekoslav Pipel to Konstantin Dožudić; *ibid.*: statement of the Industrialist Department of CTC concerning the establishment of the *Privilegirana industrijska banka*, July 7, 1934.

Another urgent issue was collection of “frozen loans” owed by companies. The slowing down of the collection process in such cases only worsened the position of companies lacking working capital and desperately in need of industrial loans. To resolve these issues, an establishment of a new financial institution was proposed – “Privileged Industrial Bank” (*Privilegirana industrijska banka*) – which would be financed by all industrial companies in the country. Regardless of the origin of capital, domestic or foreign, all companies would have to contribute to the equity of the new institution. The initiative came from the Industrial Corporations’ Central in Belgrade after Vladimir Ark became its president. In line with the prevailing *Zeitgeist* of protectionism, the association wanted the government to adopt laws that would allow industry to “issue promissory notes, conduct mergers, convert non-joint stock companies into joint stock companies, all without any charges of fees.”²⁸⁹

The industrial section of the Osijek Chamber reacted negatively to the proposal. In their letter to the Minister of Trade and Industry they claimed that the problem of insufficient loans cannot be resolved without fresh capital that would financially revive the industry following the drain of liquidity during the years prior to the crisis. “Chamber members were concerned to learn of the regulations prescribing mandatory investments into the new bank. According to information available from the media, the capital of the Privileged Industrial Bank was to amount to 10% of the total capital invested into Yugoslavian industry, i.e., 500–600 million dinars. The capital would be raised over a ten-year period from industrial companies that would each be forced to contribute an amount equivalent to 1% of their share capital. The industrialists would be obliged to form the principal of the bank, and the bank would further allocate the raised funds. One wondered, however, which borrower would be privileged to receive funds from such a source and who would be able to manage the allocation of scarce funds in an environment in which every enterprise is keen to borrow? The Osijek Chamber turned down the proposal, backing their decision with a rationale that a favourable lending environment cannot be created by squeezing assets out of the industry’s money stock.”²⁹⁰

Large industrial companies of the Sava Banate, mostly in the jurisdiction area of the Osijek Chamber, needed to set aside a relatively more substantial amount as a sign of solidarity with smaller companies. The Osijek Chamber advocated an establishment of a financial institution that would procure medium and long-term loans

289 DAOS 241 Box 25, 217, banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, address of the President Vladimir Ark to the Governing Board, March 27, 1934.

290 DAOS 241 Box 25, 217, banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, *Jugoslaven-ski Lloyd* (newspaper clipping), Association of Industrialists, Governing Board session in Zagreb; *ibid.*: *Privilegirana industrijska banka*, letter from CTC Osijek to Juraj Demetrović, Minister of Commerce and Industry, March 19, 1934.

to industry. Protected by the government, such an institution would enjoy similar benefits as those granted to the Privileged Agricultural Bank (*Privilegirana agrarna banka*) and the Privileged Crafts Bank (*Privilegirana obrtnička banka*), thereby freeing the institution of all state and local taxes, surtaxes and fees. Capital required for the establishment of this institution was to be significantly lower than the proposed sum of 500 million dinars. The industrialists brought up the example of the Credit for Industry Ltd., an English bank for lending to industry, whose share capital amounted to 250,000 pounds, i.e., 62,500,000 dinars – a fact that led the representatives of the Osijek Chamber to conclude that the share capital of the corresponding domestic institution should be significantly lower. The issue of lending working capital at the national level was thus destined to remain unresolved.²⁹¹

4.2. Moratorium on repayment of loans and industry debt

Since the general economic outlook, in the light of the ongoing world economic crisis, was grim, the National Bank of Yugoslavia adopted a series of interventionist measures. One of the measures required of private banks and stock exchanges was that 50% of their foreign currency assets should be redeemed by the National Bank. The state interventionism in the banking sector manifested itself in the intent of the legislator to gain control over foreign exchange transactions by conferring the right to such transactions to a limited number of banks. Each foreign exchange purchase carried out by banks or stock markets had to be previously approved by the competent Minister. Private banks, apart from Bank Association from Belgrade, disapproved such decisions of the country's principal financial institutions. The measures limited the scope of their operations with the long-term goal of gaining institutional control over the whole banking system. This was seen as an attack on private banks in foreign hands with the aim of solidifying the banks that were financially dependent on the country's National Bank. In effect, the banks that failed to instil confidence of their deposit holders were the ones that enjoyed the confidence of the government. The regulation about maximization of savings deposits affected the banking business in the former Austro-Hungarian regions. The bankers asked the logical question: "Will this measure channel savings deposits into those regions and banks in which the volume of such deposits is relatively low?"²⁹² However, they lacked relevant information – and were doomed.

The situation was already in a downward spiral when in May 1931 the collapse of the banking sector caused the withdrawal of equity from private banks, making the

291 DAOS 241, Box 25, 217: Banks 1923–1938, Jacket 7: *Privilegirana industrijska banka*, petition of Eng. Vjekoslav Pipel to Konstantin Dožudić; *ibid.*: Statement of the Industrialist Department of CTC concerning the establishment of the *Privilegirana industrijska banka*, July 7, 1934.

292 Kršev, *Finansijska politika Jugoslavije...*, 274–278; cf. Kolar-Dimitrijević, "Privredna kretanja...", 179.

deposit holders nervous. By the end of June, banks in Hungary and Germany introduced a moratorium on savings withdrawal. In Yugoslavia, an enforced collection of loans previously granted to the populace was imminent after the National Bank decided to pull back all the unused loans that were approved to financial institutions in Yugoslavia (about 2 billion dinars), requiring that all active loans be collected promptly. In such circumstances, the general public lost confidence in the stabilization of the dinar. Abolishment of the gold standard in England which took place in September was the point after which the distrust of the savers in the Yugoslav banking sector only grew. Such a development affected the industry as well and crediting of this sector was reduced to a minimum. Even though not a single privately owned bank collapsed in 1931, already in the following year the banking sector fell into a still deeper crisis.

By then, it was high time for introducing measures for the protection of debtors, mostly over-indebted farmers who were virtually defenceless in face of enforced foreclosures, pursuant to *Bills of Exchange Act*. The state intervened on April 19, 1932 by proclaiming a moratorium on the collection of farmers' loans. While the measure did not cancel farmers' debts, it was a massive blow to private banks which were still liable to pay the income tax as if there never had been any moratorium. Its largest victim was *Prva hrvatska štedionica* (First Croatian Savings Bank). By the end of 1930, the deposits held with that bank made up 13% of all savings deposits, so its collapse would also pull down the whole domestic industry, in which the bank had been intensively investing on behalf of its shareholders. The loans extended to industry amounted to 750 million out of 1.7 billion total loan portfolios. The Bank's affiliated companies in 1924 included 16 banks and credit institutions, 51 industrial companies and five large trade companies and seven transport joint stock companies, a wood distillery in Teslić and a wagon factory in Slavonski Brod, to name but a few. Since its headquarters were in Zagreb, almost all large lumber companies also had their headquarters in Zagreb (for easier operations). Within an 8-month period, the Bank paid over 800 million dinars of deposits and was finally forced to apply for government support: it required the activation of the Article 5 of the *Farmers' Protection Act* which would be interpreted in a way that would suit the situation the Bank had found itself in. It also required that the *Regulation on Terms of Payment of Deposits and other Debts* be implemented before April 21, 1932. The next bank to collapse was *Ljubljanska kreditna banka* (Ljubljana Credit Bank). Because of this development, the centre of economic life moved from Zagreb to Belgrade.²⁹³

Until the economic crisis, the domestic banks had regularly granted short-term loans to large industries owned by foreigners. The larger companies paid lower

293 Kršev, *Finansijska politika Jugoslavije...*, 284; Maticka, "Odras privredne krize...", 349; Kolar-Dimitrijević, "Privredna kretanja...", 174; see also: Mirković, *Ekonomska struktura...*, 62; DAOS 223, Box 121: minutes of the CTC Osijek, June 31, 1932.

interest rates. During 1929 and 1930, the Gutmann company took loans from several financial institutions: from *Jugoslavenska banka* (Yugoslavian Bank) in Osijek at an interest rate of 9.5%, from *Jugoslavensko udruženje banaka* (Yugoslavian Bank Association) in dinars at an interest rate of 9.24%, from *Opće jugoslavensko bankarstvo d.d.* (General Yugoslavian Banking Ltd.) from Zagreb in dinars at an interest rate of 9.5%, and *Prva hrvatska štedionica* (The First Croatian Savings Bank) in Osijek in dinars at an interest rate of 11.5%. Lack of short-term loans was a significant problem for the Company and the reason for letting English capital enter its ownership structure.²⁹⁴

The banking crisis affected the industrial companies as well since the moratorium on loan repayment by banks and indebted households did not apply to industry. Centralization of foreign exchange transaction turned the National Bank into an intermediary for foreign exchange payments for delivered goods, for taking loans abroad and likewise transactions. In such cases, assets in foreign currencies would be ceded to the National Bank or auctioned off in a domestic stock exchange. To pay off such debts, the foreign currency had to be purchased exclusively via domestic stock exchanges. That is, companies could still acquire foreign currencies, but at “a compulsory rate” and with “legally determined interest rate”. During such a transaction, a business bank would receive a payment from the National Bank dubbed “prim” (for “premium”) which was intended as a compensation for the difference between the two exchange rates of dinar: one listed at the foreign stock exchange and the other official. In accordance with this protocol, the Gutmann company received from *Jugoslavenska banka* from Osijek 100,000 US dollars on October 15, 1929, another 50,000 on July 2, 1930, and still another 50,000 US dollars a year later. Pursuant to the foreign exchange regulations, the Company was obliged to sell to the bank the sum in foreign currency received from the loan, and the bank was in turn obliged to offer the same sum to the National Bank. According to the correspondence concerning the loan, a sum of 150,000 US dollars was offered to the National Bank, while the Company, upon an approval by the Ministry of Finance, used 50,000 US dollars to settle the debt that was paid through *Prva hrvatska štedionica* to the Sakser State Bank in New York.²⁹⁵

The enforced collection and loan repayment moratorium were not designed to include the debts of business enterprises. Due to the depression, borrowers ceased to repay their short-term working-capital loans. The reason for this was the overall crisis which made it impossible to acquire foreign currency on domestic stock exchanges under the old regime. This affected industrial companies as well as banks involved in money brokerage. In such conditions, *Jugoslavenska banka* from Osijek decided to enforce collection of loans previously granted to the Gutmann company. The latter

294 DAOS 241, Box 26, Jacket 220: correspondence with *Jugobanka*, 1932–1934, industry debts expressed in foreign currency.

295 Ibid.

interpreted this decision as an attempt at full or partial takeover of the company. “If the industry repaid its loans in dinars (*disagio* included), the banks would not be able to take these repayments out of the country but would rather be forced to hold them in dinars until the acquisition of foreign currency would be possible. ... For international subjects, such loans would remain frozen, which would be harmful for the credit rating [of Yugoslavia] ... For the industry, that would mean an additional decrease of working capital and, consequently, a proportional decrease of production in relation to supply and demand. ... The banks would only temporarily benefit from this. ... They would drain the capital from production – capital they were not entitled to anyway since it was internationally owned – and would use it either for meeting their obligations towards other parties or for their own operations.”²⁹⁶

Initially, the banks did not pursue their intentions through lawsuits because the foreign exchange regulations of the time were not in their favour (in case of a lawsuit, the amount of the loan would be converted into dinars according to the stock exchange rate, either in Zagreb or in Belgrade). The period of increased collection of debts began with the foreign exchange regulations of September 28, 1932. These regulations allowed for foreign currency claims to be collected by adding up the premiums paid by the National Bank. Through this change, the creditors were now able to enforce collection of loans in a way that would also include the compensation for the accumulated difference (due to the overestimated value of the dinar) between the real and the official exchange rates. The price of a foreign currency was thus determined by adding premiums to the official exchange rate (on the domestic stock exchange) determined by the National Bank. This commission (the so-called *prim*) was introduced to encourage export, and its exact amount was set arbitrarily: companies were simply charged with an additional sum roughly corresponding to the difference in exchange rates. For instance, when according to the exchange rate in Zurich on November 4, 1932, one dollar amounted to 76.21 dinars, while on the same day the official rate was 57.20 dinars, banks charged 20% *prim* which then increased the value of the transaction to 68.98 dinars for a dollar. The banks wanted to recover this difference at the expense of the companies. To ensure that the entire procedure benefited the banks, the Ministry of Finance instructed the Ministry of Justice to see that the courts, “when monetizing promissory notes in foreign currencies, are also to receive claims for payment of a premium that the National Bank would normally pay.” This ordinance has never been published in any official gazette. Consequently, its legitimacy would later be disputed in the court of law.²⁹⁷

296 DAOS 241 Box 26: industry debts expressed in foreign currency; DAOS 241, Box 26, Jacket 220: correspondence with *Jugobanka*, 1932–1934.

297 DAOS 241, Box 26, Jacket 220: correspondence with *Jugobanka*, 1932–1934, industry debts expressed in foreign currency.

The Gutmann company had enough time to launch a counter-campaign with the aim of proving that the actions taken by the banks and the Ministry of Finance had been unilateral, i.e., a case of an isolated opinion expressed by a government body. Forced collection of frozen loans would mean an outflow of capital from the country, and without protectionist measures equivalent to the ones provided for the agricultural and banking sectors, drain of capital from industry would become inevitable. The industrialists of the entire country concurred fearing that an enforced collection of frozen loans would lead to double loss for the industry since, in the meantime, the real exchange rate of the dinar dropped by approximately 15%. Small banks were also affected because a significant share of their portfolio consisted of promissory notes issued by the farmers. By ceding their claims to the Privileged Agricultural Bank they would not receive a fair value and would eventually have to fold due to insolvency. The disappearance of small savings banks left a void in the banking sector for there was no one other than the state to take on their local function which was indispensable in promoting savings and issuing loans to entrepreneurs and farmers.²⁹⁸

In April 1932, the Gutmann company informed the National Bank regarding a possible legal dispute. Namely, two large domestic banks resolutely demanded repayment of loans, but the Company, struck by the crisis, could not comply with the request. The only way to raise the money, as the Company claimed, would be by forced sale of stocked goods which the domestic market would not be able to absorb, so the only solution would be to resort to damping.²⁹⁹ According to the plan, the company could potentially use foreign currency received from export in the amount of two million dinars a month. What the company required from the National Bank was a concession to use the thus obtained money, denominated in foreign currency, for repayment of loans (i.e., the debt in the amount of 210,000 dollars and 2.4 million Czechoslovakian kronas). The Ministry of Finance replied in May, stating that the 20% of foreign currency proceeds for exported goods may be used for the repayment the loans to *Jugoslavenska banka* in Osijek. Eventually, the Company also managed to persuade the National Bank to change in its (viz. Company's) favour the clearing payment system that the state used for making payments to Switzerland and Czechoslovakia. Debtors in these countries would pay 80% of the amount under the provisions of the clearing agreement, while the remaining 20% would be paid in foreign currency that the National Bank would then transfer to *Jugoslavenska banka* in Osijek.³⁰⁰

298 Ibid.: correspondence with *Jugobanka*, 1932–1934, industry debts expressed in foreign currency; DAOS 223, Box 101: minutes of the CTC Osijek, October 18, 1933, commentary of the chamber representative Đorđe Radivojević from Vukovar; *ibid.*: minutes of the CTC Osijek, January 29, 1937.

299 Selling of goods at a loss, i.e., at a price below their production costs. The purpose of such sales is to destroy the competition whose production volume is relatively small.

300 DAOS 241, Box 26, Jacket *Otplata duga u stranoj valuti*: letter to the National Bank concerning the Ministerial Order No. 55877 of May 13, 1932; *ibid.*, Box 26: industry debts expressed in foreign currency, letter to the National Bank of April 4, 1932.

The dispute between the company and the bank was resolved in court in early March 1933. The bank insisted on the loan being repaid in dollars. Alternatively, the bank would accept a repayment in dinars provided that the dinar value be calculated based on the Zurich or Trieste exchange fixing. In the proceeding which followed, the Company attempted to prove that the foreign currency regime had not changed in a way to institute liability on the Company to reimburse the so-called *prim*, i.e., the amount that the National Bank of the Kingdom of Yugoslavia paid as a compensation for differences in the exchange rate. As the Company argued, the *Ordinance on Foreign Exchange Transactions* did not contain regulations concerning the payment of *prim* for transactions in foreign currencies since, for such an interpretation to have been official and obligatory, the Ministry of Finance had to publish it in the Official Gazette. Since the publication never took place, there was no such thing as its official interpretation. During the trial, the Company presented data supplied by the Department of Government Accounting which supported the claim that the *prim* payment was merely an opinion lacking any legal force.³⁰¹

According to the judgement of the Court of Appeal in Zagreb from June 1933, number P1 3688/33-1, the plaintiff had to pay USD 50,000, which amounted to 2,834,040 dinars. Thus, the effective rate course was 56.68 dinars per 1 American dollar, meaning that *prim* was not added. The bank charged a 14% interest rate which, as of August 2, 1933, amounted to 329,074.50 dinars. The costs of the proceedings and the appeal were awarded in the favour of the bank, so the Company had to pay an additional 147,791 dinars. Since the Company had hitherto paid 2,078,498.60 dinars, the bank claimed an additional 1,232,407.40 dinars. However, the Company successfully disputed the latter amount – the bank failed in its judicial action to enforce the repayment of debt according to the exchange rates from Zurich or Trieste. Moreover, the Company also appealed against an accrual of interest rate at the level of 14% pointing out the fact that an interest rate of 7.5% was negotiated in the moment when the loan was arranged. So, according to the judgement, the Company won in the matter of bank claims. Considering industrial companies in general, this legal success is to be treated more as an exception than as a rule.³⁰²

That foreign creditors were willing to extend a helping hand to the Gutmann company is evident from a letter from 1938 addressed to the National Bank. The Company asked for a permission to start repaying its debt to the creditors after a period of suspension due to the crisis. A loan amounting to 1,762,898.34 dinars, or

301 DAOS 241 Box 26, Jacket 220: correspondence with *Jugobanka*, 1932–1933; *ibid.*: Jacket 4: correspondence 1932–1939: Reply to the Minister of Finance of January 24, 1933; DAOS 241, Box 26, Jacket 220: correspondence with *Jugobanka*, 1932.

302 DAOS 241, Box 26, Jacket 4: minutes of March 30, 1933; *ibid.*, Jacket 4: minutes of the lawsuit *Jugoslovenska banka d.d.*, branch office Osijek, vs. Gutmann Ltd. from Belišće before the First Instance Court in Osijek for the sum of 50.000 USD, gr. T 700/1932.

202,970.01 Austrian shillings (valid as per September 1937), was repaid through *Oester Creditanstalt Zentral Europäeische Ländesbank* from Vienna. The company took this loan in 1925 at an interest rate of 8.5%. It was originally denominated in English pounds, eventually to be recalculated to other currencies – first into American dollars, then to French francs, and finally into Austrian shillings. All the recalculations were done exclusively at the request of the creditor, whenever this seemed convenient or necessary, the bank profiting from the exchange rate changes. Moreover, the Company had to issue a special document by which it consented to the new repayment terms, including a 6% interest rate in case it opted for a full repayment.³⁰³

In the foreign exchange policy of the National Bank, entrepreneurs saw a system of import restrictions in the form of quotas for individual countries. Entrepreneurs demanded appropriate adjustments of this policy to the effect that a quota system be introduced that would be more attuned to the needs of the national economy. Trade restrictions were huge. The calculation for the received foreign currencies also included the difference between the official and the street exchange rates. In 1937, the Osijek Chamber complained: “Foreign currency calculations should be performed based on the real exchange rate, not the one enforced by the National Bank. ... It is unfair to put such a burden on our export so that, for example, in the clearing between Yugoslavia and Switzerland our exporting companies suffer a loss by receiving only 10 dinars for one Swiss franc instead of 11.30 dinars (which would correspond to the actual value of the domestic currency). This is even more unfair than charging a 1/3 of the payments coming from England to the National Bank because in that case at least the exchange rate difference is being transferred to a special fund at the Ministry of Finance. In contrast, under rigid clearance regimes, as is the one between Yugoslavia and Switzerland, the only beneficiaries of the lower exchange rate charged to our exporters are the very importers of our goods since they pay 10 instead of 11.30 dinars for one Swiss franc. Thus, a peculiar standard gets instituted according to which importers get rewarded and exporters punished.”³⁰⁴

Since doing business with the state and its monetary institutions left only bad memories, private banks were more concerned about their own liquidity than about investing into the economy. In 1937, their vaults harboured over 808 million dinars (i.e., 41.5% of the total balance available for loans), while a portion of funds was held in accounts with the National Bank and in national treasury bills. By the end of 1937, that reserve amounted to 2.459 billion dinars. On the one hand, these reserves were meant for upholding the liquidity of private banking; on the other hand, they shrank the loan potential. Reacting to this development, the National Bank

303 DAOS 241, Box 25, Jacket: *Braća Neumann* 1925–1938; *ibid.*, letter to the National Bank of the Kingdom of Yugoslavia of February 12, 1938.

304 DAOS 223, Box 121: minutes of the CTC Osijek, January 29, 1937.

opened new branch offices and insisted on opening new monetary institutions and on merging smaller ones. During the crisis, in September 1938, the National Bank intervened more strongly in the domestic market trying to cover the withdrawal of savings deposits caused by war concerns. The Financial Act from 1938/39 regulated the financing of public works and national defence expenses through a long-term loan from domestic creditors in the amount of 4 billion dinars. Foreign investments dwindled, so the domestic investments seemed like a realistic source of financing economic activity. The idea itself was admirable, but the habits of savings and investments are best illustrated by the fact that the National Bank's profit was divided between the shareholders and the state in the 3:2 ratio, and that the economic policy of the institution was pursued for the benefit of nine major shareholders.³⁰⁵

Pursuant to a decision by the Minister of Finance from October 18, 1939, all joint stock companies that had headquarters in the country and whose shares were at least partially owned by foreigners were obliged to notify the Directorate of Foreign Exchange at the National Bank. No dividends could be disbursed without prior knowledge of the Directorate. The purpose of this regulation was to stop the outflow of foreign currency from the country via foreign owned companies. It was mandatory for foreign shareholders to disclose the source of their shares, i.e., whether they acquired them through incorporation or by subsequent purchase. In both cases, it was essential to specify how the foreign owners had brought the required amounts – either for subscription of shares or for their purchase – into the country, and how the foreign currency had been used.³⁰⁶

4.3. Social dialogue: capital, labour and the state. Conferences in Zagreb and Sarajevo in 1937/38

Entrepreneurs assumed a more positive outlook on the grounds of an illusion that the domestic political landscape was recovering after the dictatorship had been proclaimed on January 6, 1929, by King Alexander of Yugoslavia. There was also a widespread belief that the stage was set for Yugoslavia to finally put its house in order. However, the proclamation of the dictatorship was merely the last chapter of a years-long process that created a monarchy with a king as an absolute ruler. The king imprisoned political opponents, but he also introduced Croatian experts into his government (Šverljuga, Mažuranić, Frangeš and many others).³⁰⁷ However, the international circumstances were certainly not advantageous for the new regime. The war

305 Kršev, *Finansijska politika...*, 316–318, 332.

306 DAOS 241 Box 1, Jacket 19: CTC Osijek, No. 8726/1939; *Ibid.*, Box 1, Jacket 1: statistics on industrial companies.

307 Goldstein, *Hrvatska 1918–2008...*, 86–106.

over tariffs heavily affected trade relations and international payments. To protect their production, the industrialized countries of Western Europe introduced quotas for importing agricultural products, while large exporters of these products such as Hungary, Romania and Yugoslavia competed amongst themselves. Being an agrarian society, Yugoslavia tried to tackle the unemployment issue by improving agricultural production. Consequently, the industry was not the priority and the most important competition to industrial workers during the depression were the unskilled laborers coming from rural areas. The Farmers' Protection Act, the moratoriums and a series of regulations introduced for solving the problem of defaulted bank loans – all these measures fizzled out due to lack of confidence. According to the statistical data for the year 1933, over 68% of peasants met their obligations to the banks, and until the adoption of a new regulation in August 1934 as much as 80% of debtors managed to meet their obligations. After the assassination of King Alexander I in October 1934, preparations for elections and promises of general debt cancellation pushed down significantly the number of farmers who repaid their debts.³⁰⁸

In 1926, the farmers' debt amounted to 4.55% of the total national income and 9.52% of the farmers' income. In 1931, in the period of crisis, when prices of agricultural products were falling and exports lagged, the farmers' debt increased to 46.48% of the agricultural income and 16.65% of the national income. In 1933, "the farmers' debt increased to 18.62% of the national income and 52.02% of the farmers' income. The proportion of indebted farmers in Dalmatia was 40.44%, in Slavonia 27.7%, and in the residual part of Croatia 39.98%. This slowed down all banking operations and eventually affected other economic sectors too. Since a radical solution to these issues would generate further social polarization and permanent destabilization, what was needed was a long-term approach. Thus, according to the resolution on the moratorium from September 1936, a farmer's debts that amounted to less than 25,000 dinars would be reduced by 50%, and all debt obligations to the creditors were assumed by the Privileged Agricultural Bank. The creditors had to satisfy themselves with a phased repayment over a 14-year period, and the farmers were obliged to repay the debt to the Privileged Agricultural Bank within a 12-year period.³⁰⁹

One of the topics that was most frequently discussed among the experts was the usefulness of industry during the crisis. A more rational management of foreign investments was proposed, together with the development of industries that would correspond to the agricultural orientation of the country. Until 1934, the anti-industrialist attitude gained momentum and appealed to solidarity. The industrialists strived to portray their activities as compatible with the national economy in general. The attempts to characterize the entire industry as superfluous were exposed

308 Đurović, *Državna intervencija...*, 96-99, 137-139.

309 Maticka, "Odras privredne krize...", 338-339, 345, 350.

as harmful not only for the national economy but to the country itself. As already emphasized, as much as it was incapable of collecting its claims, the industry had to pay its dues, without any recourse. Workers' wages, taxes and other overhead costs could not be deferred; they had to be paid in cash and promptly. The industry was viewed as a single interest group that, with the aid of foreign capital, exploited the nation by taking the profits out of the country.³¹⁰

While Yugoslavia languished in a protracted media campaign against its industry, the more developed economies, relying on a system of permissions and bans, resorted to implementation of import quotas and strengthened their domestic agricultural productions. In Yugoslavia, imported industrial products were exempted from sales tax. Even if a foreign industry stayed away from the country, it would destroy domestic industry with damping prices. The use of underdeveloped, primitive methods of exploitation of national resources was a consequence of the country's unfavourable social structure, and the dictatorship was unable to institute a kind of "economic nationalism" which would bring the industrial and the agricultural production in harmony.³¹¹ The national policy of solving the farmers' debt problem was ineffective. The main goal of passing the above-mentioned regulation from September 25, 1936 was to increase consumption, so the farmers would at the same time act in two roles, as producers and as consumers: "they receive subsidies so they can serve a higher purpose – improvement of trade, industry, banking, and accumulation of capital which, in spite of an increased demand, is still scarce."³¹²

Since the crisis drained the retail deposit savings from banks, a recovery strategy leaning on public works could not work. The state-owned part of the banking sector was too weak, and private banks failed to recover. The Bogoljub Jeftić's government issued bonds on both domestic and foreign markets for the purpose of initiating a public works programme. The purpose of the programme was to build modern roads that would link coastal areas with the centres of economic activity in the country's interior. The Regulation on Public Works Financing from 1935 sought to boost economic activities, reduce the unemployment rate and improve tourism. In addition to tax reliefs, the farmers were promised another land-tax reduction, after this tax had already been cut by 20% in February 1935. All this was undertaken for the purpose of helping farmers to repay their loans and obtain new ones. In the same year, continuing in his predecessor's footsteps, Prime Minister Milan Stojadinović launched a campaign with the aim of reviving the private banking sector. This would have been achieved by ensuring affordable loans which would in turn lead to the accumulation

310 Đurović, *Državna intervencija...*, 152–160; see also: Mirković, *Ekonomska struktura...*, 102–103.

311 Đurović, *Državna intervencija...*, 161–167.

312 Matica, "Odras privredne krize...", 350 (citation: Mijo Mirković "Povodom uredbe o likvidaciji zemljoradničkih dugova, in: *Seljaci u kapitalizmu*, 153–154).

of capital and stimulate citizens' savings. The revival of economic activity greatly depended on the revival of the private banking sector which remained passive. In 1936 and 1937, the National Bank increased the money supply by 20% trying to ensure liquidity. To achieve this goal, it had to reduce the gold backing of the dinar, which would entirely be abandoned by the end of the 1930s, notwithstanding the fact that money supply increase did not affect the currency stability due to favourable foreign trade activities.³¹³

One of the measures introduced by the royal government for improving the position of the country's working class was the draft of the Social Security Act. The draft was sent to employers' expert teams for review. Based on this review, and in cooperation with all local trade and industrial chambers of Yugoslavia, an elaborate proposition was put together. The amendments to the draft were due in February 1931, but the chambers lodged protests for insufficiently elaborated justification of the bill. Statistical data (that would serve as the basis for discussions) were inadequate for calculating financial effects of the new social security scheme. The costs of introducing the scheme were initially estimated at 80 million dinars, but the chambers' assessment was much more pessimistic – they calculated the burden to exceed 200 million dinars annually. In the end, the social security legislation shared the fate of all the other regulations that were intended to regulate the relationship of labour and capital – it was shelved until some later date. When such a date finally came, the government decided to speak up. The exchange of views confirmed what was already known: the social regulations were mostly ineffective, and the ongoing crisis contributed to the increased number of offenses. Worth noting is a statement published in *Industrijski pregled* (“The Industrial Review”) from June 1934, as quoted in a book by Smiljana Đurović: “our industry today ... is not motivated by economic considerations - since it operates at the lowest profitability level, or even lower - but by social incentives (so that the workers can win their daily bread) and to ensure its existence through continuous operations, although reduced to the barest minimum in hopes of better times, better days, and believing that these sacrifices will pay off!”³¹⁴

To make them state their requests and expectations regarding social security measures, the government of Milan Stojadinović, i.e., its Social Policy Minister Dragiša Cvetković, organized joint conferences of the workers' and employers'

313 Kršev, *Finansijska politika Jugoslavije...*, 313, 315, 319; see also: Đurović, *Državna intervencija...*, 176 et passim.

314 DAOS 223. Box 121: minutes of May 19, 1931, VI. report on the Social Insurance Bill – Dr. Beljan; Đurović, *Državna intervencija...*, 161.

chambers. The conferences took place in Zagreb in late 1937 and in Sarajevo in early 1938. Apart from being the first such attempt at finding general tripartite solutions to social policy issues, the conferences provided interesting data on the economic situation in the country, both from the perspective of the workers and the employers. During the Zagreb session, the Ministry of Social Policy expressed the view that the crisis “was not even there until 1931.” Invoking data on the number of industry workers, together with “all other economic indicators”, the Ministry tried to show “that the great economic depression that suffocated the [Yugoslav] economy between 1931 and 1934 is mostly over (apart from, perhaps, small crafts), and that the country is about to enter a period of normalization, maybe even of a new prosperity.” Besides indicating an economic recovery, the presented data gave hope that the resources necessary for solving the acute problems of the Yugoslav economy could be raised. According to the Ministry’s calculations, such resources would be obtained “without imposing too heavy a burden on the production”, and regarding their distribution, the funds could be “made available to the government and the self-governing bodies for executing public works, or to the money institutions for economic recovery”, i.e., for creating new jobs. In this process, large companies would have the last word since they would be the ones that would take the greatest benefit from the revived economy. Besides, “one should bear in mind that many large companies are owned by foreigners, and it cannot be justified that foreign companies use our workforce without protecting it from exhaustion; (...) otherwise, this workforce would be left to the state’s care after becoming incapable for work due to exhaustion and after the companies have already fled the country.”³¹⁵

Regarding these claims, the critics made several points: the country still being underdeveloped (for several reasons), the capitalist production being in its initial phase, the proletariat in the Marxist sense still not being formed etc. In substantiating these claims, they pointed out that the proletariat (in the sense of a pauperized working class) still did not make a substantial share of the workforce, that most workers were employed seasonally, that they were not forced to a permanent hired labour, that the skilled workers employed in industry, commerce and crafts did not possess features of the proletariat since they were for the most part recruited from the middle class – a class owning real estate, etc. They went on to argue that the construction of factories in Yugoslavia after 1934, “especially in those industries that had difficulties in importing their raw materials, unfortunately [was] not a sign of economic recovery since it [did] not emanate from an economic upswing in the direction of prosperity, but almost exclusively from various import barriers, most of all foreign currency regulations that [were] introduced worldwide and thus cannot

315 DAOS 241, Box 29: *Uredba...*, explication of the regulation draft.

be taken as symptoms of prosperity but rather of a prolonged crisis³¹⁶. Nevertheless, the construction of factories for production of goods that could have been imported but could also have been manufactured (with available technology and domestic workforce) should be considered as a success of the industrial policy. Still, “it is not in the interest of the Yugoslav people that its workers participate in the global production as colonial employees who, to obtain a product worth a single-day’s labour abroad, need to pay an equivalent of their ten daily wages”, wrote engineer Novak Z. Popović in 1933 for the journal *Industrijska obrana* (Industry Defence) and then again in 1936 in a treatise entitled “For Industry or for Agriculture”.³¹⁷

The chambers of commerce also complained against the chaotic funding system of the local self-government. Cities and banates could independently introduce new fees and levies which, amidst depression, drained liquid assets year after year. They created something like a customs-barrier effect within the country borders preventing seamless circulation of goods and services between banates and even between cities within the same banate. Apart from the abolishment of fees on sales, taxes and excise duties, they also required the banate taxes on invoices to be eliminated, that legal regulation of duties be introduced, that all economic policy be concentrated in the hands of the Ministry of Trade and Industry whose scope needed to be expanded and the ministry staffed with an appropriate number of officers and clerks. Likewise, to improve business operations of their companies, the chambers demanded that various administrative units be decentralized and the jurisdiction of banate administration extended. The business operations were disturbed by the lack of taxation transparency – a concern which was still actual in 1937. Only in the following year’s report does one find out about the National Bank complying with the exporters’ requirements and reducing the forced sale of the received foreign currency. This measure had a beneficial effect on foreign business operations, while local self-governments continued to introduce barriers.³¹⁸ According to the report from January 30, 1938, the workers’ chambers requested from the Ministry of Social Policy to initiate amendments to the *Regulation on Opening and Closing of Stores and Working Hours of Support Staff* adopted in 1929 by the ministry of Social Policy and the Ministry of Trade and Industry. The aim of the amendments was to reduce unemployment by reducing working hours of stores and crafts, to adjust the mentioned regulation with the Labour Act, especially regarding the protection of women and children, to ensure a strict application of regulations on overtime payments, to improve the

316 Ibid.

317 Đurović, *Državna intervencija...*, 167; cf. Mira Kolar-Dimitrijević, “O socijalnoj strukturi radništva Hrvatske u razdoblju između dva rata”, *Časopis za suvremenu povijest* 2 (1) (1970): 80.

318 DAOS 223, Box 121, minutes of the CTC Osijek, January 29, 1937; *ibid.*: minutes of the CTC Osijek, January 30, 1938. minutes – report by the President of the Chamber.

efficiency of labour inspection, etc. The Minister of Social Policy agreed to meet with the representatives of workers' chambers and organizations. Commerce chambers from the entire country organized, "prior to official polling, a pre-conference in order to ensure the joint participation of all chambers in the official poll."³¹⁹

The official stance of all chamber representatives was that they did not have a mandate from their organizations to reach any decisions; they would listen to recommendations of the workers' representatives or ask for a postponement of the "poll". At a conference in Zagreb, the representatives of the Central Secretariat of the Workers' Chambers described the living conditions of workers, especially emphasizing the problem of unemployment that was high in respect to the size of the working-age population. Minister Cvetković stated at the conference that there are no unemployed skilled workers, "but the rural areas send off their excess population into the cities producing a negative effect on the labour market at the expense of the more skilled workers."³²⁰ He estimated that a whole army of rural immigrants was on the move, "more than 400,000", "perhaps even as much as 700,000 individuals". Yugoslavia, rich in raw materials but burdened with labour, according to the Minister, would solve some of its problems by land melioration and by creating conditions for employing the entire "surplus of rural population" in agriculture. Already in that time, Yugoslavia did not export enough agricultural products to cover imports and dumped prices of German products.³²¹

The workers' chambers requested that the support staff's working hours be adjusted to the working hours of shops, including entirely work-free Sundays except for grocery stores. For the support staff, they recommended an 8-hour workday in all non-industrial shops, a 48 working-hour week with exceptions of 6 to 7 hours on Sundays, paid overtime included. Regarding night shifts for women and children, they asked for a strict implementation of regulations of the Labour Act that protected these groups against harsh labour. According to the draft of the Worker's Ordinance, shop owners would be allowed to stay and work in their shops only during working hours. As to the penalties, it required of penal codes to include a provision about mandatory notification to workers' chambers so that a chamber could lodge an appeal in cases when a penalty was set too low.³²²

The General Secretary of the Central Secretariat of the Workers Chambers, Bogdan Krekić, explained that despite prosperity in the previous two years (1936 and 1937), unemployment in Yugoslavia remained high, even in the most profitable

319 DAOS 223, Box 121: minutes of the CTC Osijek, January 30, 1938.

320 Volner, "Odnos poduzeća...", 113; cf. Kolar-Dimitrijević, "Položaj radništva sjeverne Hrvatske...", 257 et passim.

321 DAOS 223, Box 121: minutes of the CTC Osijek, January 30, 1938.

322 Ibid.

sectors. Unemployment stemmed from a high birth rate that outpaced the rate of industrialization. Besides, as he claimed, the emigration from the country “stopped almost completely”. The annual population growth was over 200,000, a figure that industry, crafts and trade sector could not absorb. He recommended improvements of agricultural production, turning to home-made products and similar measures. Since the proposed transition was extremely slow, a 40-hour work week was suggested for industry. Vladimir Pfeifor from the Workers’ Chamber in Zagreb complained that the existing labour legislation was not in effect and that “implementation regulations differ from legislative ones”. The authorities, as he claimed, failed to apply sanctions in cases of transgressions. Besides, there were interpretation issues like in the case of a banate administration that misinterpreted the ruling on overtime pay as allowing for flat-rate payments. Milorad Belić, a worker’s representative from Belgrade, warned about a widespread practice of bypassing the law, especially in Serbia. He brought up the example of a paper factory in Čačak which was “allowed to work on Sundays even though it lacked the required permission (from the Ministry of Social Policy) for such a practice”. As to the implementation of the Sunday Work Ban as such, it was almost completely ignored.³²³

Minister Cvetković, in his closing speech at the joint conference of workers’ unions and industrialists in Zagreb, concluded that “this first contact made for a better atmosphere”. He praised the enthusiasm of the employers to engage in a discussion with workers and authorities and emphasized the importance of reducing the duration of the working day to 8 hours in all sectors. He acknowledged that Yugoslavia indeed had a problem of unemployment among unskilled workers, some of whom were which are forced to work part-time and compete with skilled workers. Working for very low wages, these workers often fell prey to the unions “since the law treated them as full-time workers”. The Secretary of the Gutmann company, Konstantin Dožudić, also attended the conference in Zagreb. As a council member of the Osijek Chamber, he drafted a special paper “from the industrialist perspective, requiring that the Regulation be renamed, i.e., that those stipulations of the Regulation that regulate the opening and closing of stores explicitly exclude the industrial sector, for which only the provisions of the Labour Act may be applicable”.³²⁴

Although the employers were sceptical about government interventions in the economy, it only seemed logical when the Minister concluded: “We should not try to solve this problem by cutting working hours but rather by efforts towards rationalization of our economy: by public works, by creation of new complexes of arable land that now lays unused (...), by land melioration (...), because in this country there is still a lot of free space to be filled with workforce, so the issue can be solved

323 DAOS 241. Box 24: report on working hours opinion poll, November 10, 1937.

324 DAOS 223, Box 121: minutes of the CTC Osijek, January 30, 1938.

by planned creation of new jobs in the described manner”.³²⁵ He invited workers’ representatives to send their substantiated demands to the Ministry of Social Policy within a 30-day period and the Ministry would forward them to employers, who were expected to review the demands within another month.³²⁶

At a conference in Sarajevo, in 1938, the employers engaged a speaker, representative of industrial corporations from Belgrade, Gjoko Ćurčin, to present a summary of their positions as they had previously defined them. In a period between the conferences, the employers organized “pre-conferences” at which the representatives of merchants, industrialists and craftsmen could engaged in mutual discussions. Their joint position was that the Regulation on Opening and Closing of Stores was a creation of workers’ chambers and not of the Ministry of Social Policy, while some participants believed that the implementation of the regulation should be allocated to the Ministry of Trades and Industry. While distancing themselves from the Zagreb Chamber in terms of tactics and procedures, other associations of employers consented to the joint position. Suggested shortening of the working hours was rejected with a remark that the Regulation on Working Hours is to be adopted by both the Ministry of Social Policy and the Ministry of Industry. At the Sarajevo Conference, the issue of working hours, as the only item on the agenda, was discussed together with the collective agreements issue and the reorganization of the Labour Inspectorate. The purpose of these discussions was to find the best way to include the proposed measures into the actual social legislation. As the discussion with the employers has revealed, the problem could hardly be solved if all involved sides remained stuck in their positions. Meanwhile, the unemployment rates retained their maximal values due to high birth rates and low income of farmers and peasants. In 1938, in Vojvodina, the richest agricultural region in the country, agricultural workers lived in abject poverty.³²⁷

While preparing for the debate with the workers’ chambers, the employers directed their attention to the presentation by Bogdan Krekić, a delegate whose reasoning from the Zagreb session was acclaimed as the most pertinent. Krekić argued for an intensive industrialization that would, over time, transform Yugoslavia into an exporter of industrial products: “With amelioration and other measures of agricultural rationalization we would indeed increase agricultural production, but this would hardly affect the prices of agricultural products which are too low, meaning that such measures would only worsen the unemployment problem in rural areas”.³²⁸ He

325 DAOS 241. Box 24: report on working hours opinion poll, November 10, 1937.

326 Ibid.

327 DAOS 241, Box 24: report on the second opinion poll on social issues held in Sarajevo on January 18–19, 1938.

328 Ibid.

added that creation of new jobs cannot be achieved unilaterally, “but rather through cooperation of all stakeholders in the country”. In his opinion, social problems, if left unsolved, would lead to a rise of crime and deterioration of workers’ social status, which would in turn cause an increase of social expenditures. Krekić went on to argue that the workers would welcome rationalization but could not accept a higher workload and wage cuts. As an example, he took the BATA factory that managed to shorten the workweek to 40 hours expecting that other large companies would follow suit. According to him, the only strategy to guarantee continuous progress was is the one focused on the increase of the workers’ living standard. As the gravest obstacle to reforms he saw large companies that were keeping their calculations “secret, as if they were a book with seven seals”. Representatives of workers’ organizations complained about employers refusing to implement the stipulations about the working conditions and voiced the opinion that this obstacle could be prevented by collective agreements. Large companies “work against small employers and devastate workers”, at the same time reproaching “the authorities for their biased attitude in resolving these issues.”³²⁹

At the pre-conferences, the employers mostly focused on the propositions put forth by Krekić. As a reply to his arguments, they stated that the problem of poverty should be treated separately from other problems, and that poverty cannot be eliminated by creation of new jobs in extant companies or by reduction of working hours. They recommend “the introduction of a universal work obligation which shouldn’t be identified with the fascist labour service”.³³⁰ Those who are willing to work, they claimed, should not receive social assistance, but should be given work, “and there indeed is work to be done in our swamps, barren lands and other areas that are so abundant in our depleted country”.³³¹ They agreed that industry is in a much better position than few years before, but is still burdened with fiscal and social levies. A path towards prosperity should be paved by verified measures, Gjoko Ćurčin had emphasized, adding that “otherwise we will find ourselves in a position of a teacher who asks a student how long it would take him to reach the moon on his bike and of a student who responds – it depends on the path. ... So, Mr Minister of Social Policy will enjoy our support only for as long as he abides by the guiding principle of any social reform – that it be compatible with the development of economy itself. If it goes too far with imposing new burdens upon industry, wages will decrease due to the increased production costs and the nominal wage increase will in no way benefit the workers.” According to him, workers had always been against such working con-

329 Ibid.

330 A type of government intervention in the employment policy of companies that infringes their autonomy. Cf. *Leksikon temeljnih pojmova politike* (ed. Ivan Prpić et al., Zagreb: 1990), 47.

331 Ibid.

ditions, which enabled BATA to introduce a 40-hour workweek: “So, the workers obviously contradict themselves when they dispute the preconditions as unjustified, at the same time recommending the outcome of these very preconditions [i.e., a 40-hour workweek]”.³³²

The standardization of worktime involved several other issues such as wages, production costs, rationalization of production, competitiveness, and currency depreciation. New burdens for the business, such as the minimum wage, workers’ health insurance in case of illness, old age and death, pension insurance of employees – all this could not be introduced *ad hoc* but should rather be adopted gradually. According to the employers, all these measures decreased the adaptive potential of an economy. Their effectiveness depended primarily on “when and to what degree [was the] Government able to adjust its economic policy to the newly introduced social measures, so that [the] economy can withstand the new burden”.³³³ However, when workers invoked the state intervention in the United States as an example of a social experiment, Ćurčin brought up the fact that, since 1932, the United States invested 50 billion dollars into a “social revival experiment” which, translated according to the actual exchange rate, amounted to 2,150 billion dinars. He added ironically that “we could live off that kind of money for 120 years without taxes, fees and other burdens”. In France, the state helped companies that, during a social legislation campaign – like the one that had been recommended for Yugoslavia – found themselves “in a critical situation”. Small and medium enterprises, “the very ones that were in domestic hands”, had no reserves, let alone hope for obtaining aid from the state under circumstances of strictly planned budgetary expenses. Large domestic companies were overburdened by loan repayments (high interest rates) and amortization of worn-out machinery. “Our largest companies, that achieve relatively good results and make profits, are slowly approaching the margin of profitability, regardless of whether the domestic market is saturated, whether they [i.e., large domestic companies] are internationally uncompetitive or scarcely competitive due to the extant disorganization of foreign markets.”³³⁴ Because of the difficulties the exporters are currently faced with, it could not be expected of entrepreneurs to bear the expenses of introducing new products, at least not under the present circumstances – i.e., with ever smaller production and ever greater autarky³³⁵ in international trade leading to a decline of conjuncture. Regarding the implementation of social legislation,

332 Cf. Đurović, *Državna intervencija...*, 209.

333 DAOS 241, Box 24. Mr Ćurčin’s address on the occasion of the Sarajevo opinion poll, January 18–19, 1938.

334 Ibid.

335 Relying on national economy on its own production, even in cases when this production brings no profits and imported goods are cheaper. One of the ways to carry out autarkic measures is to maintain high import duties. Cf. B. Klaić, *Rječnik stranih riječi*, 123.

Ćurčin repeatedly mentioned the example of governments led by Léon Blum and Camille Chautemps, respectively. Namely, these governments supported the policy of “taking a break” from the implementation of social legislation “so that the tempo of adopting social measures does not slow down the increase of production”.³³⁶

Ćurčin also performed an analysis of the economic situation in the country: in Yugoslavia in 1925, there were 11.1 million hectares of arable land, or 48.8% of the total surface area. In 1936, it increased to 14.5 million hectares, or 58.4%. The percentage of arable land increased by 13.6% or 3.4 million hectares due to demographic growth and increase of utility prices. According to the statistics on employed workforce in Yugoslavia, the number of people employed in industry, mining and transportation continuously increased. In other words, ever more people worked in those industries that witnessed economic growth. However, continuous growth of employment stopped during the Great Depression. Thus, until 1930, 616,752 workers were insured with the Central Office for Workers’ Insurance. Between 1931 and 1933, the number of insured workers decreased to 513,074, but already in early 1934, the employment started increasing again to climb back to its pre-crisis high (i.e., the 1930 value) by middle of 1936. By the end of 1936, the number of insured workers increased to 635,499. In the subsequent period, the employment continued to increase, so by the end of 1937 the number of insured workers amounted to 721,051. After correcting this figure by adding the number of workers employed in public works and in “self-governing companies” – who were mostly uninsured – the employment rate becomes even greater. A similar trend was observed in other industrial branches too. Thus, for the year 1930, the number of employed in mining companies, which were insured via professional trusts, was estimated to be 50,000; in 1937 this number rose to 60,000. In transportation, the estimated number of employed for the same year (1937) was 80,000 – as much as before the crisis. It was also estimated that many workers were employed in small craft workshops within urban business zones, but no more than 100,000. According to a report by the International Bureau of Labour, employment increase in Yugoslavia in 1937 amounted to almost 13% and was among the highest in the world: “Excluding Estonia, Japan is the only country with an employment increase comparable to the one observed in [Yugoslavia]”.³³⁷ It should be noted, however, that the share of insured workers was lower than before the crisis. Employment increased in areas with cheaper workforce and lower production costs.³³⁸

Minister Cvetković closed the conference with a statement that times when owners gave orders and workers listened were over. He pleaded for harmony between

336 DAOS 241, Box 24. Mr Ćurčin’s address to the Sarajevo conference, January 18–19, 1938.

337 Ibid.

338 Kolar-Dimitrijević, “O socijalnoj strukturi radništva Hrvatske...”, 83–84.

labour and capital and for the continuation of the dialogue between the two parties. He expressed his disagreement with the reduction of worktime to less than eight hours, but at the same time opposed disgracefully low wages and excessive worktime of 16 hours or more.³³⁹

Despite national elections being due in December 1938, the conferences in Zagreb and Sarajevo had a political undertone. The employers expected the state to fully comply to their wishes, while the state tried to achieve social peace in the pre-election year with all the involved parties. The workers were left only with a promise that inspections would do their job better than before, “because the state will not tolerate the abuse of working hours”.³⁴⁰

4.4. The economy before the outbreak of the Second World War

In the period from 1935 and until the outbreak of the Second World War, Germany turned Yugoslavia into its “colonial” territory. In the Balkans, this process had started at the turn of the 20th century. More precisely, during the 1910s, Germany imported more goods from Bulgaria, Serbia and Romania than Great Britain. During the 1920s, Germany imported 50% more goods from Yugoslavia than Great Britain, and there was a similar disparity in the case of Greece. The dominance of Germany was just a continuation of an ongoing trend that reached its peak in the 1930s. As an undeveloped agrarian country Yugoslavia could not sell its expensive agricultural products anywhere in Europe, so by buying these products Germany secured its privileged position on the Yugoslav markets. The trade agreement with the Third Reich, signed on April 1, 1934, along with a similar agreement that had already been struck with Italy, seemed to the Yugoslavian government in the circumstances of total stagnation like a saving grace.³⁴¹

The agreement managed to secure the import of strategic raw materials that Germany needed. When economic sanctions against Italy were imposed after it intervened in Ethiopia in 1936, Germany took over 60% of Balkan exports positioning itself as the largest foreign trade partner of Yugoslavia. (In fact, Germany imported as much as Great Britain, Czechoslovakia, Belgium, Italy, United States, Hungary and Greece combined). By establishing trade channels with Yugoslavia, Germany found

339 DAOS 241, Box 24: report on the second opinion poll on social issues held in Sarajevo on January 18–19, 1938.

340 Ibid.

341 Matthias Morsy, Martin Ivanov, “The emergence of a European region: business cycles in South-East Europe from political independence to World War II”, *European Review of Economic History* 19 (2015), 406–407; Mira Kolar-Dimitrijević, “Utjecaj fašizma na ekonomsko-socijalnu politiku Hrvatske do travnja 1941.”, in: Inoslav Bešker (ed.) *Zbornik “Fašizam i neofašizam”* (Zagreb: 1976), 221; Kolar-Dimitrijević, “Strani kapital i Banovina ...”, 168–169.

a solution to its problem – the problem of shortages of raw materials and agricultural goods. Germany imported everything Yugoslavia had to offer. As other agricultural countries of the Balkans, Yugoslavia embraced any export deal that was offered and could not find a better trading partner than Germany. However, Germany could not pay in cash or foreign currency, but rather with its own exports. As it soon became obvious, the value of Yugoslav import from Germany did not match its export to that country. The solution was found in the clearance method of payment with each side settling its bills in their respective national currencies. This method by-passed the barriers set by various tariffs affecting the competitiveness of domestic industry. The Germans resorted to damping prices for Yugoslav markets, but only for those products that had a domestic competition (which affected leather, metal and textile industries). At the same time, they kept high prices of those industrial products for which there were no domestic competitors in Yugoslavia. On average, their export prices were above the international market levels.³⁴²

After the annexation of Austria in 1938 and the dissolution of Czechoslovakia, the investment capital of the Third Reich in Yugoslavia suddenly increased. German investments in industry leaped from the thirteenth place to the first. German banks provided loans for industry in Croatia thus making up for the shortage of loans in Yugoslavia after the economic crisis. The *Deutsche Bank* and the *Dresdener Bank* gained influence in overall private banking system of Yugoslavia through Austrian capital that controlled the *Jugoslavenska unija banka* and the *Hrvatska sveopća banka*. As even Winston Churchill had noticed, with the annexation of Austria Germany gained Vienna which, despite the dissolution of the Austro-Hungarian Monarchy, remained the centre of trading activities for all countries that once belonged to the Monarchy. With the Anschluss, Germany also acquired some level of control over political developments in the regions that traditionally had commercial and transport connections with Austria. One of the ways in which these connections were maintained was through family relationships that the nobility of the former monarchy, dispersed throughout the country, had nurtured. After Austria became a part of the Third Reich, Austrian and German capital worked in unison, together with the capital of the annexed Czech region Sudetenland. The total volume of investments of this joint German capital into the Yugoslav economy was estimated at 1.162 billion dinars, of which 750 million was invested in industry.³⁴³

Political circles in Croatia were pleased by such a strong influence of Germany on the Yugoslav economy. Traditional links between Croatian and German

342 Šimončić–Bobetko, *Industrija Hrvatske...*, 96–97; Rudolf Bičanić, *Pogled iz svjetske perspektive i naša ekonomska orijentacija* (Zagreb: 1939), 71.

343 Bičanić, *Pogled iz svjetske perspektive...*, 79; Kolar-Dimitrijević, “Utjecaj fašizma...”, 222; Kolar-Dimitrijević, “Strani kapital i Banovina...”, 171, 175.

entrepreneurs suggested that this influence would work to the effect of changing the policy of “the national unity” which, through centralization of the political and economic power (especially the banking sector) in Belgrade, hindered business activities in Croatia. In the meetings of the Industrial Corporations’ Headquarters in Belgrade, the industrialists coming from the Sava Banate often expressed their concerns about industry in Croatia lagging behind the overall trend in Yugoslavia. The Zagreb Association of Industrialists were intent on unifying the entire industrial sector of the Sava Banate within a single industrial chamber, independent from former joint chambers which also incorporated the trade and crafts sector.³⁴⁴

To that end, on November 22, 1938, the Osijek Chamber handed a memorandum to the Minister of Trade and Industry, Nikola Kabalin, during his visit to the Chamber, advocating a stronger cooperation between the Ministry and the country’s commerce and industrial chambers. The Minister, on his part, addressed the issue of the establishment of a separate industrial chamber for the Sava Banate with headquarters in Zagreb. However, the representatives of industry, trade and crafts of the Osijek area disagreed with this idea claiming that it would weaken the position of Osijek as an industrial city and the hub of an industrially developed region. The notion that “the entire industrial sector of the Sava Banate be extricated from the existing joint chambers and industry be organized under the umbrella of a separate Chamber”³⁴⁵ was considered unacceptable on the grounds that Slavonia would thus, after 90 years, lose its autonomous economic institution or would, at best, retain a weak and crippled version thereof. In his reply, the Minister acknowledged that the separation would cause significant difficulties for the Osijek Chamber and would threaten its very existence. So, despite the secession of the Zagreb Chamber of Industry being already underway, representatives from Osijek did not consent to this and opposed the establishment of a joint industrial chamber of the Sava Banate.³⁴⁶

By the end of 1938, the optimism grew, boosted by the Economic Plan and by putting industry to military use. However, developments on the international stage soon wiped away any faith in prosperity, development and great investments. Harbingers of war contributed to the disarray in both international and national economy. In 1938, the Chamber of Trade and Crafts in Osijek voiced an opinion that “large territorial changes that emerged with Germany’s annexation of Austria and the Sudetenland, including territorial shrinkage of Czechoslovakia, significantly altered the political and economic structure of Central European countries. Germany and Italy took a dominant position in the Danube basin and clearly demonstrated their

344 Kolar-Dimitrijević, “Strani kapital i Banovina...”, 170; Petranović, *Istorija Jugoslavije...*, 291–293.

345 DAOS 223, Box 121: minutes of the CTC Osijek, November 6, 1938.

346 Ibid; Kolar-Dimitrijević, “Strani kapital i Banovina...”, 170; Petranović, *Istorija Jugoslavije...*, 291–293.

resolution to block the political and economic influence of England and France in this part of Europe.”³⁴⁷ Textile goods, chemical and railroad products, glass and porcelain, which Yugoslavia procured from Sudetenland, increased Germany’s share in Yugoslav domestic trade by 50–60%. With Italy gradually reaching the level of trade prior to sanctions, Yugoslav foreign trade reached a 70% level of dependence on Italy and Germany.³⁴⁸ Likewise, the agreement on the creation of a separate Banate of Croatia, adopted on August 26, 1939, led, paradoxically, to a further strengthening of Germany’s position in the region. The newly established Banate became a federal unit incorporating all the strategic interests of the Third Reich. These included bauxite mines, an aluminium factory, crop and cattle assets of Podravina, Slavonia and part of Syrmia, almost all cement factories and almost all hemp mills, meat processing plants in Sesvete, Zaprešić, Petrinja and Šid, and Croatia’s largest shoe and rubber factory in Borovo.³⁴⁹

Despite all great powers, from Great Britain to Germany, agreeing on the survival of the Kingdom of Yugoslavia as a matter of course, they saw Yugoslavia as a reliable ally only under the condition that the “Croatian Issue” be solved. No wonder then that Germany’s and Italy’s support for the establishment of the Banate of Croatia had been motivated by interest. It seems that it was precisely the forming of this new administrative unit in the summer of 1940 that instigated a kind of euphoria in Berlin – euphoria of making plans as to how to include Yugoslavia into the ever-greater German economic area. In the same year, Germany held approximately 50% of Yugoslavia’s import and absorbed 40% of its export; on the other hand, Yugoslavia’s share in German import and export amounted to barely 2.7% and 3.5%, respectively, which generated a negative clearance balance. Yugoslavia’s economy was planned to supply Germany with food and raw materials in such quantities that this would be impossible to achieve without starving the population. Due to the importance of Yugoslavia for the German war economy, it became obvious that making Yugoslavia economically dependent on Germany would entail political dependence. There is hardly a better illustration of this dependence than the fact that upon the outbreak of the war Yugoslavia seized trading with countries invaded by Germany to avoid the risk of offending its mighty neighbour.³⁵⁰

Soon enough, entrepreneurs also became aware of the Banate’s functioning as a separate federal unit, since laws, regulations and ordinances were being passed that deeply interfered with economic interests of individuals and organisations. Moreover, various levies were imposed without chambers of commerce being previously

347 DAOS 223, Box 121: minutes of the CTC Osijek, November 6, 1938.

348 Ibid.

349 Kolar-Dimitrijević, “Strani kapital i Banovina...”, 167.

350 Kolar-Dimitrijević, “Utjecaj fašizma...”, 173, 223.

consulted – as they should have been according to the extant legislation which gave chambers a consultative power in such matters. The same applied to personal matters – appointments of individuals to business organizations and committees.³⁵¹

By the end of 1939, the chambers submitted a proposition to the Ministry of Finance concerning loans for the industrial sector. Circumstances on the global market put the processing industry into a difficult position. Raw materials that the industry procured overseas, either by clearing or free trade, became significantly more expensive. The purchases often had to be paid 4–6 months in advance, and private banks stopped providing loans to the industry. Reacting to this situation, the chambers recommended issuing special import loans to companies that were stable enough. The initiative failed, as was evident from a discussion between the representatives of the Osijek and the Zagreb Chambers taking place in January 1940 in Ljubljana, at a conference bringing together representatives of the Yugoslav business sector. Deputy Minister of Finance Filipančić, asked about the possibility of tax reform amendments, responded that the country desperately lacked financial means for satisfying the increased needs. Off the record, he added that the proposed tax reform actually instituted a kind of war tax. At a conference of Croatian commerce chambers in Zagreb, an initiative was launched appealing to entrepreneurs to contact the president of the Croatian Peasant Party Vladko Maček and the *Ban* Ivan Šubašić. The purpose of of this initiative was to raise the question of tax burdens, Banate levies and difficulties in financing the Banate of Croatia. Besides, the members were anxious to know what was “the position of these leading figures” and what was the “the attitude of the authorities towards industrial and trade companies”. There is no information suggesting that the meeting ever took place. Anyhow, the inflation and the war soon changed everything.³⁵²

A chamber report from January 1941 contains a remark about the domestic economy showing all the characteristics of a war economy and about the entire European economy entering a state of emergency. The imminent war was used as a justification for introducing a new regime into the economy. For the most part, the government refrained from interfering in the economy during peacetime. However, with war production becoming ever more important, the government was ever more interested in pulling the levers of the economy. The president of the Osijek Chamber, Mr Hinić, claimed that “private initiative in economy is of immense importance since it represents an accumulation of an unusually large experience” that is difficult to standardize and even more difficult to attain through political appointments, adding inexperienced individuals to the already teeming state apparatus: “The aim should rather be to reach a maximal possible balance between private initiative and

351 DAOS 223, Box 121: minutes of the CTC Osijek, January 28, 1940.

352 Ibid.

state intervention”. During 1940, the issues that authorities mostly dealt with were problems of raw material procurement for industry and crafts, pricing, food supply and social relations issues. Discussing the economic development plan of the Banate of Croatia for 1940, the Osijek Chamber pointed out that the Osijek region deserved a special attention since the area covered by their Chamber was “the most important production area of the Banate.”³⁵³

The uncertainty brought about by the war, together with the occupation of Czechoslovakia and Albania, forced the government of the Kingdom of Yugoslavia, as well as the National Bank, to take almost all gold reserves out of the country during May 1939. The war effort would once again move the savings holders to storm the banks. When in September 1939 the war finally started in full swing, it triggered a new financial crisis in the Kingdom of Yugoslavia. From late August until mid-September 1939, more than 1 billion dinars were withdrawn. As a stabilization measure, the government indexed dinar to the American dollar, the most stable currency at the time, the base rate being 1 dollar = 55 dinars. Holidays were introduced for monetary institutions and stock exchanges to give them a respite from the pressure of the repositories. The stabilization of the financial situation was possible due to Yugoslavia’s decision not to get involved in the already ongoing armed conflict. However, new loans were required for the country to organize its defence. To finance these extraordinary expenses, the Kingdom increased the quantity of money in circulation, which proved to be a catastrophic move. The failure of crops in 1939 and 1940 caused a price surge. Out of fear of starvation, people formed endless lines in front of grocery shops. The price increase of foodstuffs coincided with the increased quantity of money in circulation, which undoubtedly had a detrimental effect on military procurement.³⁵⁴

At that time, there were already signs of changes that would take place as the war drew closer to Yugoslavia’s borders. In the period immediately preceding the war, horizontal ties between the politics, economy and unions were established in renewed efforts to address the issues arising from the capital-labour relations. Unions’ efforts to force the employers to hire only unionized workers took a new twist when the Croatian Workers’ Union (HRS) was granted an exclusive right to represent the working class. At that time, the unions already had a history of functioning almost as branch-offices of political parties. For them, dissatisfaction of workers was a primary instrument of political activity. A wave of strikes spreading over large parts of northern Croatia during 1936 (due to the price drop of agricultural products, agrarian crisis and excess

353 Ibid.

354 Kršev, *Finansijska politika Jugoslavije...*, 337–342.

workforce) caused a conflict between the unions controlled by the Communist Party of Yugoslavia and the nationalist unions, under the auspices of the corresponding political parties (which enjoyed the advantage of operating legally). The conflict, according to the communists, threatened with separations within the worker's corps. Therefore, this party decided to change its strategy towards HRS. It supported HRS in its union activities with an aim of gradually isolating the members from their fascist leadership. However, on September 1, 1939, HRS joined the unions supported by the regime, assembled in the Yugoslav Workers' Association (JUGORAS), and completely morphed into a party organization, ready to serve the political interests of the Croatian Peasant Party (HSS).³⁵⁵ After the establishment of the Banate of Croatia, HRS, favoured by the government, became the dominant union, enjoying all the privileges of an official organization but lacking a full freedom of operation. After the Yugoslav Coalition of the United Worker's Union had been banned on December 24, 1940, HRS remained the only union in the Banate enjoying the right to act publicly.³⁵⁶

In Belišće, the power of the union under the political control of the HSS proved to be overwhelming. As a consequence of the mentioned events, the former ORS (General Workers Union) disappeared from the union scene, with a damaged reputation and without any support from the headquarters. In Belišće, ORS enjoyed a full support of the Gutmann company's administration and its owners, so the Company succeeded in preventing the formation of HRS for a longer period. In this case, the establishment of a competing union organization became inevitable due to a conflict between the higher and the lower administrative staff. Bribed lower clerks supported the formation of HRS and the Association of the Croatian Private Employees. The rhetoric of the latter organization was unacceptable to the owners. During the election campaign for labour commissioners in February 1938, Franjo Majtanić uttered: "Enough of this insatiable Jewish-Hungarian capital that is bleeding us dry! [Let us show] this Jewish capital that we are determined to undertake everything that is needed for the benefit and betterment of our plundered Croatian working people. There they lay waste on our forest riches; they took the money over the border leaving us to starve here." As much as the Banate authorities viewed the politization of unions as a means of achieving conciliation in cases of labour strikes, it turned out that the only unlawful strike in the history of the Banate and the HRS was the one that took place in Belišće.³⁵⁷

355 After the state gained control over HRS, the leadership of this labour union did not have to worry any more about whether it enjoyed the support of its members or not. In fact, it could even declare the dissatisfaction of its own members as "anti-state activity".

356 Volner, "Odnos poduzeća...", 113–115; Hrvoje Matković, *Povijest Hrvatske seljačke stranke* (Zagreb: 1999), 348; Mile Konjević, "Radnički pokret u Slavoniji 1929–1941", *Historijski institut Slavonije i Baranje* (1981): 140; Bosiljka Janjatović, *Politika HSS-a prema radničkoj klasi – HRS 1921–1941* (Zagreb: 1983), 83–85.

357 Volner, "Odnos poduzeća...", 119; Kolar-Dimitrijević, "Drvno-industrijsko poduzeće...", 91, 103.

Viktor Gutmann, the general director of the company at the time, laid off Josip Čosić, a night guard, for joining the union, but at the same time offered him a different position in the company, one compatible with the union membership. Gutmann tried to justify his decision by claiming that night guard was a position of trust, meaning that an individual apt for such a position could not be a member of an interest organization such as a trade union. Prior to that, Čosić had not been a union member, but a Regulation had eventually been adopted according to which he could join a union despite being a night guard. Under pressure by other members, Čosić joined HRS. After he was laid off, HRS stopped all work in the factory. Strike organizers gathered a few hundred workers in front of the headquarters building protesting against their comrade's lay-off and busting in the management offices. Though claiming that the termination was in accordance with all legal requirements, under the pressure from the union the management was forced to re-employed Čosić to his previous position. This was a precedent in relations between management and workers. The strike was not legitimate; it was an unauthorized strike. The management failed to act in compliance with the regulation according to which night guards and stewards were entitled to join unions. Moreover, despite being called, the gendarmery did not show up to prevent possible violence of the strikers. The management backed down under pressure and the dispute before the Labour Court in Osijek on March 16, 1941, was never resolved since the Court decided to decline its jurisdiction in the matter.³⁵⁸

4.5. Cartels

As soon as 1927, Yugoslav military officials wrote to the Ministry of Finance, Transportation and Construction, warning about the threats that foreign cartels present for the domestic industry.³⁵⁹ What they had in mind was the Central European railroad cartel (Austria, Czechoslovakia, Hungary) that was placing large quantities of steel rods to the Yugoslav markets at dumped prices, while the state-owned domestic industrial plants – the ones in Vareš and Zenica – failed to put up a worthy resistance. So, it was up to the government to prevent this type of foreign competition. Cartels were seen as something profoundly sinister – as giant monsters that are about to annihilate the domestic industry. In the Marxist view, cartels are inevitable products of capitalism: “Without cartels and unions, the contemporary capitalist

358 Volner, “Odnos poduzeća...”, 123–124.

359 Cartels are a form of arrangement reached between companies competing for the same markets. The purpose of such an arrangement is to gain a monopoly position on the markets to the benefit of each of the involved companies. Cartels make profits by negotiating prices of their products, not by reducing production costs or introducing innovations. Cf. B. Klaić, *Rječnik stranih riječi*, 669.

system would probably already be dead”³⁶⁰ Paradoxically, free competition drives the production towards consolidation, and, at a certain level of development of the production capacities, leads to a monopoly. In 1933, to deal with the problems of an uncertain recovery from depression and disloyal competition had been seen as a kind of war – a war waged by a centrally planned economy (which was, of course, itself a kind of monopoly).³⁶¹

It was the official government policy, including protectionist and other cartel-favouring measures, that contributed to the growing number of cartels in Yugoslavia, most of which emerging during the dictatorship period of 1929–1934. State intervention in economy manifested itself through assisting and strengthening monopolies, trusts and cartels, ensuring public procurement, issuing concessions and reliefs (including customs and tax reliefs and exemptions from customs). The Regulation on Cartels from August 1934 prohibited cartelization, but only under the condition that they are not detrimental to economic interests. So, in effect, they continued to exist, though under government control. The control was carried out by the Minister of Trade and Industry, and Minister’s decisions were not subject to appeal to the State Council. These decisions regulated and proscribed certain product prices and other forms of cartelization. The Regulation was eventually amended to the effect that it explicitly allowed cartel registration but strengthened the government control. By restraining production and maintaining high prices, cartels presented a heavy burden on underdeveloped economies because they limited free competition on domestic markets. As expected, trade chambers opposed the cartels. They believed that abolition of cartels would restore the free market, but this belief had little effect – as did the very attempt at banning the cartels.³⁶²

During the dictatorship period, the government openly endorsed a permissive attitude towards cartels adopting measures for the protection of large industrial companies. In Yugoslavia, cartels existed since its foundation, but the involvement of the state in cartel activities dates to 1929, i.e., to the period of the Great Crisis. State intervention regulated cartels operating within the territory of the Kingdom, regardless of where they happened to be established – within the Kingdom or abroad. For cartels to function, the role of agreements that limited or excluded free competition in production, sale or procurement of goods, in transportation, in loans or insurance, in determining business conditions and setting prices and tariffs was crucial. In March 1938, as many as 78 cartels were registered in the country. They included 345 companies, 130 of them industrial. Industrial companies were members of $\frac{3}{4}$ of all the registered cartels. Only 3% of lumber industry companies participated in cartels

360 Đurović, *Državna intervencija...*, 168–169, 171.

361 Ibid, 168–169.

362 Ibid, 172–176.

Despite the volatility and fierce competition on the global and the domestic markets, the Gutmann company was able to operate successfully mostly because of its vertical integration of a “combine” type (*kombinat*). This type of organization enabled it to effectively carry out a multitude of production and processing operations, the output of these operations ranging from the most basic to the most sophisticated products of wood industry. For the Company to survive under competitive conditions, both on domestic (where it competed primarily against the *Nasička*) and foreign markets, the only solution was cartelization. The Gutmann company was a combination or an alliance of companies processing wooden products. The Company owned sawmills, a tannin factory, a wood distillery, quarries, a motor mill, an iron foundry, mechanical repairs workshops, steam bakeries, railroads, barges etc. Being in possession of forests, the Company represented a “true nobility in a modern capitalistic uniform”. It participated in several cartels: of tannin producers, of wood distillation factories, of parquet and firewood producers.³⁶³ The *Nasička*, on the other side, was a combination of mechanical and chemical processing facilities, with similar organizational structure as Gutmann, although “an even larger capitalist establishment”. Apart from tannin and sawmill, the Company produced parquets, furniture, barrels, it owned a steam brick factory and a railroad. It employed approximately 10,000 workers and became one of the largest companies in Yugoslavia – alongside *Kranjska, Trbovlje, Tivar, Združena papirnica Goričane-Medvode* and the Zenica Foundry.³⁶⁴

Before the war, there was a tannin industry cartel and it comprised tannin factories in Mitrovica, Županja, Belišće, Đurdenovac, and Sisak. These facilities not only produced and supplied tannin extract to the leather industry of the entire Austro-Hungarian Monarchy but exported large quantities too. After the war, the internal market shrank significantly, and the export became ever more difficult since the tannin industry of Italy and France was on the rise. At the same time, the quantities of the imported quebracho extract – a much cheaper alternative – increased significantly, especially after two new extract factories started operating – Sevnica and Majšperk – and some leather industry companies started producing their own tanning substances.³⁶⁵

Due to these circumstances on domestic and foreign markets, in April 1921, companies covering this branch established a cartel called *Tanin Ltd.*, a company for

363 DAOS 241, Box 10, Jacket 78: Cartel for the Dry Distillation of Wood, correspondence from 1935, legislation of cartels, Regulation on Cartels of August 3, 1934, with amendments of December 6, 1935; Šimončić-Bobetko, *Industrija Hrvatske...*, 546.

364 Đurović, *Državna intervencija...*, 170-171.

365 DAOS 241, Box 14, Jacket 119: Request by *Nasička* of 1934, comments to the *Nasička* Request of February 17, 1934.

leather processing products headquartered in Zagreb. The cartel succeeded the *Gerbextrakt A.G.*, a Budapest company established during the war for the purpose of selling tannin in regions controlled by, and of interest to, the Central Powers. Among the leading people of *Tanin Ltd.* in the post-war period were Mavro Binder, the president of the tannin factory in Županja, Josip Čerych, a co-owner of the tannin factory in Mitrovica, and Herman pl. Rosenberg, the general director of the *Našička*. In April 1921, Barons Arthur and Ernest Gutmann and Ivan Kun from Sisak joined the cartel. Every three to four years, cartel members renewed their agreements regulating the terms of production. Exceeding the agreed production levels or attempts at establishing a new tannin factory were to be sanctioned by a fine amounting to 2 million dinars.³⁶⁶

Through a French company, *Tanin Rey*, the cartel became a member of the *International Entente for Oak and Chestnut Extracts*. The Gutmann Company remained a member of the cartel until 1924. After that, the company started selling its products independently on western European markets through the British company Arnold Rink. However, these operations were discontinued due to the crisis which, combined with efforts to reduce the import of South American quebracho extract into Yugoslavia, forced the Gutmanns to re-join the cartel and become a part of an international organization for tannin sale. As members of the international cartel, Yugoslav tannin companies acquired the right to produce and sell 17.5% of the overall European tannin production.

The state failed to provide any significant protection to this industrial branch. According to the data cited in the *Privredni almanah* ("Economic Almanac"), the capacity of all tannin factories amounted to 6,200–6,500 wagons annually, of which only 2,408 wagons were produced in 1927 and 2,180 in 1928. Of the overall production from 1927 and 1928, as much as 1,900 and 1,776 wagons, respectively, were exported. These data reveal that tannin factories used only one third of their capacities and that one fifth of its overall production was sold domestically, the rest being exported.³⁶⁷

The companies had to process 10 wagons of raw materials (tannin wood) for 1 wagon of tannin products. According to the Company's data, its factories, if working full capacity, processed up to 70 tonnes of raw materials daily. Tannin raw materials were not suitable for any other purpose since oak extract was produced from roots and other waste materials; chestnut extract was produced from wood that was otherwise useless (including as firewood). The entire tannin industry employed several thousand forest and factory workers. As one of the arguments in favour of

³⁶⁶ Kolar-Dimitrijević, "Križa taninske industrije...", 44.

³⁶⁷ Šimončić-Bobetko, "Društveno-ekonomski uvjeti...", 118–119; Štok, "Organizacija prodaje i nabave...", 268.

strengthening the customs protection measures of the company within the cartel was the interest of national defence. During the First World War, tannin proved to be useful for military equipment production. Customs tariffs on imported extract amounted to 10 gold dinars for 100 kg of product, and tanneries imported between 60 and 100 wagons of quebracho annually. As the domestic companies were eager to show, the consumption of domestic raw materials had been reduced by several thousand wagons. As to the foreign trade disbalance, this could have been mitigated by higher tariffs.³⁶⁸

The Gutmanns, as other companies in the trade too, exported their products to England and the Netherlands where leather industry had a very long tradition. The annual amount of extract exported by the Company was about 300 wagons. Its management argued that there was no need for importing quebracho since domestic companies could provide a better product. The companies of the cartel proposed an increase of customs tariffs from 10 to 30 gold dinars for 100 kg of imported extract. Customs were increased in 1926, at the session of the Parliamentary Board for Customs Tariff Revision, from 10 to 20 gold dinars for all extract importers. However, as a memo from 1931 reveals, these measures were not implemented.³⁶⁹

Domestic tannin producers were determined to take over the entire tannin consumption in the country. Due to an increased import, domestic production was reduced from seven to six factories, but the capacity remained at seven wagons a day. A report by *Tanin* Ltd. from early 1932 indicates that domestic tanneries imported approximately 393 wagons of extract yearly, of which 261 had been quebracho. During the same year, domestic tanneries purchased only 177 wagons of extract from domestic producers. After the Great Depression of 1929, the situation deteriorated further: tannin factories in Mitrovica and Županja went under leaving 2,000 workers jobless. Unlike some other factories that managed to survive, they could not afford producing chestnut extract. “Facing bankruptcy, the management of these companies made a deal with other members of the *Tanin* Cartel to shut down the factories, but the owners kept their *Tanin* stocks”. So, from that point on, only the facilities in Našice, Sisak and Belišće remained in business.³⁷⁰

The leather industry enjoyed a strong state protection. According to its cartel, their prices remained at 1900–1914 levels, while tanneries sold their products at significantly higher prices. Notwithstanding all their efforts to create a monopoly on the domestic market, customs tariffs for imported extract increased to a mere

368 DAOS 241, Box 17, Jacket 141: custom tariffs, proposal for an increase of custom duties on imported tanning extracts, Tariff No. 230.

369 Ibid., Box 17, Jacket 145: increase of custom duties on quebracho, 1931–1932, letter by *Tanin d.d. Zagreb*, October 10, 1931.

370 Kolar-Dimitrijević, “Križa taninske industrije...”, 45.

11.75%, which was insufficient. On the other hand, by the end of 1931, the Gutmann company increased its export of tannin. Not only that the quantities exported to England and the Netherlands reached 400 wagons; Germany became a new export destination.³⁷¹

The overcapacity problem caused the formation of a new cartel – for acetic acid production. Of numerous wood distillation products, only charcoal and acetic acid could be sold in Yugoslavia, albeit in smaller quantities. Soon after the war, wood distillation operations were suspended, until protective customs were introduced. In 1921, as customs tariffs were about to be determined, the Gutmann company complained to the Ministry of Finance about problems in wood distillation industry and their possible solutions. The company had an annual capacity for producing about 40 wagons of acetic acid (80% concentrated). In the same year, 10 wagons of the product were in storage, and the factory barely worked 1 month out of four. Capacity of the Belišće company, together with the factories in Belgrade, amounted to 90 wagons of acetic acid concentrate, which was sufficient for satisfying annual domestic needs. In those days, acetic acid was produced from calcium acetate by dry distillation of wood. Only two companies in Yugoslavia produced the chemical: the English-Yugoslavian wood distillery in Teslić and the Gutmann company from Belišće. These companies sold the calcium acetate to the acetic acid factory Ilija Milišić in Belgrade.³⁷²

The need for increasing customs tariffs arose from the fact that Austrian acetic acid producers, having optimized the production process, were much cheaper than the domestic companies. In addition, the differences in the exchange rates also contributed to the price difference, enabling the Austrians to outcompete Yugoslav companies. Their invasion of the domestic markets was aided by new transport links, especially with Slovenia and the Zagreb area where there was a high demand for acetic acid. “The [Austrian] competition became especially threatening when Austria received the benefit of minimal customs tariffs and after German goods could be sold to third countries via Austria. That is, by obtaining a certificate of origin from Vienna, German goods could also enjoy minimal customs tariffs.” To prevent the import of the acetic acid, the Gutmann company decided to sell 10 wagons at a loss.³⁷³

In March 1921, the state introduced the following customs tariffs for wood distillation products: 26.59% for acetic acid, 39.93% for acetone, and 13.55% for tar. To the Ministry of Trade and Industry it seemed appropriate that the pre-war import tariffs be raised by as much as the price of goods had increased. According to a calculation of the Belgrade-based merchants, the various mandatory surcharges and taxes

371 DAOS 241, Box 17, Jacket 145: increase of custom duties on quebracho, 1931–1932, letter by *Tanin d.d. Zagreb*, October 10, 1931; Šimončić-Bobetko, *Industrija Hrvatske...*, 544.

372 DAOS 241, Box 14, Jacket 117: production statistics, 1928.

373 DAOS 241, Box 14, Jacket 115: various statistics on distillation, 1920–1932.

amounted to 16 dinars per kilogram of acetic acid. Since the customs protection depended on how the taxation was implemented, so the Gutmann company, with the aim of protecting the domestic industry, recommended a unique system of customs protection which would be independent of exchange rate manipulations or tax policy. After 1925, the tariffs yet again increased: for acetic acid to 157.13%, for acetone to 118%, and for tar to 70.44%. These measures ensured the dominance of domestic wood distilleries which formed a cartel for the purpose of selling the product at a mutually agreed price and on a market that was previously divided between the companies. The cartel included the Gutmann company, the *Jugoslavenska destilacija drva* from Teslić (a member of the international cartel for wood distillation Hijag, with headquarters in Zagreb) and the *Ilija Milišić* from Belgrade. In 1927, the cartel was formally named *Acetik* Ltd. with headquarters in Zagreb. *Acetik* had trade agents in numerous countries (Germany, Hungary, Italy, and Austria) with whom the cartel promoted its products on those markets. Since special attention was devoted to introducing new products, the Cartel occasionally had to acquire international licences and patents.³⁷⁴

Eventually, *Acetic* would get fierce competition from ethanol factories that took advantage of the customs protection measures introduced by the state for protection of wood processors. In most cases, crafts workshops produced acetic acid of lesser concentration, i.e., a one that was not harmful for consumers (especially for those which would be tempted to use it as a means of suicide). On July 16, 1925, the Ministry of Public Health made a decision that vinegar concentrate be sold in special bottles, with large inscription “poison” joined by a skull symbol. The cartel opposed that decision on the grounds that the new packaging would increase the price of the product and deter potential buyers. The Regulation also required of the sellers who were selling the high-concentration substance to obtain a special licence. On the bottle, retailers had to clearly state that it contained acetic acid together with the instruction for use. The packaging had to be reduced to 0.2 litre. The list of poisonous substances defined by the Regulation on Trade and Control of Poisons included the high-concentration acetic acid, while the Association of Vinegar Producers publicly promoted the opinion of the Hygienic Institute from Zagreb and Ljubljana which as early as 1924 issued a recommendation that “vinegar in higher concentration of 15%, even 7%, should not be allowed for free sale”.³⁷⁵

374 DAOS 241, Box 14, Jacket 115: various statistics on distillation, 1920–1932, letter from Belišće to the Ministry of Finance, March 15, 1921; *ibid.*, Box 14, Jacket 116: acidic acid – negotiations with producers in 1929; Jacket *Karteli 1923–1927*: letter by Ilija Milišić from Belgrade, January 30, 1924; Šimončić-Bobetko, *Industrija Hrvatske...*, 544, 548.

375 DAOS 241, Box 33, 280: newspaper clippings on the factory and the production, 1923–1947, 1. Press 1925–1932, *Jugoslavenski Lloyd*, October 14, 1925.

Behind the action of the Ministry of Social Policy and Public Health there was a group of acetic acid producers connected to the ethanol factory. Surely, the action did not disregard consumers' protection. Namely, the correspondence between the chamber, the company and the ministry, includes arguments referring to psychiatric studies on suicides, with a special regard to the role of acetic acid. According to the enclosed reports, the psychiatrists could not prove the connection between a person's decision to commit a suicide and the means of doing it. The indubitable fact that concentrated acetic acid is a poison that causes death, indeed in great pain, had not been identified as a distinctive motive for suicide nor as a reason for regret. The conflict between the two interest groups, which attracted attention of the media, resulted in the removal of the concentrated acetic acid from the list of poison substances in November 1925. The Association of the Acetic Acid Producers was too strong to cave in under pressure, although the real pressure was financially motivated. In certain regions of the country, previous legal provisions on acetic acid remained in force even after the Ministry of Social Policy and Public Health had withdrawn the Regulation. These legal provisions were diverse. For example, in Bačka, Banat and Baranja, acetic acid sales were regulated by a law from 1876, which listed acetic acid among "the drugs that are admissible for free sale under suitable precautionary measures."³⁷⁶ In Croatia and Slavonia, the sale of this product was regulated by a law from 1884, which allowed its sale in pharmacies – in the smallest possible quantity of 100 grams – and stores.

This issue was a topic of a conference organized at the Ministry of Trade and Industry on February 19, 1926, where vinegar merchants, in the interest of public hygiene, demanded the right to a limited sale of acetic acid. However, it was the position of the Hygiene Committee that was finally accepted as the official view. According to this view, a 96% concentrated acetic acid was to be considered as poisonous, and 80% (sold by dry distillation factories) as hazardous to health. On the other side, acetic acid factories and acetic acid sellers demanded that the regime of free sale of this product, which had existed for such a long period, be retained. A consensus on the issue could not be reached, so the conference was a failure. Nevertheless, it became obvious that the producers of vinegar (methylated spirit obtained from corn, potato, wheat, and wine) had the support of the ethanol producers' lobby. This lobby, through the Ministry of Social Policy and Public Health, tried to squeeze out large facilities for dry distillation from the market. In any case, the conference accepted the position of the chambers of trade that limiting the sale of the concentrated acetic acid would lead to skyrocketing of prices of the product that is highly sought for. The Belgrade newspaper *Politika* concluded its report from the

³⁷⁶ DAOS 241, Box 14, Jacket 114: acetic acid: production and consumption in 1927, appeal of the Minister of Social Policy and Public Health.

conference by claiming that “the main conflict was the one between the factories producing concentrated acetic acid and the ones producing ethanol, i.e., between lumber and agricultural industries. Ethanol, which was also used for production of vinegar, had a serious competitor in the alternative product that was produced by beechwood distillation.”

By the end of March 1926, the Gutmann company, with an aim of informing merchants, printed a flyer claiming that the regulations concerning the sale of 80% acetic acid remain in force, and that this should be officially announced within few days. The Company asked the wholesalers to inform their customers accordingly. Just about when the producers of the concentrated acetic acid started to believe that public attacks on their product had stopped, a tragic incident happened. As the Zagreb daily *Novosti* reported in October 1926, a certain Sofija Smrček, a saleswoman from Bjelovar aged 21, tormented by unrequited love decided to drink concentrated acetic acid. Sofija was found in her apartment on October 7, and died on October 17 at 10 a.m. Before passing away, she disclosed her motive to the police: “As she explained, for three year she had been in a relationship with Josip Horvat, a waiter at *Velika kavana*. After he left her, she was so desperate that she decided to end her life.” As the article concluded, the incident had clearly proven the need of an urgent ban on free sale of concentrated acetic acid. That is, only vinegar should be available for free sale in stores.³⁷⁷

The media attacks on the acetic acid products of the cartel had been incessant. The daily *Jutarnji list* in an article entitled “Suicide Mania Doesn’t Stop” from March 4, 1933 informed that in 1932, alone in Zagreb, there were 370 attempted suicides. It pointed out that of 60 attempted suicides in the first two months of 1933, as much as 50 involved concentrated acetic acid. The Gutmann company issued a statement that the local authorities and the State Attorney’s Office should prohibit reporting on suicides in the context of free sale of acetic acid. Not only were the psychiatrists unable to find the connection between the increased number of suicides and the availability of the Company’s products in stores; such reporting was unfair, according to the Company, since it brought the Company in connection with the campaign organized by the Association of Vinegar Factories.

Especially interesting was the action taken by acetic acid producers in May 1931, after the National Defence Inspectorate in Belgrade prohibited the procurement

³⁷⁷ DAOS 241, Box 14, Jacket 114: acetic acid: production and consumption in 1927, leaflet for wholesale, Belišće, March 29, 1926, leaflet was sent to the following merchants: Willheim & Boskoviz (Osijek), Vilko Ornstein (Vinkovci), Adolf Schossberger (Novi Sad), Praška kreditna banka, branch office Belgrade, Julius Kraus, jun. (Veliki Bečkerek), Gustav Socher (Zagreb), *Breuer d.d* (Bjelovar), Graner Brothers (Čakovec); *ibid.*, Box 14, Jacket 114: letter to the Industrial Corporations Central in Zagreb of October 20, 1926, subject: regulation of acidic acid retail sale; see: Volner, “Tvrtka Gutmann i javno...”

and use of acetic acid for the preparation of army meals. In a letter to the Inspectorate, *Acetik* noted that the prohibition had been based on inaccurate data concerning the alleged harmful effects of the acid. Trying to persuade this institution to change its decision, the Company emphasized the fact that acetic acid factories were industries of immense importance for the country's defence. It also pointed out that in the English-Yugoslav wood distillery in Teslić the state held one third of the share capital via the Ministry of Forestry and Minerals, implying that the decision prohibiting the acquisition of acetic acid from *Acetik* could be interpreted as harming the vital national interests. Finally, the letter reminded the Inspectorate about the army's role in the society and its importance for re-education of soldiers in the sense of changing bad habits. And this role would be ill served if every soldier, upon returning home, spread the belief that vinegar produced by wood distillation is harmful since the army prohibits its use. In order to prevent such misinterpretations, the Company appealed on the army to provide proper education in the interest of the public health.³⁷⁸

The strong position of the *Acetik* within the economy of the Kingdom emanated from the fact that its two factories were the only ones able to produce acetone in quantities required for military purposes. (Acetone was indispensable to produce smokeless gunpowder and other substances important for the war economy). The wood distillation industry reached an agreement with the state that *Acetik's* companies will be allowed to sell acetic acid on the domestic market, while their other products, such as alcohol or aldehyde, will be exported at low prices. In fact, acetic acid was the only such product that was freely available on the Yugoslav market for non-military purposes. What also played an important role for these companies to be granted a special status by the state was that they employed between 4 and 5 thousand workers. The Gutmann's and the English-Yugoslav wood distillery from Teslić, through the Ministry of Defence, Trade and Industry, solidified their market position by relying on a series of regulations pursuant to and drafted according to an act that regulated the functioning of stores and shops (the Stores Act).³⁷⁹

The way that the market of the Kingdom of Yugoslavia was shared among the members of the acetic acid cartel benefited the two largest producers: 49.5% of the market was allocated to the distillery in Teslić, 39.5% to the Belišće company, while the calcium acetate processing factory Ilija Milišić from Belgrade took an 11% share.

378 DAOS 241, Box 10, Jacket 118: ban on selling acidic acid to the army, 1931–1937, October 14, 1931, letter of the National Defence Inspectorate; *ibid.*, Box 33, Jacket 280: newspaper clippings on the factory and production, 1923–1947, 9. "Battle over acidic acid" (article in *Jutarnji list*).

379 DAOS 241, Box 10, Jacket 123: Mihailović Kerestinac, ban on the production of acidic acid from spirit, 1933. Ministry of Trade and Industry pursuant to the article 60, paragraph 2 of the Stores Act, in agreement with the Ministry of Defence, passed the Ordinance on the Concentrated Acetic Acid Production Licence (No. 4095033).

According to the data obtained from the Teslić factory for March 1933, acetic acid prices, that were up to that point stable for more than a year, were determined in such a way as to ensure smooth operations of the company. In Yugoslavia, approximately 600,000 kg of acetic acid was consumed annually, and the retail price of concentrated acetic acid amounted to 50 dinars per kilogram.³⁸⁰

The Gutmann company was also among the signatories of a cartel agreement that was concluded in 1930 between the largest parquet producers. It was only the *Zagreb Factory of Parquet and Steam Saws* that refused to join the cartel. After a decrease of parquet prices in 1929, producers decided to establish a joint sales office *Travers Ltd.* in Zagreb to reduce organizational, marketing and sales costs. After *Našička* broke the cartel in 1931, a joint sales office was established by six Croatian companies – *Našička, Slavonija, Doma, S. H. Gutmann, Zagreb Parquet Factory*, and *Rendeli Parquet Factory* from Karlovac, other nine Yugoslav factories refusing to join the organization.³⁸¹

The sales office *Narodno d.d. Parketunion* regulated the production norms for its member-companies, uniformed their procurement and payment procedures, but had no significant influence on the prices, since approximately 60% of the production remained uncovered by the agreement. After parquet prices dropped for more than 50% between 1931 and 1933, creating a cartel seemed an obvious solution for maintaining prices above the production costs. According to a report from September 1933, parquet factories, in order to reach an agreement, had to introduce a unique way of standardizing their products. Since there were no regulations on parquet size and form at the national level, companies produced parquet of various dimensions. Such an anarchy on the market was disadvantageous mostly for the consumers, so building contractors prompted the producers to propose a private agreement that would regulate these matters. According to the archival data for 1933, 15 parquet factories operated in the country: 5 in the Drava Banate, 8 in the Sava Banate (2 in Zagreb, 2 in Karlovac, 1 in Đurđenovac, 1 in Belišće, 1 in Sisak and 1 in Slavonski Brod), 1 in the Danube Banate (Srijemska Mitrovica) and 1 in the Vrbaska Banate (in Sarajevo).³⁸²

When adopting protection customs for firewood in 1925, domestic producers faced significant difficulties because of low import customs on Romanian lumber

380 DAOS 241, Box 10, Jacket 78: Cartel for the Dry Distillation of Wood, correspondence from 1935, Jacket “*Prepiska o doprinosu za kartele*”; letter to *Acetik d.d.* of January 9, 1936, Belišće; Ibid., Box 18, Jacket 157: contributions to cartels, Appendix “ad 7”, mutual agreement of the acidic acid factories.

381 DAOS 241, Box 18, Jacket 157: contributions to cartels, Apendix “ad. 17”, mutual agreement of parquet factories (report of September 1933); Šimončić-Bobetko, *Industrija Hrvatske...*, 549.

382 DAOS 241, Box 18, Jacket 157: vontributions to cartels, Apendix “ad. 17”, mutual agreement of parquet factories (report of September 1933).

that had been sold exclusively in the area called Banat – a part of Vojvodina along the Rumanian border. With the simultaneous growth of the dinar and decrease of the Romanian leu, the Romanian producers became more competitive. To fight off the Romanian competition, the producers recommended customs protection of 500 to 600 dinars per wagon of imported lumber. By the end of 1930, companies jointly producing more than 70% of firewood established a union for regulating production quantities. They were motivated by the possibility of the prices falling below the production costs due to the introduction of an export customs tariff on lumber exported to Hungary. The Union started its operations by regulating production quantities and maintaining price stability. The competition took advantage of this situation – i.e., the Union members reducing their production – and increased their own production, so that at the beginning of 1932 the Union production fell below 40% of the overall production in the country. With such a disproportion, the existence of the cartel became pointless, so the Union broke up.³⁸³

383 DAOS 241, Box 17, 142: customs tariffs proposal, 1925, letter from Beliše to the National Union of Industrialists, July 1925; *Ibid.*, Box 18, Jacket 157: contributions to cartels, Appendix “ad 16”, mutual agreement of the fuel wood producers (report of September 1933).

5. The *Našička* Scandal

Corruption was an essential characteristic of the interwar Yugoslav state. This is the topic of several studies, among others by Smiljana Đurović and Zvonimir Kulundžić, the latter specially focusing on the *Našička* Scandal. In his book *Economic Background of the Croatian Issue (Ekonomska podloga hrvatskog pitanja)*, Rudolf Bićanić elucidated the role of political structures of underdeveloped countries in financing corruptive processes. He also tries to assess the extent of the damage suffered by lumber industry by comparing the income of the state forests in Yugoslavia with the income of the Polish state forests. Kršev, notwithstanding his positive assessment of many decisions reached by the Prime Minister Milan Stojadinović, could not deny his involvement in a host of corruption scandals during the existence of the Kingdom of Yugoslavia. Corruption was inexorably intertwined with almost every business deal concerning exports, imports, or foreign loans. Since it was the crucial element linking political power structures with entrepreneurship, it is curious that of the numerous scandals that were extensively reported and talked about in the public, not even one had been cleared up to the bottom, nor were the main culprits brought to justice and punished. Typically, if court proceedings made it to the final ruling at all, then it was the small fry that paid the price.

Such a situation solidified the popular belief that corruption is inevitable, even useful. Consequently, common folk, flooded by reports about scandals, with time got used them. As Kulundžić noted, the public would be awakened from this slumber and prompted into action only when this seemed advantageous to the authorities. Since not a single malfeasance had been possible without the involvement of the authorities, each time when the legal apparatus closed in on those in power, scandal would soon be resolved in favour of the culprits. Corruption had not been a random product – it was not there because politicians were ignorant or could not be replaced with competent individuals. It was also not the case that the state had been young and unaccustomed to all the challenges brought about by the new social circumstances. Actually, nobody was naïve, and everything had been planned so that “the big fishes escape the net, and only the small fry gets caught”.³⁸⁴ All Yugoslav governments during the interwar period had been committed not to investigate corruption and not to bring to justice any high-ranking official.³⁸⁵

Kulundžić traced corruption to the very court of the King Alexander Karadorđević whose rule was a kind of dictatorship, despite the existing parliament.

³⁸⁴ Kulundžić, *Politika i korupcija...*, 32–47.

³⁸⁵ *Ibid.*

Corruption was already present in the post-war period of recovery, its most prominent protagonists being “elements of the ruling class gathered around the *camarilla*”. By managing the post-war reconstruction of the country, they acquired enormous wealth at the expense of the truly devastated regions of Serbia. (The state tried to alleviate the overwhelming misery of these areas by introducing tax inequalities between the eastern and the western parts of the country.) Now operating on a much wider scale (compared to the former Kingdom of Serbia), these elements developed a system of making fast and easy money in the post-war recovery period. Since it was the state that allowed for such an abuse of power, the greatest responsibility for the debacle of the interwar Yugoslavia as a democratic and a civil state falls upon King Alexander himself. It was not only the Radicals and the Democrats, but the members of the opposition parties too that, depending on the circumstances, took part in corruptive activities. In any case, all those who did, significantly improved their wealth. Almost as a rule, following the money trail or checking the correspondence of the incriminated persons would confirm the general conclusion that none of the big corruption affairs would have been possible without the knowledge of those at the top. However, whenever a particular investigation confirmed such a conclusion, the otherwise vigilant media would suddenly go silent. Exactly this was the case with the *Našička* Scandal.³⁸⁶

By the judgement of the District Court in Osijek of November 18, 1935, in a court case that became known as the “*Našička* scandal”, the accused were tried for several offenses: for committing bankruptcy, abuse of official position, falsifying documents, crimes against the judiciary etc. The indictment was issued against Dr. Svetozar Grgin³⁸⁷ and 106 of his accomplices for committing crimes of corruption, bribery and abuse of official duty. Apart from Grgin, the key individuals accused of corruption were Aleksander Sohr, Adolf Schlesinger, Filip Schlesinger, Adolf Spitz, Barons Ernest and Viktor Gutmann, Alfred Czuczka, Nikola Nikić, and Dragoljub Jevremović.

Grgin falsified his financial situation to avoid repaying debts, among others, to the Belgrade Cooperative in which the King himself happened to be the largest shareholder. Since this affected the King’s interests, the process had supposedly been initiated upon the personal intervention of His Majesty. However, it soon turned out

386 Also, 42–66; see also: Volner, “*Plug...*”

387 Svetozar Grgin knew politically influential people in Belgrade – the centre of political power of the Kingdom of Yugoslavia. His role was to act behind the scenes – to connect politically powerful people with businessmen who were threatened by the government that their business deals will be spoiled unless they consent to settle matters beyond institutional procedures. Of course, businessmen were not satisfied with this way of doing business, but they had to get used to it. Grgin’s fall began in the moment when his messy lifestyle and his gambling debts had finally brought him on the verge of bankruptcy.

that pursuing the matter to its conclusion would hurt not only many high-ranking officials but also the King himself. The King could not be persuaded that it is against his best interest to “discuss such important and far-reaching matters publicly”. Even a French lawyer, diplomat and university professor of international law, Pierre Cota, was hired to convince the King that revealing certain facts to the public would compromise both his regime and him personally. After the King’s assassination, on October 9, 1934, his successor Prince Paul (Pavle) and prime-ministers Nikola Uzunović and Božidar Jeftić continued the investigation.³⁸⁸

Preparations for the trial lasted three full years and had been reported about in the media and referred to by the representatives of the regime at political rallies. The trial lasted for exactly 6 months, from May 9 to November 9, 1935, before the District Court in Osijek. The accused were defended by 35 lawyers. Among the accused, there were 72 state officials of various rank, from the lowest to the highest. The main suspects were arrested on July 24, 1934, and the most distinguished individual of the entire process, Nikola Nikić, was arrested shortly before the trial, on February 18, 1935. The investigation had been conducted in absolute secrecy, so even the detainees were kept ignorant of the reasons for their arrest until they had received the internment. “It looks as though these men had been imprisoned first, and the evidence proving their guilt gathered afterwards”, noted Nikola Tolnauer, the counsel of Aleksander Sohr, one of the accused. Interestingly, after making extensive preparations for the process in which “the government is about to grab the beast of corruption by its neck”, the press completely refrained from reporting on the arraignment. In fact, the text of the indictment had been censored, and during the proceedings, whenever the court discussed sensitive matters (including those implicating high-ranking public figures), the State’s Attorney Office forbade the reporters to publish any reports of the trial.³⁸⁹

Shrouded in mystery, the trial was announced in Osijek newspapers *Hrvatski list* on August 9, 1934. Only then could a small circle of readers come to know that there was a criminal investigation going on against representatives of certain companies and other individuals suspected of abuse of power. As stated in the article, the defendants had defrauded the state budget and had in this been aided by certain state officials. It was also mentioned that on the grounds of reasonable suspicion hearings had been conducted followed by searches and detention orders issued for several individuals. The competent authorities, besides assuring the public that it would be

388 Ibid., 93–94. As to the shares owned by King Alexander Karađorđević and how he came in the possession of the securities of the Belgrade Cooperative, the author refers to works of Milan Bartoš, *Monarhija i novac* (Beograd: 1946) and Dragoslav Smiljanić, *Sećanja na jednu diktaturu* (Beograd 1955).

389 Kulundžić, *Politika i korupcija...*, 73–74, 81–82.

kept informed on the course of the investigation, warned that “the news regarding the investigation, often tendentiously exaggerated, should be taken with a certain reserve. For, the authorities and the courts of law are doing everything in their power so that justice be served, the state budget compensated, and all those found guilty justly punished. For the time being, one can only note that the news reported domestically and abroad do not fully correspond to the truth, regarding both the amount of damage and the identity of individuals involved in the investigation.”³⁹⁰

S. H. Gutmann, Slavex and Našička were large corporations owned by foreigners that were forced to manage their business operations according to the demands of the country’s political class, and without the consent of this class not a single log from domestic forests could be harvested. The companies sold their product throughout Europe and around the world. The Gutmann company traded directly with Austria, but the share of English capital in its ownership structure increased since the beginning of the 1929 crisis. *Slavex* from Sisak was for the most part in Germans hands, while *Našička* had sister companies all around Europe with an ownership structure that had not been “fully transparent” even to its directors. So, in the light of these facts, one could gain an impression that the individuals prosecuted in the *Našička* affair were some rich equity holders that were generally unknown to the public in Yugoslavia.

In his closing statement, August Petrović, the defence attorney of Adolf Spitz, the director of *Slavex*, noted that “a single individual could not have committed the act that is the subject-matter of this criminal proceeding; rather, it could only be carried out by several individuals, holding various positions. Of these individuals, some give or promise, while others – more dangerous ones – request and receive. The latter, abusing their power or authority, condition the success of the former on their personal benefit and thus bring the former into trouble: to save their businesses and avoid obstacles and difficulties, they [viz. the former ones] are required to pay their dues or give promises. ... The authorities, as in many later cases, failed to act, which instituted a system of seeking and taking bribes since bribery turned out to be a *conditio sine qua non* in many cases.” He concluded that the State’s Attorney Office did not bring to justice those who created such a system, and that this system “still seems to have the upper hand”. Those who were brought to justice were “individuals who for the sake of their businesses and their own sake were occasionally forced to, as the saying goes, sup with the devil”. All this notwithstanding, the process will soon show that the part of the indictment referring to covering-up of bankruptcy or forging documents has been spot-on.

390 Ibid., 86–87.

Aleksander Sohr, the general director of *Našička*, in a statement given at the main hearing, denied that the Company's management needed large sums of money to facilitate reaching business agreements and that they had thus manipulated certain state officials via influential individuals. As Sohr expressed himself, it was regrettable that the Company was forced to pay such interventions just to prevent their business operations from being spoiled. For example, at certain railroad stations, station directors received monthly amounts per wagons dispatched. According to a statement given by Filip Winter, a clerk at *Našička*, this sum amounted to "five dinars per wagon, and in the later years between 2.5 and 4 dinars". Commissions for determining the quality of railroad sleepers in state procurement, according to statements given by Rikard Baumgarten, spent 150 dinars for foodstuff, and apart from accommodation and food, commissions also received between 0.1 and 0.5 dinars per sleeper and between 10 and 15 dinars per cubic meter of picked-up material. The Company's procurator, Zvonimir Bratanić, testified about monthly fees being paid to district mayors – for example, the district mayor of Novoselac received 10,000 dinars as a reward. The director of the Belgrade Office of *Našička*, Ervin Lovrić, claimed that in 1929 as much as 600,000 dinars were distributed as commissions for 40 million dinars worth of business deals. In a sworn statement before the coroner, he emphasized that it had been impossible to realize business deals without interventions of individuals in power. However, during the process, hardly any of the powerful individuals had been mentioned. As he was eager to add, interventions were mostly needed in cases of auctions of property, when difficulties were most probable to occur.³⁹¹

When purchasing forests or issuing invoices for shipping goods, *Našička* registered amounts that could not be accounted for by the bookkeeping considering the purpose of the transfer. These discrete expenses were subject to special investigation. It had been determined that all such amounts represented "Company's expenses for business transactions, that they were necessary for achieving profits", and that they corresponded with the nature and the scope of Company's overall conduct. During the crisis, when deliveries of goods and forest purchases decreased, these expenses were drastically reduced. Discrete expenses included various yearly rewards paid to the "railroad, postal and telephone, juridical, district, land register, forestry, and municipal personnel (...), expenses of various commissions, various payments for wagon delivery, rewards to transferees of various materials, various brokerage fees for purchases of forests and the sale of various goods etc.". According to the court experts, many of these expenses should not have been booked discretely, since they had been rewards to transferees of various materials, brokerage, insurance and cancellation fees, lawyers' fees and similar expenses. Moreover, for many of the booked expenses,

391 DAOS 123, Box 2469: shorthand protocol of the main inquest against Grgin and his accomplices, September 27, 1935. District Court in Osijek.

the experts confirmed that they had to be discrete because if they had been public “they would not have remained secret due to a sizeable apparatus of the Company”, and in that case, they could ruin business operations and long-term plans. “One thing is certain: nobody received anything from the Company without a counter-favour – either enabling the company to purchase a certain forest, to conclude a certain business, get out of a certain contract, or by receiving goods that did not meet the standards of quality.”³⁹²

The process took place in the period when the experiment of Agrarian Reform turned into a disaster both for individuals and the state. While the regime was eager to show its resolution to solve all the problems of the country by organizing a large trial, the Association of Agricultural Cooperatives at a conference organized on August 16, 1935 in Zagreb issued a resolution that in many ways revealed the futility and damaging effects of the regime. One of the conclusions of the Resolution was that the existing way of dealing with the problem of peasants’ debts had produced devastating consequences – diminished creditworthiness of peasants, insolvency of credit institutions, demoralization, and overall distrust. The Resolution was adopted by the association of agricultural cooperatives from the entire Kingdom, “so it is difficult to find a more disapproving judgement of some branch of legislation.”³⁹³

Another characteristic of the process had been the interference of the executive power with the judiciary as an independent branch of the government. This in itself was a kind of corruption and compromised the very process. According to the Kingdom’s Constitution, no one could be adjudicated by a court that had previously not been proclaimed as competent for a particular territory. The contemporary laws did not allow that judges, coroners, state attorneys or courts be delegated. Exemption could not had been made for any case, so it was not possible that a judge from the District Court in Zagreb be delegated to the court in Osijek – as in the case in point. According to the principle of independence of the judiciary, judges should have resisted any possible influence on them – not even by the competent minister. But again, this case violated all rules and principles. Judge Dušan Đermanović was influenced by Vladimir Sopić, a “tutor” of the Ministry of Justice, possibly even of the Belgrade Cooperative. The two found a simple solution to the obstacle called separation of powers – they simply allowed for infraction by the executive power. On many occasions, the defence disputed the court’s jurisdiction and demanded its dismissal, but the dictatorship persisted in its intention to control the court, regardless of the damage it suffered. However, with the change at the helm of the government, i.e., with the appointment of Milan Stojadinović, the luck turned in the favour of the defendants.³⁹⁴

392 DAOS 123, Box 2463: minutes of the meeting of March 31, 1934., *Našička d.d.*

393 DAOS 123, Box 2465: Petrović’s defence speech.

394 Kulundžić, *Politika i korupcija...*, 88, 130–134.

5.1. The Society for Colonization and Land Parcelling *Podravina*

One arm of the *Našička* Scandal related to the takeover of the estate owned by Count Majlath in Donji Miholjac after the First World War, which involved the Gutmann company, *Našička*, and the Society for Colonization and Land Parcelling *Podravina* Ltd. The society was established at the beginning of 1923 with the aim of applying the Agrarian Reform to the sequestered Majlath estate. This was achieved by distribution of land among land claimants and colonists, and by exploitation of large, forested areas of the estate. The key person responsible for this undertaking was Adolf Schlesinger, but it was the Gutmanns, primarily Baron Ladislav, whose interests lurked in the background. The key person in charge for carrying out the reform was Svetozar Grgin.

At the beginning of the First World War, Adolf Schlesinger worked as a business secretary to Baron Ladislav Gutmann in Zalaber, while his brother-in-law Weiner worked as a correspondent in the Vienna Office but also accomplished various other tasks for Baron Ladislav. “Eventually, with his family reaching higher positions in the Gutmann household, he advanced to a position of a liaison officer and spokesman who was in charge for informing the family of important events.”³⁹⁵ In 1915, Schlesinger took over the office of the director Braun in Orahovica where his parents had joined him later in the same year. Adolf’s father Raphael immediately after moving to Orahovica “started managing business operations, perhaps to help his son. He spent a lot of time in the office making all the decisions that a director should make, and arousing disapproval of other clerks who disliked him”. Adolf’s brother Filip (Pejsah) soon joined him too working as a clerk at a cash exchange in Budapest. After forester Koth died, Adolf took over all forestry operations in Voćin and the management of the almost entire Gutmann estate. Unlike Baron Edmund, Baron Ladislav revered Adolf Schlesinger. “It was undeniably clear that Adolf had a significant influence on Ladislav, although the Baron was not an easy person to get along with.”³⁹⁶

During the overturn that took place by the end of 1918 and the beginning of 1919, the Schlesingers left Orahovica and lived in Zalaber and Vienna for a while. Eventually, even before the situation had subsided, Filip returned to Orahovica to represent the interests of the Gutmanns. Upon arrival, he skilfully reconciled the disputes that divided him and the Baron from the locals. For instance, he managed to negotiate the citizenship for himself and his brother – something that Gutmanns will never be able to accomplish. This further strengthened their management position with the Gutmanns. Very soon, they established connections with politically influential individuals in Belgrade. This was important since the Agrarian Reform

³⁹⁵ DAOS 123, Box 2463, Dr. Hugo Spitzer.

³⁹⁶ Ibid.

threatened to destroy everything that Gutmanns had created on their estates during the previous period. A consortium was established for the purpose of a commissioned sale of the Orahovica estate, i.e., overtaking parcelled sales. For that project, Adolf managed to win over Baron Ladislav, Arthur and his cousins.³⁹⁷

On July 5, 1922, the Gutmanns sold their Orahovica estate to a consortium established by Svetozar Grgin, Svetislav Jovanović and Đorđe Bošković. For a sum of 18,750,000 dinars, the consortium took over the estate of 14,000 acres which was liable to the Agrarian Reform. It should be noted however that the estate was already undergoing Agrarian Reform and had already been parcelled. So, according to the then actual regulations, each buyer could acquire a maximum of 521 acres. Bearing this in mind, it becomes obvious that the intention of the consortium was to bypass the regulations by usual means – by pulling strings and inducing interventions. In the meanwhile, the Gutmanns were eager to put their nationalized estate into use since they could not have expected that they would get a fair monetary compensation for their land. A letter that their lawyer Hugo Spitzer had sent to higher authorities sometime before 1922 discloses the reasons for their distrust. In the letter, Spitzer complains about the land claimants not paying the instalments for the purchased land to the previous owners, after these had been forced to sell their 100 million dinars worth asset for less than one fifth of its real value. Although Grgin's capital was barely worth 50,000 dinars at the time, he was given a two-year period to pay the overall amount for the purchase of the Orahovica estate, so it was obvious that he would not be able to additionally pay the sales tax for the purchased real estate.³⁹⁸

Svetozar Grgin was a physician, but it was only after the Second World War when he started to practice medicine. After the Balkan Wars, he moved to America where he was allegedly engaged in propaganda in favour of a political union of the South-Slavic nations. Upon returning to his homeland, Grgin tried his luck in various businesses until he ascended to the position of the most important person for providing political favours to the representatives of the big capital. In attaining this position, he was significantly aided by Adolf Schlesinger who provided him with connections and money, as well as his brother Dušan Grgin who, in the interwar period, acted as people's representative in the National Assembly in Belgrade. It was Adolf Schlesinger who brought Grgin to the idea of nationalizing a large estate owned by Count Majlath in Donji Miholjac, after the Orahovica role-model. As to Đorđe Bošković, another member of the aforementioned consortium, it is known that he played a significant role in providing the Gutmann brothers with the permission to travel to Yugoslavia. After the downfall of the Austro-Hungarian

397 Ibid.

398 Ibid.; *Našička afera pred sudom, govor advokata Dr. Milivoja Popovića zastupnika oštećenih strana-ka*, I. knjiga (Osijek: 1935), 15–16, 44–47; Kulundžić, *Politika i korupcija...*, 111.

Monarchy, the Gutmann family members did not automatically acquire the citizenship of the newly established state. Nor were they able to purchase their citizenship like the Schlesinger brothers. The only way for them to stay in Belišće, and thus in the Kingdom of Yugoslavia, was by obtaining a work-permit which was valid for three months. So, the favour they were provided by Bošković was not a minor one and certainly had to be paid for.³⁹⁹

Taking advantage of his political connections, Svetozar Grgin asked his friend Lazar Marković, the Minister of Justice, whether it would be possible to parcel the Majlath Estate in Donji Miholjac. The Minister answered that it was in the State's interest to "remove" foreign elements from the process. After that, Grgin reached an agreement with the Gutmanns and the Polak Bank about the nationalization of the Majlath Estate, with him (viz. Grgin) acting as the suitor. For starting this business, he required one million dinars, which the two involved parties readily paid. "Those were the days when I used to sell my ideas for large sums",⁴⁰⁰ said Grgin later. Since the Majlath Estate was located on the very border to Hungary, the Count only had one option – to declare that he, as a *foreigner*, wanted his estate to be nationalized. This declaration was somewhat controversial because Count Majlath, unlike the Gutmanns, actually was a native of Croatia, specifically of Donji Miholjac. He left Croatia during the turmoil after the collapse of the Austro-Hungarian Empire, his estate being robbed by the peasants, his mansion devastated, and the real-estate confiscated. His flight to Hungary had been justifiable because in Hungary "his life, at least, was not threatened". After returning to Donji Miholjac, for five years he had vainly been trying to remove the *sequestrum*⁴⁰¹ from his estate, until he finally realized that the problem could be solved by someone like Svetozar Grgin. For him, Grgin was an example of a successful, new type of man "who is respected in high circles of government, his moral integrity being benefited from the fact that he had been maternally related to Mihajlo Pupin, a world-renowned scientist."⁴⁰² On the other hand, the Majlath forest estate – a rich deer hunting ground between Belišće and Orahovica – had always been an object of desire of Baron Gutmann. So, the Gutmanns were long since eager to find out whether count Majlath was interested in selling the estate. "And if the count would indeed consider the proposition, the barons should, in the name of neighbourly relations, take precedence over other candidates."⁴⁰³

399 DAOS 123, Box 2465, Jacket *Govor Dr. M. Radoševića*.

400 Ibid.

401 A temporary suspension of a person's right to dispose of their private property for the duration of the criminal proceedings against that person. Cf. B. Klaić, *Rječnik stranih riječi*, 1207.

402 Kulundžić, *Politika i korupcija...*, 110–111.

403 DAOS 123, Box 2463: Dr. Hugo Spitzer.

By connecting to individuals from the circle around the Radical Party, Adolf Schlesinger managed to remove the sequestrum. By April 1923, a certain Mr. Petković arrived in Donji Miholjac as an emissary of the Ministry of Justice and relieved Colonel Stefanović as the person responsible for the sequester. After that, the representative of the same ministry transferred the estate to Grgin as the president of *Podravina* Ltd., a company established for the purposes of colonization and land-parcelling. Count Majlath sued *Podravina* and the Royal State Budget before the Royal District Court in Donji Miholjac for trespassing. He required from the court to issue a temporary suspension order and to appoint a supervisor of the estate until the resolution of the dispute. In his claim, count Majlath specially referred to the fact that his was not a foreign citizen. With the help of his powerful connections, Grgin succeeded in persuading Minister Lazar Marković to influence the court to drop the case even before the hearing. So, the proceedings were suspended, and the case was transferred to Budapest. There remained the rumour among the local population that Grgin tricked Majlath by buying his large estate for one million dinars. In reality, the Gutmann Ltd. and the *Našička* paid Majlath off with a much greater, i.e., more adequate sum.⁴⁰⁴

The ownership of the estate could not have been legally transferred to count Majlath, but only to a company authorized for parcelling and the implementation of the Agrarian Reform – in this case, to *Podravina* Ltd. Financing of this transaction was to be performed through a banking consortium consisting of three banks: *Hrvatska Eskontna Banka*, *Srpska Banka* and *Frappo Banka – Louis Rosen*. The transaction was underway when it turned out that the S. H. Gutmann Ltd. was not the only interested party. Despite the efforts to keep the transaction confidential, the information reached *Našička*. “As the talks regarding the termination of the confiscation process in Donji Miholjac began in Belgrade, it [viz. *Našička*] proved to be a serious competitor, so in order to keep the thing afloat it had to be included as an equal partner”, said Hugo Spitzer.⁴⁰⁵ From January to May 1923, negotiations on the relation Osijek – Budapest – Zagreb – Vienna took place. The negotiations included barons Ladislav and Arthur Gutmann, Adolf Schlesinger, Hugo Spitzer; the banks were represented by Dr. Schick, Louis Rosen, Dr. Želimir Mažuranić, and Dr. Svetozar Grgin, and on the part of *Našička* its general director Rosenberg, director Sohr, Dr. Jacoby, Dr. Rein, Count Majlath, his brother-in-law count Hadik, his director Mayer, and his legal representatives Dr. Papp from Budapest, Dr. Korsche from Vienna, and Dr. Spevec from Zagreb. Besides several other directors from *Našička* (left out from the list), a public notary from Ujpest also attended the negotiations. After several interruptions, negotiations finally resulted in an agreement which included the Gutmann Ltd., *Našička*, count Majlath and *Podravina* Ltd.

404 Ibid.

405 Ibid.

During the negotiations, Majlath's brother-in-law Count Hadik was especially focused on the conditions of insurance and the terms of sale. The main legal battle was fought about the obligations of individual shareholders in the company: both from the Gutmann Ltd. and from the *Našička*. Since everyone was eager to protect themselves against all possible events, "several detailed agreements had been drafted to complement the main agreement". At the same time, the founding of *Podravina* as a joint stock company commenced, to be completed on May 30, 1923. In this case (as in many other cases), the fee on the sales contract was not even "registered, let alone paid". It should have been paid within 15 days, "even if, as was the case in point, the agreement had been subject to approval by an authorized institution, i.e., the Ministry of Agriculture". Since the purchase price for the sole real-estate amounted to 64,166,666 dinars, according to a document of the Tax Administration in Našice from March 26, 1926, the purchase fee on the deal between *Podravina* Ltd. and count Majlath was 6% of 68 million dinars (i.e., the estimated value of the estate), which amounted to 4.8 million dinars. This fee was later reduced to 4%. The estate encompassed 42,000 c.a. of land, of which 20,000 acres had been covered by forest and 13,000 acres was liable to the Agrarian Reform.⁴⁰⁶

With the establishment of *Podravina* Ltd., an agreement had to be concluded between Gutmann and *Našička* on financing the company. To demonstrate that a domestic company really had a national character, 50% of the company's shares had been allotted to Grgin. Only then could the purchase be carried out, i.e., 40,000 c.a. of Majlath's estate was sold for 64,166,666 dinars. After the sale had been carried out, Grgin committed himself to provide a harvesting permit for a provision of 100 Swiss francs for each c.a. of harvested forest. The real status of Grgin's account was best known to his partners – the Schlesinger brothers, who will also be the first buyers of the real estates that Grgin had acquired as a compensation for his mediation in selling the Majlath's estate. In May 1926, Grgin's consortium stepped out of *Podravina* Ltd. and sold its shares to *Hrvatska Eskontna Banka*.

As to Adolf Schlesinger, he became the general director of *Podravina* Ltd. and enjoyed a "director's" salary of 10,000 Swiss francs – apart from his extraordinary additional income emanating from the forest harvesting by the Gutmann's Ltd. and *Našička*. Together with his family and his brother, he settled in the Majlath mansion in Donji Miholjac, the same mansion in which the count had welcomed the Crown Prince Francis Ferdinand and the Emperor Francis Joseph.⁴⁰⁷

406 Ibid.; DAOS 123, Box 2465, Jacket *Govor Dr. M. Radoševića*; Ibid.: Box 2473, Jacket *Jovan Božić*, a tax attorney from Osijek.

407 Ibid.

On March 25, 1926, the Head of the Tax Administration Sulić issued a payment order to *Podravina* for the purchase of the Donji Miholjac Estate in the amount of 3,870,253 dinars. Beginning of 1927, the new Head of the Tax Administration, Teodor Jelovac, advised Adolf Schlesinger to appeal against the aforementioned tax assessment and the amount specified on the payment order. It was not only that Jelovac had considered the assessment to be unlawful; he also thought that he himself could benefit from such an appeal. Each month, Sulić's office had to provide a justification to higher authorities for the unpaid taxes, so he had a problem with the payment order. On one occasion he even said to Schlesinger, half-jokingly, that he expected a reward in the amount of 150,000 dinars in case *Podravina's* complaint was successful. Since it was Baron Ladislav Gutmann who headed the Company at the time, he sent Aleksandar Božić to Sohr with the aim of obtaining an approval in the name of *Našička* that "the entire case be left *in suspensō*".⁴⁰⁸

The Company's appeal was successful on the grounds that Sulić's payment order was premature and that the purchase contract had not yet been approved by the Ministry of the Agrarian Reform. After the consent had been given in 1930, a new tax assessment together with a new payment order was issued. Upon receiving the latter, a dispute arose between *Našička* and *Podravina* about who needs to pay the tax and, if the bill should be split, in what proportion. The *Našička* demanded of *Podravina* to pay the entire amount, while *Podravina* (Adolf Schlesinger and the Gutmann Ltd.) consented to paying only one half of the amount. According a letter from October of the same year, Jelovac was ready to reduce the tax to 2% for a reward of 150,000 dinars. In a *pro memoria* of March 27, 1930 regarding a settlement between Jelovac and the interested parties, it is apparent that the Head of the Tax Department immediately received 20,000 dinars, and that he was supposed to receive the remaining 130,000 dinars after the 2% tax assessment is approved. The same *pro memoria* stated that 240,000 dinars are to be issued to the tax assessment clerks of the Ministry of Finance and that 20,000 dinars had already been issued. It also stated that the latter amount was not to be added to the aforementioned amount, as it had been agreed on March 24, 1930 between Ernest (and perhaps Viktor) Gutmann and Alfred Czuczka from Belišće and Aleksander Sohr from Đurđenovac. Upon the death of their uncle Ladislav in 1933, Viktor's older brother Ernest had been appointed to the head position in the Company. During the whole trial, he remained unreachable for the authorities. Allegedly (according to the Zagreb daily *Novosti*), he left the country.

408 DAOS 123, Box 2467, Verdict in the criminal proceedings against Dr. Svetozar Grgin and his accomplices on multiple counts.

In his defence statement regarding the real estate tax evasion and the services that the tax assessment clerks had provided for *Podravina*, Viktor denied his involvement in these matters making it clear that he never took part in *Podravina*'s business operations. Alfred Czuczka used the same defence tactics claiming that his father-in-law Ladislav had not kept him up to date about his business relations, notwithstanding the fact that after Arthur's departure Czuczka took over his position in the management of *Podravina*. On July 24, 1934, as part of the enquiry in the process against Grgin, directors and owners of *Našička* and Gutmann Ltd. were arrested. According to a statement given by one of the accused, Schlesinger's apartment was searched and all his correspondence and documents relating to *Podravina* confiscated. Barely a day before the arrest, Aleksander Sohr, Viktor Gutmann and Alfred Czuczka signed in the *Našička* office in Belgrade a protocol on expenses, fees and expenditures payable in cash. At that point, believing that the documentation relating to *Podravina* Ltd. was illegally confiscated, they intended to claim it back from the authorities. In his defense, Viktor later admitted that he had heard about a search of property taking place in Donji Miholjac but had associated this with Adolf Schlesinger's shady deals, not with *Podravina*.⁴⁰⁹

Documentation confiscated at Schlesinger's home, according to Sohr's confession, was potentially harmful and compromising for the implicated companies since it revealed how their businesses were conducted. The responsibility for the reduction of the real estate tax fell on Jelovac and he paid dearly for his greed. A few weeks before the directors of the Gutmann Ltd. and *Našička* were to be arrested, anticipating trouble, the members of the *Podravina*'s management, together with the Weissman and Tolnauer law firm from Osijek, contacted Milivoj Popović, a law representative of the Belgrade Cooperative. After multiple rounds of talks, the parties agreed that *Podravina* would redeem Grgin's debt (mostly to the Belgrade Cooperative) now reaching 4 million dinars and pay Popović a sum of 300,000 dinars for his expenses and fees; in return, Belgrade Cooperative would drop the lawsuit against the Schlesinger brothers. During the remainder of the negotiations, according to Alfred Czuczka, extortion took place, and it became unclear why the lawsuit was initiated in the first place if the debt could have been settled by negotiations.⁴¹⁰

409 DAOS 123, Box 2467, Verdict in the criminal proceedings; *ibid.*, Box 2469, final request by the State's Attorney Maurović.

410 DAOS 123, Box 2473: Alfred Czuczka, court hearing protocol; *Ibid.*, Box 2467: Verdict.

5.2. The Grgin & Comrades Consortium, false documentation, bankruptcy, and arrests

The purchase of the Orahovica Estate was carried out through a “contract on commissioned parcelling” (*komisiono parcelarni ugovor*) but what the contract actually authorized was a change of ownership and a sale of property. The contract was dubbed “arrangement” (*utanačenje*) to avoid the payment of fees which were otherwise obligatory for such contracts. For instance, by the first clause of the Contract, Grgin and his companions had been entrusted by the Gutmanns to parcel the estate, while the second clause obliged the “implementers of the parcelling” to carry out their task “as inexpensively and as rationally as possible”. The third clause, however, obliged Grgin and his companions to rent a warehouse to the Gutmanns for the purpose of storage of the extant supplies of grains, flour and other land products. Now if the consortium was grounded for the purpose of parcelling, why would Gutmanns, as legal owners, pay for the warehouse rent?! The rent is paid to the owner, not by the owner to his assignee. Other clauses dispel any doubt about the nature of the document – it was a full-blown purchase-and-sale contract through which the so-called Svetozar Grgin and Companions Consortium became the real owner of the estate. According to Filip Schlesinger, “this illegal act received an approval of the Minister of Finance Dr. Šverljuga who, as the president of the *Hrvatska Eskontna Banka* and possibly otherwise too, had an interest in this matter”. The change of ownership came into force on the day when the Contract was signed, i.e., on July 5, 1922. However, what was still lacking for the transfer of ownerships to become legally valid was a certified statement to which the Gutmanns committed themselves upon the expiration of a two-year period and upon receiving the full payment. For the case that the buyers, due to altered circumstances of the Agrarian Reform, did not want or were not able to register their right of ownership over the purchased estate, the Gutmanns supplied them with an authorisation by which they could sign all further purchase-and-sale contracts and issue land transfer permits.⁴¹¹

To pay the first instalment, Grgin and Bošković took a loan with the Belgrade Cooperative amounting to 2,500,000 dinars. However, already during the next few months, the Consortium members realized that their business was not going as planned, so in 1923 they offered Filip Schlesinger to join them, which he did after paying them a sum of one million dinars. After six months, Bošković left the Consortium and was paid off a sum of 1,500,000 dinars by each of the remaining members. Until November 1925, the Gutmanns were paid in full, excluding the default

411 DAOS 123, Box 2463: Dr. Hugo Spitzer; *Ibid.*, Box 2469: final request by the State’s Attorney Benjamin Maurović, 7728; *Našička afera pred sudom...*, 15–16, 44–47; Kulundžić, *Politika i korupcija...*, 111.

interests which slightly exceeded 3,500,000 dinars. In order to pay the remaining debt, the members of the Consortium took a loan with the following banks: *Hrvatska Slavonska Zemaljska Hipotekarna Banka*, *Hrvatska Eskontna Banka* and *Srpska Banka*. For their personal needs, the Consortium members already took loans with *Eskontna banka* and *Zemaljska banka* (these two banks merging into *Jugoslavenska Udružena Banka* in 1928). In order to ensure the aforementioned loans, on November 7, 1925 the “companions” issued the following statement to the bank: “We are the factual owners of the real-estates that today constitute an integral part of the Orahovica and Suhomlaka Manor together with the real-estates that have subsequently been added to the aforementioned estates and are registered in the non-nobility section of the land-registers of the respective municipalities.”⁴¹² However, the Consortium failed to meet its obligations emanating from the contract signed on July 5, 1922; moreover, it could not even properly manage nor exploit such a large estate. Upon paying the final instalment, the Consortium took out another loan in the amount of 10 million dinars. On December 14, 1925, complying to the Consortium’s request, the Gutmanns issued an authorisation to the *Hrvatska Eskontna Bank* by which the Consortium was given the right to freely dispose of the aforementioned properties. This authorization was needed because otherwise – since the estate was registered as undergoing the Agrarian Reform – the ownership rights could not be fully enjoyed. These rights pertained to 4,500 acres of drained land – the land that came in full possession of the Consortium after the Agrarian Reform had finally been implemented.⁴¹³

In 1928, thanks to the efforts of Svetozar’s brother Dušan Grgin who was a member of the National Assembly, an amendment had been adopted according to which drained lands were exempted from the Agrarian Reform. This enabled the land registers to be adjusted to the situation on the ground; but it also enabled Grgin and his companions to be registered as full owners of the drained real estates. However, instead of registering themselves according to the contract from summer 1922, Consortium members drafted a new contract on March 20, 1930 by which they managed to legalize a non-existent situation. Since the new contract contained a false statement of the issuer’s will, they thus committed a felony of *forgery of official documents*. The new contract confirmed that *Jugoslavenska Udružena Banka* paid an amount of 5,500,000 dinars to the Gutmanns and that Svetozar Grgin thereby acquired the right to transfer the ownership of the Orahovica Estate to his name and thus register the lien in the aforementioned amount in favour of the *Jugoslavenska Udružena Banka*. This transaction was arranged by Stjepan Mlinarić contrary to the warrant and authority of the representative. The same person drafted, on behalf of

412 *Našička afera pred sudom...*, 16–17.

413 DAOS 123, Box 2469: final request by the State’s Attorney Benjamin Maurović, 7729.

the *Jugoslavenska Udružena Banka*, a document “defining the rights and obligations of a third party (the Gutmanns) in a way contrary to the will of the involved parties”. He also drafted the purchase-and-sale contract according to which the land purchase from 1922 was executed in 1930, but only for 4,000 acres of the drained land.⁴¹⁴

The new contract enabled Stjepan Mlinarić to execute the entry in the land register. When later a dispute arose between Grgin and the Belgrade Cooperative, Mlinarić claimed that the disputed purchase was made according to the contract from spring 1930. Moreover, the Consortium members used the same document to deceive Grgin’s creditors, so they refrained from “initiating the insolvency procedure” against the common property of the Consortium. Indeed, in 1930, Grgin declared bankruptcy with a debt of 18,694,619 dinars (of which about 4 million were claimed by the Belgrade Cooperative). Of that amount, 7,197, 562 dinars were due to enforced recovery, so foreclosures and auctions commenced. However, Grgin’s creditors were ignorant about the real state of his assets and liabilities, nor did they have information regarding his relations with the *Jugoslavenska Udružena Banka*, the Schlesinger brothers, and the Gutmanns. Knowing the real state of Grgin’s debt, Mlinarić and Schlesinger decided to use a false contract to “exclude from debt settlement all other creditors from Grgin’s prospective bankruptcy” and to secure a better position for themselves in the debt collection procedure. Mlinarić, as a board member and the director of the *Udružena Banka*, had an interest in ensuring the bank’s share of Grgin’s debt, while Schlesinger, as Grgin’s companion and the representative of the bank, was interested in preventing the bank from recovering the debt from the joint property of the Consortium. Grgin used the forged contract to favour the bank at the expense of other creditors, hoping that he would thus achieve a more favourable arrangement than in the case of a settlement including a large number of equally treated creditors. The gambit was successful. The fictive contract dissuaded the Belgrade Cooperative from demanding bankruptcy since, according to the contract, Grgin could register the drained land under his name only after he had fully settled his debts to *Udružena Banka*. A year and a half later, the Belgrade Cooperative “partially learned how things really stand [i.e., about Grgin’s assets and liabilities and the existence of the 1922 contract], so the insolvency procedure was finally initiated at the request of the Cooperative.”⁴¹⁵

By the Agrarian Reform Act which was introduced to facilitate the reform, the alienation of the property and the enforcement against the property were prohibited. Land registry offices were obliged to preserve the legal state of registered

414 *Našička afera pred sudom...*, 17–29, 74; DAOS 123, *Našička afera*, Box 2465, Jacket *Govor Dr. M. Radoševića* October 2–3, 1935: legal representative of Dr. Grgin and the *Srpska centralna banka* as insolvency estate claimants.

415 *Našička afera pred sudom...*, 17–34.

property according to the situation from 1919. This was done to prevent large estate owners from parcelling their estates into small plots and thus preventing the implementation of the Act. However, since the Act had not forbidden ownership changes that were not registered in land registries, in practice it was possible to buy or sell such property or to put a lien on it. However, by doing so the purchaser assumed a certain risk since the respective piece of land could have been treated by the authorities as an integral part of a large estate and thus liable to expropriation. Large estate lands had not been absolutely exempted from property transfer as was the case with, for example, public property; yet such transactions were strictly limited and subject to an approval of the Agrarian Reform Ministry. The drafters of the contract on commission and sale of July 5, 1922, lawyers Peleš and Spitzer, complemented the original text of the contract with a statement by which the Consortium Grgin and Companions had committed itself to obtain the aforementioned approval from the Minister of the Agrarian Reform. Since such a request entailed paying real estate tax, the Consortium members never even tried to legalize the new situation; indeed, they tried to hide the non-registered transfer from its creditors.⁴¹⁶

Ownership that was not registered in land-registry was still a legal way of acquiring ownership. Indeed, in the legal practice of the earlier period, there were attempts at defending the legal position of a non-registered buyer from the standpoints of justice, economic interests, and “legal common sense”, respectively. These attempts had been opposed by a positivistic attitude, which emphasized the role of land registries and the registering procedure in each alteration of ownership relations. Actually, what this dispute was all about were the third-party claims. Taking part in the dispute, Milivoj Popović, a legal representative of the Belgrade Cooperative, cited the general Civil Code and the opinion of several legal experts (e.g., Ehrenzweig, Kranitz and others) who distinguished the “derivative” from the “original” ownership rights. Derivative acquisition of ownership entails a transfer of ownership from one person to another: to realize such an acquisition, agreement is needed (purchase-, exchange-, donation contract etc.). For an ownership acquisition through an agreement (legal title) to be effective, physical property needs to be handed over (*traditio*), while in the case of real estates, the handing over is replaced by registering the property in a land register. So, the buyer is protected against third party claims only after the new situation – a one arising from acquisition of ownership – is properly registered. However, by registering the ownership in a land register of the Kingdom of Yugoslavia, the buyer did not actually become an owner of the property. This was obvious from the fact that the state charged land taxes from non-registered landowners too. In the case in point, after providing Grgin and his companions with

416 Ibid, 52–53.

a credit for settling their debt with the Gutmanns, the bank received from Grgin and others an authorization to sign certain agreements on their behalf, the authorization being based on the purchase contract from 1922. However, the authorization did not imply a transfer of ownership from Grgin and his companions to the bank. The bank was their creditor, and notwithstanding the fact that Grgin came into the possession of the respective real estate (through the 1923 contract), the bank still had to wait in line with other creditors to collect its debt.⁴¹⁷

Grgin became insolvent as early as 1926. In 1928, in a letter to the Gutmanns, he made certain demands and threatened to go public with his version of the story, which would cause a scandal. By the beginning of 1927, he wrote to Schlesinger about being disappointed with his (Schlesinger's) conduct towards him and, having no other options, was forced to ask for his help, without which he would be completely ruined. Grgin threatened Schlesinger, making it clear that his downfall would open many issues relating to the Schlesinger brothers. By falsely presenting his financial situation, in the period between 1928 and 1932 Grgin managed to take out numerous loans, which he knew he would not be able to repay: in 1928, 412,671 dinars from the State Establishment *Belje*, 108,620 dinars from the Serbian Central Bank in Osijek; in 1929, 259,155 dinars from the *Lanena industrija Osijek*, 160,432 dinars from the *Union paromlin*, 116,309 dinars from the *Srpska štedionica Osijek*; in 1930, 43,000 dinars from Jovan Svetislav; and in 1931, 36,000 dinars from *Istочно трговаčko društvo* from Belgrade, and 35,415 dinars from the *Založna Banka Beograd*. He also received a wagon of barley seeds from the Association of Brewing Industry in Belgrade worth 28,200 dinars. He borrowed an additional 4,000,000 dinars from the Belgrade Cooperative for financing the 1929/1930 commercial campaign for sugar production in the factory *Sivac* (which he previously took on lease). Grgin's total liabilities amounted to 19 million dinars, while his assets amounted to barely 3 million dinars and had been exhausted by a lien in favour of the *Udružena Banka* and Schlesinger. Clearly, according to such a balance of Grgin's account, there was nothing left for the insolvency estate.⁴¹⁸

By the beginning of 1932, the State's Attorney Office reached a decision about Grgin's bankruptcy. Grgin was not informed of the decision nor was he offered an opportunity to pull himself out of financial troubles. Grgin complained to the *Tabula banalis*, the supreme court of the Croatian Banate, and the first-order decision was overruled due to the District Court's failing to act lawfully in the case. The case was reopened on February 4, 1932, at a District Court in Osijek, and Grgin received

417 Ibid, 55–57, 61.

418 Ibid., 13–14; DAOS 123, Box 2463, Verdict in the criminal proceedings against Dr. Svetozar Grgin and his accomplices on multiple counts; DAOS 123, Box 2469: final request by the State's Attorney Benjamin Maurović.

a new ruling only eight days after the Court's session. It seems that such a timing was intentional – with the aim that Grgin misses the appeal deadline. Namely, according to the new Bankruptcy Act which entered into force only few days before the decision, the appeal deadline was set to eight days from the day on which the court order had been announced by the court, not from the day of its delivery. There are several circumstances indicating that it was the Ministry of Justice that stood behind the setup: shortly after the first ruling on Grgin's bankruptcy, the State's Attorney Office in Osijek received an order from the Ministry to proceed vigorously in the criminal case under the official number "KZP 81/1932", and two months after that a new order came requiring of the State's Attorney to inform the Ministry every two weeks about the moves taken against Grgin in the criminal case in point. As much as the head of the State's Attorney Office in Osijek, Dr. Šubert, complained about such a conduct, it was to no avail. Moreover, on the same day as he received the order on informing the Ministry every two weeks, a legal representative of the Belgrade Cooperative, Krsto Radovanović, entered his office with the following remark: "Mister State's Attorney, not only as a legal representative of the Belgrade Cooperative, but also as a senator and a former cassation judge, I cannot understand how it is possible that Grgin is still on the loose." Filled with indignation by such a conduct, Šubert informed Grgin about it.

On January 3, 1932, Teodor Sladović from Osijek was appointed as a liquidator of Grgin's property. Together with a representative of the Belgrade Cooperative, Milivoj Popović, he was designated for the sequestration of Grgin's estate for the purpose of debt repayment. In his capacity as a compulsory manager – a position that he occupied already since May 1931 – Sladović had a complete insight into Grgin's correspondence and documents which painted a picture of a widespread corruption. On January 4, 1932, he pressed criminal charges against Grgin for tax evasion and unlawful transfer of ownership, followed by other complaints. On the same day, the Osijek Court issued an order that criminal proceedings against Grgin are to be initiated.

The track of the confiscated documents led to the Schlesingers, so at the beginning of January 1934 the gendarmery searched their property. In this case, the police again exceeded their authority – for instance, on the order of the coroner, Dr. Vračko, a group of gendarmes with fixed bayonets conducted the search without the presence of neutral witnesses. The State's Attorney Šubert filed a complaint about the violent and unlawful way the search had been carried out. The same happened at the Krivaja Estate and in Donji Miholjac – again, there was no written approval by the Attorney General whose consent to such use of force was required.⁴¹⁹

419 Ibid.; Kulundžić, *Politika i korupcija*, 120–122.

Grgin claimed that the bankruptcy was not his fault, i.e., that the Belgrade Co-operative could have saved him in 1930, if it had approved him a loan of 2 million dinars as it had promised; that the causes for his insolvency lie in the agricultural crisis, drop of cereal prices together with the real estate prices. Likewise, he claimed to be financially positive, provided one accepted the estimate carried out by *Hipotekarna Banka* according to which the value of his 625 hectares of land amounted to 14,186,000 dinars (20,500 dinars per hectare) and the value of his stables and warehouses to 4.830 million dinars, i.e., according to which estimate he was in total over 19 million dinars positive. He argued that his financial troubles began in 1928, when a disease destroyed 350 acres of flax, which accounted for the loss of 700,000 dinars, and continued through 1929 when draught destroyed his sugar beet plantations. He denied having favoured *Udružena Banka* – the bank that paid for the purchase of the Orahovica Estate – claiming that it was this purchase that led to the lien on all his real estates and eventually to other claims and obligations. As to the sums that he had received during the whole period – as a member of the Consortium, as a reward for the successful sale of the Majlath Estate (6 million dinars), as a fee for acquiring a license for harvesting forests owned by *Podravina* Ltd. (5 million dinars) – they all vanished into thin air. Besides, as confirmed by witnesses during the trial and by Grgin himself, he invested virtually nil in the estates he had received. Everything he owned brought him nothing but debt.⁴²⁰

To get a more complete picture of the trial, it is convenient to cite the State's Attorney when referring to the Schlesinger brothers as "experts in acquiring official estimates". In 1926, when estimating the forests owned by *Podravina* Ltd., to avoid paying the transfer fee, the brothers assessed its value to 10 million dinars. In 1931, when the prices of forest and lumber dropped by 50%, they estimated the same forests, for the purpose of selling them to the Petrovaradin Forest Property Commune, at 86 million dinars. Estimate by the state-owned *Hipotekarna Banka* had also been performed according to the brothers' instructions. One acre had been estimated at 13,500 dinars, while the Schlesingers got the same acre for 5,000 dinars. The outbuildings had been estimated at 4,830,000 dinars (600 dinars per m² – approximately the value of a square meter of a house in Belgrade). The evaluators justified their estimate by an increase in real estate prices at the time – it was the time in which, as Grgin himself had confirmed, the prices of agricultural products and real estate dropped catastrophically. This is no wonder since the evaluators happen to be the same individuals for which there is evidence (according to the confiscated documents) that they received fees from the Orahovica Estate and Adolf Schlesinger himself.⁴²¹

420 DAOS 123, Box 2469: final request by the State's Attorney Benjamin Maurović.

421 Ibid.

Still larger felonies were perpetrated with the aim of exempting the acquired large estates from the Agrarian Reform measures. Disposal of large forest estates had been limited by their exemption from free disposal of property (i.e., prohibition on its sale and mortgaging). Only by approval of the agrarian authorities were the owners of large estates allowed to alienate their property up to a maximum level (measured by the proportion of arable land). Thus, by the financial legislation from July 31, 1925, sale of real estates over a maximal percentage of arable land was allowed, in favour of the land claimants and other subjects. The tendency of the act was to allow the liquidation of the Agrarian Reform (i.e., termination of the prohibition on selling and mortgaging of land) by an agreement between the owner and the land claimants, with agrarian authorities monitoring the process. A new financial legislation for 1928/1929 amended the previous one from 1925 by allowing the sale and land registry transfer of those large estate parcels which exceeded the legally defined maximum, “and which [were] registered as meadows, arable or gardening lands, after it [had been] determined that such land, due to permanent flooding, cannot be used for the purposes of the Agrarian Reform”.⁴²² The goal was to allocate as much land as possible to the land claimants and other individuals interested in farming, provided that no family received more than 50 acres per family and that no lien on the property would be allowed in the next 10-year period, except by a special approval by a competent minister. The financial legislation for 1927/1928 in the Article 291 also gave optants the right to purchase such land, its surface area not exceeding 30 acres. The purpose of this was to remove the clause prohibiting the alienation and burdening of the acquired land and the right to resell it, with an approval of the Agrarian Reform Minister.⁴²³

During 1928, the Schlesinger brothers, to avoid the Agrarian Reform regulations prohibiting the alienation and burdening of large estates, took advantage of the Article 291 of the financial regulation for 1927/1928 and the Article 382 of the same regulation for 1928/1929, according to which such estates could be sold to the optants.⁴²⁴ In order to comply with the law, they found individuals who acted as optants before higher authorities. With such individuals, they signed sale- and exchange (swaps) contracts. Adolf, as an assignee of *Podravina's* Management Board, sold to such individuals up to 30 acres of land for large sums or he exchanged domestic lands for lands abroad, without these buyers ever knowing how much land they had purchased, or if they had even purchased land (and not something else) in the

422 DAOS 123, Box 2469, shorthand protocol of the main hearing of Grgin and his accomplices, September 27, 1935, District Court in Osijek.

423 Ibid.

424 The word comes from *opting for* – in the sense of having a choice of citizenship in cases when a territory that belonged to one state is assigned to another. Cf. B. Klaić, 977.

first place. In the cases of exchange of ownership, it turned out that these individuals never owned any land abroad. Likewise, Filip Schlesinger, as a buyer acting on behalf of the management of the Donji Miholjac Estate, purchased the same parcels from the optants, albeit a few acres smaller in size, without the optants even knowing they were selling the land and without ever receiving the amounts declared in the contract. Moreover, by falsifying the signatures of the buyers, i.e., land claimants, and registering them without the aforementioned clause, the brothers managed to receive the approvals from the competent Ministry. After that, they transferred the contracts, the signatures of the listed sellers and witnesses being also falsified, to the Management of the Donji Miholjac Estate. Thus, they succeeded in transferring a total of 474 c.a. of land.⁴²⁵

The Schlesingers did not even bother to inform the optants and the land claimants about their intentions. All the latter knew was that they had to sign multiple printed documents for the purpose of receiving some land. During the investigation, it had been determined that certain individuals indeed received a few acres of land, while others received a 500 dinars reward. The brothers themselves testified to this. In a procedure against them, as a part of the *Našička* Scandal, the State's Attorney Office was eager to show that such a fraud will not be tolerated. To that end, as an example, it invoked the Croatian criminal law that was no longer valid. Specifically, they cited its Article 203 according to which the accused had committed a fraud that was punishable regardless of the extent of the resulting damages since it had been committed with particular boldness and deviousness. The punishment prescribed for this kind of offence was 5 to 10 years of strict imprisonment. By citing this example, the State's Attorney intended to show that previous legislation, as well as public opinion, had been more sensitive to fraud.⁴²⁶

Illegal actions had also been demonstrated in case of state procurements. Thus, according to a testimony of a sworn witness, Matija Sirotić from Belgrade, in 1932 an auction was organized at the Directorate General of the State Railways for the procurement of a large quantity of railroad sleepers – over 110,000 items. “The delivery was assigned to many suppliers, approximately 15 of them. I remember *Našička* to be one of the suppliers. Notwithstanding the fact that during 1933 its sleepers were sold throughout the country, the Special Commission for Sleepers Inspection (by the Department for Sleepers Impregnation in Kruševac), after performing a double inspection, rejected the sleepers supplied by *Našička*. The reason was that too many items were found defective. The value of the rejected products amounted to 1,500,000 dinars, so the suppliers sued the state. As the witness pointed out, if the lawsuit were successful, the damages would include not only the value of the rejected

425 Ibid.

426 Ibid.

sleepers but also the delivery costs as well as other expenses that were accrued aimlessly by the suppliers and that, taken in total, exceeded the value of the rejected sleepers themselves. This is a case I know of personally, but whether there had been similar cases during the period between 1929 and 1934, I do not know.”⁴²⁷ Both the Directorate General and the Ministry of Transport took part in the criminal proceedings with a damage claim amounting to 5 million dinars. The witness’ statement was taken on January 31, 1934 at the coroner’s office in the case against Adolf Schlesinger and his companions.⁴²⁸

By 1932, Grgin was broke, together with his companion Svetislav Jovanović, while Adolf Schlesinger lived peacefully in the Majlath Mansion in Donji Miholjac where he received distinguished guests “active or former ministers, National Assembly members and other influential individuals”, but hardly enjoyed a peace of mind. The investigation against Grgin required that the nature of the legal relationship of the Consortium Grgin and Companions with the Schlesingers and the *Jugoslavenska Udružena Banka* be clarified. Schlesinger denied being Grgin’s companion; indeed, he stated that he did not want to have anything to do with Grgin or had any clue about the documents the Court sought. At the same time, Schlesinger sent a letter to Mlinarić in which he instructed him to keep quiet about the incriminating contract from July 5, 1922, urging him to mutually harmonize their testimonies before the hearing. Although Grgin covered for Schlesinger during the entire process, his companion Svetislav Jovanović admitted at the hearing that Schlesinger indeed was their partner and that he (viz. Jovanović) possessed documents that testify to this fact.⁴²⁹

Filip Schlesinger informed the director of *Našička* Aleksander Sohr about the search conducted in Schlesingers’ premises in Donji Miholjac in mid-January 1934. He reported to Sohr about “his brother experiencing something very unsettling”. The search took place in Schlesingers’ private residence, at the request of the Belgrade Cooperative. Although the sale contract for the Orahovica Estate was the main target of the search, some other incriminating documents turned up. Among others, these included the three following items: (1) the correspondence with the former Head of the Revenue Office in Našice regarding the transfer tax for the real estates that *Podravina* had purchased from Count Majlath; (2) the correspondence with engineer Živanović, a tax official of the Petrovaradin Forest Property Commune in Srijemska Mitrovica, regarding Živanović’s request for an advance, “payable in oak

427 DAOS 123, Box 2468, Jacket *Željezničari grupa V*.

428 Ibid.

429 *Našička afera pred sudom...*, 13–14.

lumber”, for a certain service delivered to the Municipality (the service consisted in “securing a loan for purchasing a forest from Podravina Ltd.” and had a safeguard clause: “in the case that the transaction fails he [viz. Živanović] offers a mortgage on his estate”⁴³⁰); and (3) certain notes regarding an unknown National Assembly member who allegedly had an active role in the adoption of the Expropriation of Large Estate Forests Act, the notes lacking a signature but nevertheless incriminating the directors of *Našička*, Gutmann and *Slavex*.⁴³¹

The Head of the Revenue Office in Našice was a nuisance to *Našička* and the Gutmann Ltd., especially regarding the payment of his fee for determining the transfer tax in the process of transferring (re-registering) the Majlath’s real estates to *Podravina* at 2% (of the agreed upon price). Although a 2% fee was legally founded, the mentioned official, when threatening to determine the tax rate at 4%, was fully aware that “the higher authorities would eventually lower the fee [to its legal rate, i.e., 2%], but he also knew that the company would be reimbursed only after a full year, so their loss due to the interest rates would be significantly higher than the fee he had demanded for himself”. The correspondence regarding the solution of such problems worsened the position of the company in court. The talk between Alexander Sohr and Filip Schlesinger was sufficient for the director to order his secretary Bratanić on July 15, 1934 to “check up on the correspondence between him and Adolf Schlesinger and remove from the file all documents relating to Schlesinger’s reports on the [Company’s] discrete payments, together with the copies of the responses”. On the next day, Bratanić went through his personal correspondence and destroyed two letters from engineer Živanović from Srijemska Mitrovica dated at the beginning of July, “in which he [viz. Živanović] complains about being unfairly retired and unofficially blamed for the agreement with *Našička* regarding an auction sale of finished timber products of the Petrovaradin Forest Property Commune, and asks for confirmation, certified by a public notary, that I [viz. Bratanić] have never entered into negotiations with him [viz. Živanović], of which he had been accused, about protecting my company during the acquisition of oak logs.”⁴³²

After the search taking place at the beginning of 1934, Schlesinger enjoyed some peace until July of the same year when offices and homes of the accused were searched for the second time. Confiscated documents were essential for the the court proceedings that followed and for what will soon become known as the “*Našička* Scandal”. “The contract from July 5, 1922 was found in the office of Schlesinger’s personal lawyer, Dr. Feliks Šik, where Schlesinger had managed to hide it so he could

430 DAOS 123, Box 2473: protocol made at the police headquarters in Zagreb on July 24, 1934, Dr. Zvonko Bratanić.

431 Ibid.

432 Ibid.

calmly allege before the court that he did not possess it, indeed had not even seen it. ... The importance of this document for the accused Mlinarić becomes apparent from the fact that the latter passed out in the moment when the police, searching his office, located and confiscated a copy of the Contract.”

After the Second World War, on August 12, 1946, Svetozar Grgin, who at the time lived in Ulcinj (Montenegro), contacted the Commission for the Agrarian Reform and Colonization of the People’s Committee of the Orahovica District. In a letter, he warned that the local land registry listed a large number of parcels still registered under the Company name (S. H. Gutmann Ltd.) which were in fact his own, though non-registered, property: “I am forced to inform you about these important matters to avoid any mistake at my expense”.⁴³³ In the sequel he explained in detail how a consortium was created with the aim of parcelling the majority of the estate land and selling it to various land claimants and colonists: how some parcels were registered under the name of the Consortium members, while others remained, due to agrarian-technical reasons, under the name of the family and company Gutmann. He added that he had been paying taxes and all other “levies” on the mentioned parcels since 1922, these parcels being registered in the Našice Land Registry under the name “Estate Grgin Dr. Svetozar”. By this, he wanted to point out that, pending the final decision of the Agrarian Reform Commission, he still considered himself the owner of various real estates on the former manor. In the meantime, he had sold all real estates registered under his own name, preserving only those for which he had been unable to achieve such a registration. He also stated “that the other half of the parcels registered in the Cadastre Municipality Dolci, land registry file number 38, belonged to the Consortium member Svetislav N. Jovanović who, at the time, lived in Pančevo”, while “2/3 of the parcels registered in the municipalities Predrijevo Donje, Suhomlaka and Crnac belonged in equal parts to Svetislav N. Jovanović and Schlesinger brothers from Donji Miholjac, who, to his knowledge, at the time resided in New York.”⁴³⁴

433 DAOS 241, Box 32: letter to the Agrarian Reform and Colonisation Committee in Orahovica, Svetozar Grgin.

434 Ibid.

5.3. The revision of the Forest Land Segregation: the cases of Trbić and Nikić

Expropriation of large forest estates was made possible by the Agrarian Reform Act of February 25, 1919; more precisely, by its Article 17 which stipulated that all major forest estates were to become state property, while peasants would be allowed to graze their cattle there or collect firewood and construction wood. The same stipulation would eventually find its way into the Article 41 of the Vidovdan Constitution. According to the Forest Act, expropriation of large forest estates was meant to be laid down in special legislation. However, there were no interim regulations or any guidelines regulating the redistribution of forest land until the adoption of the Agrarian Reform Liquidation Act in 1931. The Ministry for Agrarian Reform and the Ministry of Forests and Minerals reached an agreement about supplying farmers in need. It was in the region of Gorski Kotar that the redistribution of the forest lands took off. Implemented as a revision of the Segregation Process, it enabled an expropriation of 14,000 c.a. of forests and pastures from large estates Thürn-Taxis and 7,000 c.a. of large estates belonging to the family Gici in Čabar. The expropriated forests had been entrusted to the care of the district Forestry Offices for satisfying the needs of the land claimants.⁴³⁵

In principle, article 24 of the Agrarian Reform Liquidation Act allowed expropriation of forests in those parts of the country where arable land was scarce, where forests were vital for the local economy or where the climate made the soil inappropriate for tillage. It was not up to the executive powers to determine which regions would be classified as satisfying these criteria; the issue was regulated by the Act itself. Thus, a special status was awarded to the municipalities of Sušak, Delnice and Vrbovsko, and the entire District of Čabar (which then belonged to the Drava Banate). As soon as the Agrarian Reform Liquidation Act came into effect, it became obvious that there were other regions too that could have benefited greatly from free access to forest resources, especially older villages and new settlements situated in the vicinity of large forests. Accordingly, the already amended Agrarian Reform Liquidation Act was yet again amended, this time by adjusting the Article 24 to enable expropriation of forests in other regions too, in addition to the already mentioned ones. Specifically, it applied to regions in which forests reached the very rim of a village or a settlement, i.e., in which area covered by forests lied within a 230-meter parameter (measured from the outermost buildings). In many cases, these amendments failed to satisfy the needs of villages and settlements adjacent to large forest estates since there were no free pastures for their cattle to graze on nor firewood for them to collect. Such development encouraged “large forest estate owners who were pretty

435 DAOS 123, Box 2463, indictment and court hearing protocol 1935, indictment against Nikola Nikić.

much aware that, pursuant to the Paris Agreement of June 28, 1929, an Agrarian Reform Liquidation Act had to be adopted before July 20, 1931.”⁴³⁶

As early as 1920, some of the concerned forest owners gathered in Belgrade to establish the association *Njiva*, with Dr. Luckma and Dr. Zorc at the helm, with the aim of protecting the arable land from the Agrarian Reform. In 1932, the association advocated an exemption of forest estates from yet another attempt at violating the existing ownership rights, after the Agrarian Reform had been finally implemented in June 1931. According to a statement by Adolf Schlesinger, it was the very Minister of Forests, Korošec, who sustained their efforts on preventing the Forestry Farming Act to be implemented. At the time (from 1931 until June 21, 1932), Minister Šibenik was responsible for the Agrarian Reform Ministry. Initially, the representatives of the Sava and Drava Banates worked together. They met in Ljubljana, exchanged views, and made plans for an audience with the King. Eventually, Slovenian large estate owners withdrew from the undertaking and continued to work on their own.⁴³⁷

By the end of 1930 or shortly thereafter, large estate owners from the Sava Banate hired Nikola Nikić to solicit the removal of the forest estate clause with the aim of making the forest estates economically utilizable: for establishing a lien, for mortgaging or for releasing them from other restrictions imposed by the agrarian reform. In case of *Našička Ltd.*, *Krndija Ltd.*, *Gutmann Ltd.*, *Podravina Ltd.*, *Slavex Ltd.* and the Count Pejačević, the efforts paid off. The act of June 19, 1931 allowed for the expropriation of forests in Slovenia, while forests owned by large estate owners in other Yugoslav regions, were freed from any liens or encumbrances for the benefit of small farmers. There was an exception though, enabling an alienation of such an asset, but this required a complicated and time-consuming procedure of “identification of specific objects that were exempt from alienation”. According to the Article 65 of the aforementioned Act, it was within the Banate’s administration prerogatives to remove any administrative prohibition that would prevent the large estate owners to freely dispose of their property. So, had the legally enforced expropriation been completed, the administrative prohibition of free disposal of such property would have been removed as well – to the benefit of their owners. These concessions notwithstanding, the concerned large estate owners went even a step further: they enforced another piece of legislation to be adopted – the act of December 5, 1931. In effect, this new act removed *any* obstacle to large forest estates being put under lien, encumbrance or to be alienated. In case of forests, this enabled the Minister of Agriculture, “after he had identified the respective plot (...), to allow the prohibition of liens and free disposal of property to be removed from the respective land registry entry.”⁴³⁸

436 *ibid.*

437 DAOS 123, Box 2466: court hearing protocol, Adolf Schlesinger.

438 *Ibid.*, Box 2466: court hearing protocol, Adolf Schlesinger.

By the beginning of 1932, after being appointed Minister of Agriculture, Juraj Demetrović put forth a draft bill on the Agrarian Reform Liquidation for Large Estates. His intention was to supersede the Act of December 5, 1931, and to allow the expropriation of up to 25% of large estate forests throughout the territory that was liable to the Agrarian Reform (about 1,000 hectares in the Drava Banate and 1,000 acres in the Sava Banate). The purpose of the bill was to undo what the large estate owners had already achieved – primarily that their burdens in land registers be removed. Now the new bill stipulated that these burdens were to be restored: “He simply referred to the 1920 law, urging the courts to execute the orders given by the administrations of their respective Banates and put the burdens back in land registers. While in Donji Miholjac the Osijek court already complied, courts in Požega and Pakrac did not, claiming that they could not comply with the direction without a legal approval.”⁴³⁹ Seeing that the courts’ response to the Minister’s directives varied, the large estate owners organized a meeting to plan future actions.⁴⁴⁰

The Minister prepared to adopt “yet another act, that would be more final” than the Final Act on the Agrarian Reform Liquidation of 1931. According to information provided by insiders (confidants within the Ministry), further expropriations were planned to make forest owners understand that it is in their best interests to make a deal with the state. Minister Demetrović passed his draft bill to the National Assembly on February 4, 1933. On February 16, the Assembly appointed a special 31-member committee, a task force for drafting a new act that would amend and supplement the extant Act on Liquidation of Agrarian Reform on Large Estates. On February 11, Zvonimir Bratanić and Aleksander Sohr representing the *Našička*, Konstantin Dožudić representing the Gutmann Ltd., and Adolf Schlesinger representing the *Podravina*, gathered in Zagreb. During the meeting, they agreed to travel to Belgrade and to establish a special fund for promoting their cause. Bratanić and Dožudić drafted a position paper that would be endorsed by merchants’ and industrialists’ organizations and handed to the Minister of Forests and Minerals and the Minister of Agrarian Reform. The paper was co-signed by chambers from Osijek and Zagreb, industrial corporations from Zagreb and Belgrade and entrepreneurs dealing in wood and forest products. Among other things, the paper stated that the agricultural sector would damage the wood industry and that the Act should not be adopted. During the meeting of the Committee, Minister Demetrović suggested to Bratanić that large estate owners should draft their own amendments to the Act and submit them for discussion in the Assembly. The Committee chair was Slavko Sećerov, Dragan Kraljević and Vasilije

439 DAOS 123, Box 2463, indictment and court hearing protocol 1935, indictment against Nikola Nikić.

440 DAOS 123, Box 2466, court hearing protocol, Adolf Schlesinger.

Trbić were vice-chairs and among the Committee members was Nikola Nikić, a people's representative in the National Assembly.⁴⁴¹

Schlesinger, Bratanić and Dožudić drafted the amendment on behalf of the industry and forestry. In effect, they proposed that the Agrarian Reform in case of territories under forests should not include sawmills, that forest estates with railways should also be exempted from expropriation as well as forests older than 30 years. The amendments were submitted to the Assembly Committee. When taking the amendments to the Assembly, Schlesinger tried to talk to the representatives co-opted in the Committee. According to Schlesinger, a one Mijat Mijatović, a Belgrade attorney, managed to remove the draft from the agenda but the public prosecution office begged to differ. From the correspondence confiscated from the prosecuted large estate owners, it is apparent that a "mysterious person" had been engaged in the matter. This person, who would later be identified as Nikola Nikić, was charged with being in cahoots with a group of lobbyists promoting the interests of large estate owners. The group included Adolf Schlesinger, Aleksander Sohr, Alfred Czuczka, Konstantin Dožudić, Zvonko Bratanić, Ervin Lovrić and Adolf Spitz. The conspiracy took place during 1933, in the time of Nikić's membership in the Assembly Committee. According to the accusations, he was offered a reward in the amount between 200,000 and 400,000 dinars if the amendments to the extant Agrarian Reform Act be adopted, or, alternatively, if the new Act on the Agrarian Reform be rejected. Nikić was under suspicion by the State's Attorney Office because, according to the confiscated documents, he also participated in the agreement with the representatives of the *Podravina* on May 9, 1931 regarding the sale of forests to the Forest Property Commune (FPC) Petrovaradin. In that arrangement, Nikić was to receive a 4% fee from an 86 million dinars worth transaction, which was the estimated value of the *Podravina's* forests that the above mentioned FPC was intent on purchasing.⁴⁴²

According to the State's Attorney, Nikić planned to act destructively in the Assembly Committee, as well as in the Assembly itself, to buy time. In the meanwhile, either the purchase of forest land (by the Petrovaradin FPC) would be realized, or the expropriation would be thwarted, or a two-year postponement would be won. Aleksander Sohr, according to the expanded indictment, with the mediation of the people's representative Dragoljub Jovanović (who took a bribe for the job), benefited the interests of his friend Count Petar Pejačević who wanted to get hold of a large estate as the only beneficiary of a "fideicommissum" (a special

441 DAOS 123, Box 2469: final request by the State's Attorney Benjamin Maurović; *Ibid.*, Box 2466: court hearing protocol Adolf Schlesinger.

442 DAOS 123, Box 2469: final request by the State's Attorney B. Maurović; *Ibid.*, Box 2463, Verdict in the criminal proceedings against Dr. Svetozar Grgin and his accomplices; *Ibid.*, Box 2463: court hearing protocol, Adolf Schlesinger.

institute of the inheritance law).⁴⁴³ Count Pejačević, as a registered fideicommissum beneficiary, was sued by his family members who claimed that the disputed large estate in fact no longer existed. On the other side, Pejačević, backed by his lawyers Tolnauer and Weissman, insisted on the interpretation according to which the fideicommissum still existed and would exist until its dissolution was adopted in the form of a law.⁴⁴⁴

The prosecution alleged that Nikić, as the people's representative in the National Assembly, was knowingly benefiting a single individual and that his actions, being potentially detrimental to other interested parties, were unlawful. To support these claims, the State's Attorney Office produced evidence from the Assembly records showing that a representative Kešeljević accused Nikić of purposefully interfering with the work of the Committee in order to postpone the adoption of the new Agrarian Reform Act. Moreover, during the working sessions of the Committee, several of its members were accused of secretly benefiting certain alien subjects whose interest was to prevent the Act from ever being adopted. Simultaneously, other Committee members would state their opposition to Minister Demetrović's reform of forest land ownership in the interest of farmers and other land claimants. Among the opposing members was a certain Vasilije Trbić who saw the expropriation of forests for the purpose of farming as an encroachment on private property. He specially targeted Article 7 of the drafted bill according to which as much as 25% of forest land could be expropriated from a large estate. Referring to this proposal as "arbitrary" and as "political acrobatics", he stated that he had "no confidence to vote in favour of such a law" for he had no clue as to "its real background."⁴⁴⁵

It was not only Trbić who brooded over the proposed figure, vaguely referring to those "who will be harmed by this law". A representative named Vošnjak asked Trbić not to allow the Act to be adopted because it was supposedly a cover-up attempt for some illicit deeds that had been perpetuated in the Drava Banate: "We were supposed to take over some forests there, so deals were made with certain large estate owners. This Article 7", he continued, "seeks to make that lawlessness into lawfulness and to establish new relations in Croatia."⁴⁴⁶ Since Trbić chaired the Committee that day and had several amendment proposals to Article 7 on his desk, he drafted a single amendment by putting together elements from all the proposals, "to elicit discussion". On the trial, Trbić explained that his actions were political since he

443 DAOS 123, Box 2469: final request by the State's Attorney Benjamin Maurović.

444 Ibid., Box 2463: Verdict in the criminal proceedings against Dr. Svetozar Grgin and his accomplices; Ibid., Box 2463, court hearing protocol, Nikola Nikić; Ibid., Box 2467: Verdict.

445 DAOS 123, Box 2469: final request by the State's Attorney B. Maurović; Ibid., Box 2463: court hearing of Vasilije Trbić.

446 DAOS 123, Box 2463: court hearing of Vasilije Trbić.

himself experienced a similar expropriation process in Serbia and was already back then aware of the consequences of taking land away from their owners: “The agrarian reform took some of my land too. Not much, but, to me, it meant a lot. And they did not merely take my land away without a compensation but, to add insult to injury, I also had to pay all the taxes and other levies during a 10 year-period. Bearing in mind that, despite being a people’s representative, I was unable to right that wrong in my own case (...) I simply could not allow for such a theft to take place.”⁴⁴⁷

In fact, Trbić’s amendment was a mitigation effort, aimed at buying time to restructure the proposal of the Act. In his view, such a law would open doors for other similar actions in which, after the forests of the Sava and the Drava Banates are expropriated, the same would ensue in southern Serbia. He emphasized that the King himself, in his address on the occasion of the opening of the National Assembly session in January 1932, proclaimed the agrarian reform to be completed. When asked about the Minister, Trbić claimed that he ran for the office and worked multiple times in the district of Požega – the same district where Trbić dwelled for a while – but that his work had been in vain. “My concern was that the forest estates that were to be expropriated will be used merely for attracting more party supporters.”⁴⁴⁸ When asked by the defence attorney about the Prime Minister (Milan Srškić) being informed about his actions, Trbić responded that “when the amendment was submitted and when he [Trbić] agitated against Minister Demetrović, not even once had he or his fellow representatives been invited by the Prime Minister or by the party leaders to be told that what they have been doing was wrong”. Although the law was drafted in a way that the land claimants would be obliged to pay a compensation for using forests, Trbić believed that this would not happen: “In practice, such regulations had been adopted multiple times, and these individuals had never paid; the state paid in their stead. ... I believed, as many of my colleagues did too, that it will be the people who will ultimately foot the bill.”

When asked to explain why Nikić voted in favour of Trbić’s amendment, Trbić replied: “Because Minister Demetrović said that voting on his law was also a confidence vote, meaning that if the law was to be voted down, he [the Minister] would resign. (...) That is why Nikić voted the way he did. He wanted Demetrović to resign; for that is how opposition works.” At the Committee session on February 24, 1933, Minister Demetrović warned the Committee that Trbić’s amendment would thwart the very intention of the proposed revision of the law. According to the amendment, forest estate owners who had constructed industrial facilities for timber processing at their estates would be granted a right to negotiate a two-year deal with the land claimants. As Demetrović explained, it could happen that every

447 Ibid.

448 *ibid.*

single one of the 43 forest estate owners affected by the proposed amendments had industrial facilities, which would “hinder the expropriation in places where it was most needed”.⁴⁴⁹

After the fall of Demetrović in May 1933, Ljuba Tomašić was appointed Minister of Agriculture, and the new Act on the Liquidation of the Agrarian Reform was adopted by the National Assembly, as proposed by the removed minister. Finally, by adopting the Act on the Amendments to the Act on the Liquidation of the Agrarian Reform on Large Estates on June 24, 1933, expropriation of large forest estates was taken off from the agenda. The Act stipulated that the Minister of Agriculture can, in cooperation with the Minister of Forests and Minerals, expropriate up to 25% of the forest land from large estates, under certain conditions. Firstly, for an estate to be expropriated partially, the estate had to be larger than 1,000 c.a. Secondly, the expropriation should be in favour of: (a) groups of colonizers in places where new settlements of volunteers and other colonists cannot be provided with grazing lands and firewood in any other way, as long as the forests are located within the same or adjacent administrative municipality in which the settlement is located, regardless of the Banate borders; (b) ordinary villages that needed the forests for their own development and economic progress.⁴⁵⁰

Pursuant to the amendment to the Agrarian Reform Liquidation Act from June 1933, 17,206 hectares of forest were expropriated on 17 large forest estates in favour of 82 colonies and 265 villages. Of the overall number of large estates, 16 were in the Sava Banate, one in southern Serbia, while one large estate was stretching over into the Danube Banate. Among the owners of the expropriated estates were the following families and companies: Miklenić, the Turković brothers, *Wiener-Bank Verein (Slavex)*, Ivan Drašković, *Našička Ltd.*, Pejačević, Norman, *Gutmann-Našička (Podravina Ltd.)*, S. H. Gutmann Ltd., the Krapina Furniture Company, Otenfels, Aninger, Bombelles, and Eltz Thürn-Taxis. The lands were expropriated in the interest of the listed agrarian colonies, but also in favour of certain villages. The compensation was relatively lower than the compensation applied in case of arable land expropriation, with a 30-year repayment period. Landowners were compensated by the state.⁴⁵¹

In his defence, Nikić claimed that he had not been involved with the industrialists’ scheme to prevent the Demetrović’s bill to be adopted. He shared Trbić’s view that the agrarian issue was completely removed from the agenda the moment the King delivered his address from the throne. Being in the opposition, he voted against the proposed law because, according to him, it was harmful to the state and he predicted

449 DAOS 123, Box 2469: final request by the State’s Attorney B. Maurović.

450 DAOS 123, Box 2463: indictment and hearing protocol 1935, indictment against Nikola Nikić.

451 ŠL, 2/1937, Perušić, “Komunalne šume u Jugoslaviji”.

that the representatives from Serbia would be the first to vote against the bill, “because they do not want to pay from the State Budget for Demetrović’s propaganda, especially since the leaders of the both Catholic and the Orthodox Churches also voiced their opposition, and for the same reason.”⁴⁵² He also claimed to have objected when Adolf Schlesinger hired Mijat Mijatović to work on the resolution of the agrarian issue. He explained that, with such interventions, his efforts were doomed to fail: “This draft bill can be stricken off the agenda only by a vigorous intervention with the Prime Minister and other influential factors, and not by actions of the local attorneys since such interventions yield nothing but intrigues (...). Mijat Mijatović, as he himself bragged to his friends in the tavern *Vardar*, took 50,000 dinars for such an intervention. There were other attorneys involved too, I am not sure about their identity, but I think that Rako Nikodijević and Obrad Simić were among them.”⁴⁵³

In his defence, Nikić also provided an interesting example of the effects of the law which was already in effect at the time of the trial. He drew attention to the Minister of Agriculture’s decision from April 11, 1935, on which a forest on the Count Pejačević’s manor in Našice had been expropriated. Less than 10% of the forest was taken (from approximately 22,000 c.a.) for a compensation price of 420,823 dinars. In his *exposé*, Demetrović admitted that forest owners offered the same proportion of their forest for free to serve the villages and settlements. Besides, the actualization of the agrarian issue was considered as bad news by those representatives in the National Assembly who represented the constituencies located on the territory of the pre-WWI Kingdom of Serbia, and the Minister of Finance Milorad Đorđević shared their sentiments. The Prime Minister Srškić thus found himself in an awkward position immediately before the budget debate. According to Nikić, the Prime Minister invited “certain prominent Committee members who had the project [viz. the draft of the new Agrarian Reform Act] on their desks and told them: ‘Just do not allow the adoption of his law before the budget is adopted, and I will make some promises after the adoption, when he is no longer the Minister.’”

A more in-depth account of the whole business was given by Radošević, a trustee in the bankruptcy proceedings over Dr. Grgin and the *Srpska centralna banka*. Although Kulundžić found his statements to be an exaggeration, there was no exaggeration insofar as the total mass of the harvested trees is concerned. Indeed, Radošević invoked a report of experts hired by the court. As it turns out, their elaboration sits well with contemporary calculations.⁴⁵⁴ According to the expert witnesses, industry owners purchased oak at 400-600 dinars per cubic meter, while they sold that same cubic meter, after being processed, for 1,600-2,000 dinars. Radošević went on to

452 DAOS 123, Box 2463: court hearing protocol, Nikola Nikić.

453 Ibid.; DAOS 241: liquidation of the Agrarian Reform, forested areas of large estates.

454 Z. Šimončić-Bobetko, *Drvena industrija Hrvatske u gospodarskoj krizi 1930.-1934. godine...*, 211.

provide a rough estimate. According to him, these operations had been going on for 10–15 years. In that period, at a reasonable rate of 350 acres of forest being processed annually, the accused companies could have harvested at least 2,5 million cubic meters of oak. He then surmised that each company could have achieved an annual profit of 2.5 billion dinars – a sum which, to put things into perspective, he compared to the war reparations that France demanded from Prussia: “If we suppose, gentlemen, that they took only half of that amount, it could very well be the case that they exported from this country at least five billion in pure gold. The price France had to pay for the lost war was 5 billion francs, while the costs of this agrarian and parliamentary criminal affair that Yugoslavia will have to bear amount to at least 5 billion. These billions ended in the pockets of the here accused Hungarian patriots. And Yugoslavia is paying war reparations to Hungary! Think of all that wealth that was taken to Hungary. Nothing remained in the country, as the court’s expert just demonstrated.”⁴⁵⁵

Unlike Trbić, Nikola Nikić failed in his appeal before the Court in Zagreb. In his case, the court concluded that he was more involved in the fraud because his position at the time implied greater responsibility; therefore, his actions constituted an outright malfeasance. Nikić was convicted and served the sentence. Trbić, on the Court’s opinion, was an elected member of parliament and therefore beyond the reach of prosecution. The case found its way to the Ministry of Justice and the State Council. Different examples of implementation of similar laws on similar cases in various European countries were brought up. Upon receiving the decision of February 21, 1935 that a formal investigation would be initiated against him, Nikić appealed, as did Trbić before him. The Court allowed the investigation against him to proceed. When asked about this decision, the president of the Zagreb Court of Appeals Čimić replied that it was “because he believed that such a decision was in the interest of the regime”. Afterwards, in a conversation with Čimić, the Prime Minister Bogoljub Jeftić criticized such an attitude: “What kind of a president of the highest court in the land are you when you follow orders rather than the law?”⁴⁵⁶

Through the indictment submitted to the District Court in Osijek, dated February 15, 1935, the prosecution required convictions for Adolf Schlesinger, Aleksander Sohr, Alfred Czuczka, Konstantin Dožudić, Zvonko Bratanić, Ervin Lovrić and Adolf Spitz for a criminal offence of unlawful incitement of elected officials. What this meant was that the accused attempted to direct people’s representatives in the

455 DAOS 123, Box 2463: speech by Miško Radošević, October 2–3, 1935; see also: Kulundžić, *Politika i korupcija...*

456 DAOS 123, Box 2466: court hearing of Nikola Nikić, May 29, 1935.

National Assembly to “discharge their legal duty” in a way that would benefit the accused. However, at the same time, the very representatives of the people who were under the alleged influence of the accused were not indicted of any crime consistent with the discharge of their legal duty pursuant to the Article 74 of the Constitution, “let alone a crime that would be committed outside the scope of the official duty”. Therefore, the defence attorneys challenged the ruling on the grounds of the Court’s lack of jurisdiction in the matter – they claimed that it was a matter for the Assembly and not for the Court to deal with.

According to the attorney of the director of *Slavex*, August Petrović, the executive branch “arrogantly tried to put the legislative body in a position of having to account for its own regular legislative work.”⁴⁵⁷ As the defence attorney of Nikola Nikić, Dušan Popović, had put it, if the state is just an abstraction, its omnipotence is not. According to “a natural order, the [three] powers do not emanate simultaneously and do not emanate equally”. It is the legislative power that emanates first from the people’s will, and only then can the executive and judicial branches be established. He went on to conclude that the latter, “despite being considered as co-existent with the former, ultimately emanate from the authority of the legislative branch”. It is this piece of reasoning that gives sense to the principle of immunity of the people’s representative. Moreover, under Article 76 of the Vidovdan Constitution, “it is not so that any executive power whatsoever may be placed above the National Assembly” or that this power may judge the work of the Assembly and its members, i.e., how they discharge their duties. Making the most out of this argument, Nikola Nikić’s defence required of the National Assembly to take a stand on whether the Nikić’s case was a case of a “criminal offence in office”. In formulating this requirement, they pointed out that there are no legal constraints whatsoever as to how their duties shall be executed, apart from the constraints imposed by the representatives themselves.⁴⁵⁸

The tactics of the defence was to insist on the difference between the legal status of “state official” and “people’s representative”, the latter category being exempt from the type of accountability that the former was subject to – at least, according to the legislation they had referred to. However, the Court of the Seven, in its ruling of February 2, 1935, took a position that people’s representatives, in discharging their duties, are exclusively governed by the interest of the people, and thus, based on the principle of malfeasance in office, inferred that the case of people’s delegate Nikola Nikić should fall under the definition of the offence that was introduced to sanction irregularities in government procurement, i.e., individuals abusing their public or social position (by an act adopted on March 30, 1929).⁴⁵⁹

457 DAOS 123, Box 2465: defence speech of Dr. August Petrović, October 18, 1935.

458 DAOS 123, Box 2466: court hearing of Nikola Nikić, May 29, 1935.

459 DAOS 123, Box 2465: defence speech of Dr. August Petrović, October 18, 1935.

August Petrović went a step further and tried to undermine the government's intentions in the case. In his argument, he quoted a resolution adopted at the Sixth Congress of Legal Scholars of the Kingdom of Yugoslavia in September 1934, pointing to shortcomings of the Yugoslav legislature regulating criminal offences. As the Resolution emphasized, laws in many cases failed to protect both the general and the individual interests of the institute of ownership. Accordingly, they made several requests to the authorities demanding a refinement of criminal law regulations, especially those that sanction actions abusing somebody's social status and function with the aim of acquiring wealth (corruption, insider trading, formation of cartels and trusts, reckless speculation etc.). What the legal experts had primarily in mind was the infamous agrarian reform that from a beneficial social measure turned into a political issue. Notwithstanding the attempt to resolve this issue by adopting a new law (entering into force on June 19, 1931), less than two years later, the issue re-emerged with full force.⁴⁶⁰

The pressure on the legislative and the executive powers, i.e., on Minister Demetrović, to resolve the issue, was coming from below. According to the first draft of his bill, the compensation for confiscated forests, which was supposed to include even the oldest woodlands, amounted to 1,120 dinars per cadastre acre. The actual value was 25,000 dinars per acre of forest land, and the farmers were supposed to repay the difference within 30 years. "Naturally, all the large forest estate owners felt threatened by the proposal (having learned their lessons during the wheat and farmers' debts affairs). This especially applied to industrial companies that purchased their forests hardly a year or two earlier, paid the full amount, and then found themselves in a situation to lose their legally acquired property".⁴⁶¹ Moreover, the law failed to discriminate between legal and physical persons, recently acquired forests and those in possession since the ancient times. As to industrial companies, "their grudges against the new law were justified", according to Petrović. Besides, as he pointed out, the law was unconstitutional since it was in collision with Article 4 that guaranteed protection and equality before the law. According to the new law, two ministers, could independently decide to confiscate one's property, and it was left to the discretion of the same two ministers to decide about the aggrieved party's prospective complaint to the State Council. Admittedly, foreign citizens were in a somewhat better position in this regard since they had an option of appealing to an international court. Precisely this had happened as the issue of the agrarian reform had been resolved by the Treaty of Trianon on May 27, 1930. In contrast, Yugoslav large estate owners could only appeal to the same two ministers that issued the first instance decision, as the defence lawyer Spitz remarked.⁴⁶²

460 Ibid.

461 Ibid.

462 Ibid.

The Criminal Chamber of the District Court in Osijek, acting on the State's Attorney request, opened an investigation against the people's representative Vasilije Trbić on suspicion of having committed a criminal offence. Trbić appealed to the Court of Appeals on January 29, 1935 arguing that people's representatives are acting as a legislative authority, not as public servants, i.e., as instruments of the executive power. For the defence of the accused, these arguments applied to, and determined the outcome of, similar legal disputes pertaining to people's representatives in general, not just to the accused in the case in point – Vasilije Trbić, Nikola Nikić and Dragoljub Jovanović. Namely, all three people's representatives were accused for the same criminal acts and in the same process which, however, resulted in different applications of the law. Trbić's process was suspended pursuant to a decision by the Court of Appeal in Zagreb, the key circumstance being that he was a people's representative. Nikić and Jevremović, being people's representatives too, were indicted. Unsurprisingly, the defence hurried to argue that the ruling against the latter two was of a purely declarative and theoretical character, without any effect on the accused: "If there is any effect of this law for the accused, it can only be a favourable one for them. Both our literature and judicature adopt a unanimous position, referring to our actual laws, but it is uncertain whether foreign laws assume some other position. Even if we were to assume that a people's representative was a state official ... this would mean that – in this case – such a representative committed a crime pursuant to Section 385 (punishable by a five-year imprisonment), while the instigator or an accomplice would be guilty pursuant to Article 133 (punishable by 100,000 dinars fine)."⁴⁶³

August Petrović invoked several basic principles of justice, like *Nullum crimen sine lege* or *Nulla poena sine lege*, which were also adopted in the Constitution. He emphasized that only countries like the Soviet Union, the fascist Italy and the Nazi Germany "deviate from the above principles. They allow judges to reach their verdicts by way of analogy". In contrast, the Yugoslav criminal law (Article 1) excluded any analogy and extensive interpretation of its norm.⁴⁶⁴

State's Attorney Benjamin Maurović, trying to rationalize the legal precedent applied in the *Našička* Scandal, quoted various European practices as a response to Petrović's assertion that the Kingdom had not adopted any law that would sanction corruption of the representative bodies. As an example, he referred to the French legislator who defined the term 'civil servant' in the broadest possible sense. The French Higher Court on February 24, 1893 adopted an interpretation according to which this category included not only members of the general public but also those who were entrusted with a mandate, "whether in an election or via delegation by an

463 Ibid.

464 Ibid.

executive authority”. Even though the French civil code until 1889 did not include any provision that would regulate the conduct of people’s representatives, the legal practice prior to July 4, 1889 “subsumed them under ‘civil servant’”. Namely, on that date, an adequate law was adopted that criminalized improper interventions of people’s representatives with state authorities.⁴⁶⁵

As another example, the Belgian criminal law, instead of ‘civil servant’ used an expression ‘any individual entrusted with public function’. In legal practice, the latter referred to people’s representatives. To substantiate his case, Maurović pointed to certain parallels with the Yugoslav Criminal Code which, in Section 14, defined civil servant as an individual who “in the service of the government or local self-government performs a certain permanent or temporary public service. He also cited criminal codes of several European countries (France, Netherlands, England) that were compatible with the interpretation according to which elected individuals – typically representatives in national assemblies – were also public servants and therefore subject to the same kind of liability. However, it was only the English criminal law that explicitly required prosecution of corruptive practices of people’s representatives perpetrated during their term of office or on other occasions. This country has even instituted a special criminal court for its Parliament members.

Maurović concluded that most of the mentioned countries had passed no legal acts which would explicitly regulate the matter under discussion. Instead, “by logical interpolation, it is inferred that people’s representatives are subject to criminal prosecution for offenses mentioned in the sections 384 and 385” of the Yugoslav Criminal Code. Therefore, “the right to immunity is not a right that is given to people’s representatives to act free of any accountability. They cannot be immune from prosecution for an act for which any ordinary citizen would be prosecuted. On the contrary, the intention was to emphasize – and it can be drawn directly from paragraph one of that Section – that a senator or a people’s representative ought not to be prosecuted for their vote (according to both the Vidovdan Constitution and the new Constitution).⁴⁶⁶

Since the establishment of Yugoslavia, the promise that the segregation of forests will be subject to revision was just a way of manipulating both peasants (as a voting block) and forest owners. From the former, the politicians expected to gain votes, i.e., power; from the latter, they expected various compensations – mostly through lobbying and gratification so that the process of revision of forest land could be carried out with as little damage to the owners as possible. Kingdom of Yugoslavia gained control over all forest land in the country and threatened the large estate owners with expropriation (including the expropriation of entire estates). The

465 DAOS 123, Box 2469: final request by the State’s Attorney B. Maurović.

466 Ibid.

industrial companies which were in the business of purchasing forests for exploitation and investing into transport infrastructure felt especially threatened. So, it is no wonder that they tried to protect their businesses through lobbying – especially if the politicians themselves advised them to do that. With this kind of system, the possibilities for kleptocracy to gain momentum were virtually endless.

5.4. Liberal democracy on trial

In his closing speech, the State's Attorney Benjamin Maurović was eager to show that the aim of the process was by no means to enforce restrictive measures against foreign capital. To prove this, he pointed to the fact that companies whose representatives appeared before the court were still in business. For him, the aim of the process was rather to determine whether the state had suffered damages by the actions of the accused – the magnitude of which was never exactly established – and whether the accused had “crossed the line between legitimate and illegitimate conduct”. He also emphasized the fact that the accused had been changing their story during the main hearing, including the basic facts. Unlike in the initial phase of the process, when they protested for being mistreated by the police that tried to squeeze a confession out of them, they now protested against the demeanours of the coroner. They complained about several other things too: about the documents allegedly supporting the accusation not being available to them, against their stressful conditions during the proceedings (“interrogated while being in a particularly upset mental state”), about questions being asked in a vague and unfair manner etc. The State's Attorney dismissed all the allegations arguing that there have been such complaints “since the day the criminal proceedings exist”. Besides, the accused were highly educated individuals, so it was unplausible to suppose that they would give in under pressure or confess to something that had actually not happened. Although the method of obtaining the confession from Adolf Schlesinger had been all but legal (he pleaded to confess to anything after being threatened by his wife's arrest), his statements were enlightening. Yet, it was never clarified what exactly was his responsibility and what was the responsibility of his superiors.⁴⁶⁷

In his defence speech, Nikić's attorney Dušan Popović insisted on a conflict between civil and criminal law. Popović criticized the role of the State's Attorney Office in the process, claiming that its function, as an instrument of the executive power, should have been to *monitor* the proper application of the law. He proclaimed illegal the prosecution of a people's representative without a National Assembly's consent, reminding that the individuals elected to this position embodied state authority. Following this line of reasoning, he made several important points: according to the

467 Ibid.

Constitution, the executive power had no prerogative to investigate the work of the National Assembly as a legislative body, and if an offence was committed that was not *prima facie* flagrant, it was up to the Assembly to decide whether the conduct of its member constituted an abuse of power or not; but even in a case of a trial before a court of law, the Assembly had a role to play – it reserved the right to overview the process. In fact, the Constitution (Article 74) explicitly referred to offenses, pursuant to provisions of the Criminal Code, committed during their term in the National Assembly. In such cases, the National Assembly was obliged to determine, on its own, whether a crime had been committed or not, and, consequently, whether criminal proceedings would be opened or not: “For all statements and procedures during their term of office, either during the sessions of the Senate or of the National Assembly, either as a member of a committee or a special delegation (i.e., outside the premises of the Assembly), senators and people’s representatives are responsible to the Senate and the National Assembly, respectively, pursuant to the Rules of Procedure.” In short, the National Assembly should have given a permission for initiating the criminal proceedings against Nikić.⁴⁶⁸

The representative of the private participants in the bankruptcy of Svetozar Grgin, Miško Radošević, turned the entire story towards statistics that he interpreted from a position of racial stereotyping. Namely, of 107 accused, 22 were of Jewish faith – 23 if one also counts Ervin Lovrić (Löwy) who converted to Roman Catholicism just a few years before. Radošević assumed that the public opinion had been interested in taking advantage of the Agrarian Reform, and he expected this fact to influence the final decision. The same view is expressed by Milivoje Popović, in the preface to the printed version of his closing statement, where he blames the legal representatives of the accused for vilifying the whole process and the court institutions itself. As he points out, “it is no wonder that such inappropriate methods were used by the uniraical defence lawyers. In their own case, race kinship and race hatred trumped decency, and they shared the same mentality with the accused.” Radošević was somewhat gentler than Popović when he referred to the specific 20% of the accused as “recently immigrated Hungarian citizens among which there were no domestic Jews”. He went on mentioning that “the well-known Zionist leader Žabotinski addressed this subject on August 7 [1935] in a wise and intriguing way, but our Jews [referring to the accused and their defence lawyers] held this back from the public. It is said that on the same occasion Žabotinski called upon our Jews to look in the mirror. Allegedly, he also told them, specifically regarding this process, that if they stood in solidarity to the actions of the accused, they would suffer the same fate as the Jews in Germany.”⁴⁶⁹

468 DAOS 123, Box 2466, Item C: speech by Dušan Popović, May 29, 1935.

469 DAOS 123, Box 2465: Radošević’s speech; the *Našička* Scandal before the court, 9.

When reading the court records, especially the replies of the general director of *Našička* Aleksander Sohr given to Miško Radošević, the representative of the private capital in the bankruptcy estate, one gains an impression that individuals involved in the bankruptcy process tried to use the confiscated documents to blackmail the accused and extort money from them. As Kulundžić reports, the attorneys of the accused referred to the group around Milivoj Popović as “the grabbing syndicate”, alluding to its extorting activities. The group utilized the process for its own political advantage. During the process, its members praised the imperial regime and the late King himself for his resoluteness to eradicate corruption: “Under the pretext of ‘fighting for the King and the Fatherland’, of approving the King’s decision to proclaim a dictatorship [the so-called 6 January Dictatorship], and of condemning the Jews (since several of the main accused were of Jewish origin) and ‘the corrupt parliamentary system’, they pursued both a hidden and an open campaign with the aim of fulfilling their greedy intentions and forcing the troubled capitalists to ‘fork out their money’”.⁴⁷⁰ At one point, during the defence speech of Nikić’s attorney Dušan Popović, the accused Nikić addressed Milutin Popović in an “unusually agitated way and exclaimed: ‘Do you really think that I am one of the Jews that you can blackmail?’⁴⁷¹

Addressing the court, Miško Radošević, a legal representative of Svetozar Grgin and the Serbian Central Bank in the bankruptcy process, tried to put the blame for the corruption on the liberal-democratic system and the state institutions. He explained that, after the unification of Italy in 1866, the major problem was parliamentary interventionism. He cited the Italian Prime Minister Marco Minghetti who in 1881, in his work *Partiti e loro ingerenza nella giustizia e nella amministrazione* (*Parties and their Interference with Judiciary and Administration*) wrote about people’s representatives performing their duty in the foyer of ministerial offices. Likewise, Radošević criticized the liberal-democratic system for letting itself be corrupted by large capital. By saying this, Radošević actually exonerated domestic politicians from responsibility – for who could resist all that money? However, one should look at things from the reverse perspective: by introducing a variety of measures, the Yugoslav interwar state shaped the economic system in such a way that it was virtually impossible to conduct business without administrative support. For instance, the forests were directly controlled by the state, and this had nothing to do with the interest of the forestry profession, i.e., its concern for forests and its products as a common good; the reason was far more profane – corruption. According to forestry adviser Živanović who was called to testify as an expert witness, forests had been destroyed “because a harvesting cycle was reduced from 120 to 45 years.”⁴⁷²

470 Kulundžić, *Politika i korupcija...*, 120–122.

471 DAOS 123, Box 2466, Item C (*šumski agrar*): court hearing of the accused Dr. Nikola Nikić, speech by Dr. Dušana Popović.

472 DAOS 123, Box 2465: Radošević’s speech.

Besides, it would be mistaken to think of the Kingdom of Yugoslavia as a liberal-democratic state. Considering the King's demeanour on various occasions – when appointing and dismissing governments, when adopting the Vidovdan Constitution, when suspending the same constitution and introducing the Dictatorship (on the 6 January 1929) – to call this type of government a parliamentary monarchy would be unfitting. Although parliamentary monarchy was proclaimed at unification, the King and his offshoots (the repressive apparatus and the bureaucracy) proved to be a stronger constitutional factor than the parliament. It is safe to say that during the entire inter-war period the imperial regime strived to broaden its jurisdiction over the economic sector. In industry, which was labour intensive and for the most part reduced to primary processing or the production of half-products, there were clear anti-liberal tendencies, especially regarding the business operation security and the free disposal of assets. Bearing this in mind, it is worth citing the contemporary corruption research which shows that corruption is especially resilient in underdeveloped countries or countries with a high proportion of the aforementioned industries. Despite its devastating consequences for the civil society, economic development, market competitiveness and the integrity of companies, corruption endures. This is not surprising since under corruptive circumstances honesty becomes an irrational attitude.

According to Radošević, it would have been more beneficial for the Yugoslav peasantry if the country had accepted a fascistic dictatorship instead of corrupt parliamentarism with a multitude of political parties. For him, “the principle which had buried formal freedom and affirmed real freedom is the following: ‘Let no crime be left without punishment!’”. The reason for such an extensive deviation from this principle as in the case of interwar Yugoslavia he sees in the collective mentality. He speaks of the civil virtues of the “Northerners” as a consequence of their conscience and their sensibility for duties, i.e., their understanding of restrictions as necessary by-products of living and working “in a society of citizens”. The cultural backwardness that differentiates “us from the Northerners”, according to Radošević, has also to do with the basic education. He takes the example of the English people who educate their children on books emphasizing character, virtuousness and frugality, contrasting them with our children who admire Petrica Kerempuh and Nasreddin – the characters whose strength and morals lie in their “roguish wit”. “By building the character of a citizen, they [the English] also built their great empire which is not based on a system of written laws but on strong, enduring and honourable characters. In our part of the world, what really counts is this: Look at this thief, he has wits. Grgin is the sly, Adolf is the mighty, and Filip the witty ... This type of judging people is a sign of our cultural and civilizational distinctiveness, if we refuse to admit that it is a sign of our backwardness.”⁴⁷³

473 DAOS 123, Box 2465: Radošević's speech.

In short, the experiment of liberal democracy in Yugoslavia had failed, institutions were used for sneaky purposes, and the very qualities of the capitalist economy that guarantee the security and the predictability necessary for business operations were lacking. Notwithstanding the fact that, since its inception, the Yugoslav regime did not support a pluralistic society, Radošević blamed liberal democracy for everything.⁴⁷⁴

Radošević's ideas were truly modern, and his attitudes justified by legal theories about the evolution of social systems which were implemented in the Nazi Germany. The collapse of the Yugoslav legal state Radošević connects with the social change: "new social classes become facts of society, so the former norm of the criminal code that existed for itself is no longer sufficient". If a country's criminal law proves to be inapplicable due to the legislators' failure to anticipate the possibility of people's representatives being corrupted, the supreme court should consciously exceed its competences and make sure that its norms are interpreted extensively enough to sanction such cases. As Radošević sees it, the state is obliged, in the name of its integrity and by its own will, to operate "in the spirit of justice and appeasement of social contradictions". For him, small estates were symbols of Yugoslav nationalism, while large estates represented foreign authority. To cite Radošević one more time, "the Yugoslav law of social gravity means" that everything that benefits the ordinary Joe benefits the Nation in its historic development, and everything that is harmful for the man in the street is also harmful for the social order. Upon Aleksander Sohr's arrest and before an investigation against him commenced, Radošević "received 10,000 dinars *a conto* for a 5-minute intervention". After his attempts to impose himself as the defence attorney of the big companies' leaders failed, he turned the story against them. This is why Mark Leitner called him "the Petrica Kerempuh [a comic figure of Croatian folklore] of this process".⁴⁷⁵

There is a reason for re-directing our story to the *Našička* process. The aim of this digression was to give the reader a sense of the prevailing *Zeitgeist* in which "foreign capital", embodied in S. H. Gutmann and, to a smaller extent, in *Našička*, operated.

In his address to the court on May 30, 1935, Nikola Nikić claimed that the entire process had been based on documents confiscated from Adolf Schlesinger, consisting of, mainly, "one yellow envelope and half a quire of papers". The papers harboured a list of individuals that were not mentioned by the prosecution and who never made

474 Ibid.

475 Schmitt, "Legalnost i legitimnost"..., 47–51; DAOS 123, Box 2465: Radošević's speech; Kulundžić, *Politika i korupcija*..., 106, 134.

it to the indictment: “These individuals are referred to by almost arcane symbols: ‘Srškić O., ‘Matica L., ‘Srkulja M., ‘Stanković G., ‘Đorđević M., ‘Radivojević L., ‘Karamehmedović O.’; it is only in the case of Kojić [Minister of Justice] that a full name, ‘Mijat,’ had been added [to the family name].” So, if the documents implied that these individuals provided illegal assistance to the large estates, Nikić was eager to know why these persons were not brought before the court, at least as witnesses. On the same day, Nikić stated that, when taking out a sequestrum on the property of Count Majlath and intervening in favour of Gutmann and *Našička* – to the effect that these companies obtained a concession for harvesting the estate forests – “the minister ... received a kick-back for this favour amounting to approximately one million Swiss francs”. Since the indictment implied that it was Nikić – serving as the Minister of Forests and Minerals in the critical period (from July 1925 to April 1926) – who collected this sum, he presented a document, dated to June 11, 1924, proving that the amount of one million francs was legally paid. The document was signed by Dragutin Kojić who, as a reward for this favour, asked Svetozar’s brother Dušan Grgin to provide him with “Lipizzaner horses with a new carriage and reins to be delivered free of charge to Kragujevac”. In a brochure published later (but still during the process), probably by Nikić himself, one reads that the Minister of Justice Kojić offered the accused that he will look to it that they be released during the trial for a seven-million-dinar fee. The accused refused the offer as too expensive, which rendered their release all but impossible.⁴⁷⁶

By this move, Nikić managed to compromise the entire process, setting the stage for the other defendants to file motions for additional witnesses to be heard. Ivo Politeo, the defence attorney of the accused Zvonko Bratanić, was particularly interested in pushing matters in that direction. Since Nikić accused Nikola Kojić, the former Minister of Justice, of being Adolf Schlesinger’s connection (via another Minister, Mijatović), Politeo concluded that neither he himself nor other defence attorneys should trust Nikić. “On the other hand, as he claimed, “it would be equally wrong to simply disqualify Dr. Nikić’s testimony. ... If this court should reach any judgement, and if statements made by Dr. Nikić should be ascertained as true, then none of us will have any guarantee for our clients that the same Court of Appeals and the Court of the Seven will not act in the same way as they did in the case of Dr. Nikić.”⁴⁷⁷

Meanwhile, an internal political shakeup occurred. On June 24, 1935, the cabinet of the Prime Minister Bogoljub Jević collapsed, and so the compromised minister Kojić had to go. Barely a month later, Kojić gave his testimony in a witness capacity before the City Court in Belgrade, where he was summoned pursuant to a request from the Osijek Court. Kojić confirmed the possibility that it was his handwritten

476 Kulundžić, *Politika i korupcija...*, 162–177.

477 Ibid, 163.

signature that stood on the concession, issued in June 1924, for harvesting forests owned by *Podravina*. He also explained, in a direct confrontation with the accused Nikić, that he found out about the process upon taking the office, after the fall of Uzunović's government, and that he did his best to bring the process to an end as soon as possible. On the other hand, the State's Attorney Maurović, in his closing argument, announced further actions, proclaiming the *Našička* process to be merely the first step in the Government's battle against corruption.

The court passed the following sentences: Svetozar Grgin was sentenced to 18 months in prison, previous detention and custody period from July 24, 1934 to November 18, 1935 being included in the sentenced time, and deprived of his civil rights for a two-year period; Adolf Schlesinger was sentenced to seven years in prison, and a fine of 250,000 dinars which, should he fail to settle it in cash, was to be commuted to an additional year of prison time; in the case of Aleksander Sohr, the sentence was identical, save for his 8 years of prison time instead of Schlesinger's seven; Alfred Czuczka and Adolf Spitz each were sentenced to 20 months in prison, a fine and a loss of civil rights for a two-year period; Nikola Nikić was sentenced to four years in prison, a fine, a loss of civil rights for a five-year period, and barred from holding public offices for life; Dragoljub Jevremović was sentenced to three years in prison, a loss of civil rights for a five-year period and barred from holding a public office for life; Filip Schlesinger was sentenced to two and a half years in prison, a fine and a loss of civil rights for a five-year period; finally, in the case of Viktor Gutmann, the prison term was 16 months, the fine was on the lower side and he was deprived of his civil rights for a two-year period.⁴⁷⁸

As it turned out, these sentences would never become final. In its capacity of the final instance in the appeal process, the Court of the Seven all but exonerated all the defendants. "And as the naïve believed that justice had been served, at least partially, as the government's corrupted press started banging their drums about the case being the most important case in the history of Yugoslavia, barely ten months after the sentencing, the Court of Cassation in Zagreb took a stance that hidden book-keeping was not punishable, that people's representatives were not state officials, etc."⁴⁷⁹ People's representatives were acquitted, Schlesinger's and Sohr's prison time was reduced from 8 and 7 years, respectively, to eight months, which both of them had already served, as was the case with other sentenced individuals too. In addition, all the blabber of future processes against corruption has suddenly quieted down. Besides, this would have been an uphill battle anyway since any *bona fide* anti-corruption campaign would threaten to compromise Milan Stojadinović himself, the

478 Ibid., 177–207; DAOS 123, Box 2467: Verdict in the criminal proceedings against Dr. Svetozar Grgin and his accomplices on multiple counts.

479 Kulundžić, *Politika i korupcija...*, 207–209.

Prime Minister at the time. He had been barely mentioned during the process, apart from being referred to in the indictment as the person who in August 1931 received a letter from Adolf Schlesinger. In the letter, Adolf pleaded with Stojadinović to ensure a loan to the Forest Property Commune in Petrovaradin so that the latter could purchase forests from *Podravina* Ltd. – the value of the purchased forests exceeding by twice the estimated value of forests owned by the company.

After the acquittals had become final and public reactions in the face of the show trial calmed down, a leaflet emerged. Probably printed in Belgrade, it offers a distinctive narrative of the affair. This is why Kulundžić included it in his book. (According to Kulundžić, the original version of the leaflet is kept in the State Archive in Belgrade, while the microfilm is kept at the Institute for History of State and Law in Zagreb.)

THE GOVERNMENT AND THE *NAŠIČKA* SCANDAL⁴⁸⁰

The investigation in *Našička* scandal started in the first half of 1934.

Arrests of the culprits and their political accomplices took place in July 1934.

The indictment was drafted by the State's Attorney by the end of 1934 and signed on February 11, 1935.

Quote from page 52 of the Indictment:

“The accused Schlesinger Adolf (as one of the executive directors of the *Našička*) on August 21, 1931 (Folder VI, No. 18) sends a letter to Dr. M. Stojadinović in which he gives a recapitulation of the forest value estimate requiring of him to obtain the capital for registering the amortization loan which will eventually be repaid by the forest property commune. In another letter, from April 27 1931 (Folder VI, No. 9), the accused Schlesinger informs the accused Sohr about the letter sent to Mr Stojadinović.”

As can be surmised, Mr. Stojadinović and the director of *Našička* were close friends and business partners. Their relationship dates to 1925 when Mr. Stojadinović was a frequent guest of the Schlesinger brothers in their famed mansion in Donji Miholjac near Osijek. The brothers had also been Stojadinović's guests in Belgrade.

There are two Schlesingers – two brothers – Adolf, sentenced to seven years, and Filip, sentenced to two and a half years.

When visiting the brothers, Mr. Stojadinović was typically accompanied by Mr. Iko Novaković, former Chief of the Ministry of Foreign Affairs, later accused in a smuggling affair, and Mr. Velizar Janković and Dr. Vaso Jovanović, former minister and a former senator, respectively.

Besides Mr. Stojadinović, Mr. Đura Janković, the Minister of Forests and Mines, was also mentioned in the indictment and was interrogated by the City Court in Belgrade, but the Censorship Office would not allow their names to reach the public. They also made sure that their names would be removed from reports from hearing before the Osijek court.

The verdict of the District Court in Osijek was reached on November 18, 1935. By then, Mr. Stojadinović was already the Prime Minister, and Mr. Đura Janković an active minister.

By that time, the process was very far along and there was no turning back and saving directors of *Našička* and their political accomplices from taking their responsibility before the First Instance Court in Osijek. So, it was clear that Mr. Stojadinović and Mr. Janković would have to mount a rescue operation at the appeals stage, i.e., before the Court of Cassation. And this is when the Government started pulling off a series of shameful machinations to achieve that goal.

1. Its first move was to transfer the *Našička* case from the Court of Cassation in Zagreb, i.e., the competent court, to the Court of Cassation in Novi Sad. However, the General Assembly of all Court of Cassations prevents this to happen.

480 Cited from: Kulundžić, *Politika i korupcija...*, 209–212.

2. After the transfer of the case to the Court of Cassation in Belgrade also fails, the Government tries to “rearrange” the Court of Cassation in Zagreb in order to create a body more suitable for its schemes.

The Criminal Council of the Court of Cassation in Zagreb already appointed a panel to adjudicate the *Našička* case. Its presiding judge was judge Čimić, while judge Rogulja was appointed as a case officer, i.e., the judge responsible for presenting the facts of the case to the panel. There were fears that the verdict of the First Instance Court in Osijek would be upheld.

So, the Deputy Minister of Justice Cvetković intervened. He was quick to realize that the matter could only be thwarted with the creation of a new Criminal Council, one over which the president Čimić would not preside and whose case officer would not be judge Rogulja.

If Čimić was removed from his position, the position of the preceding judge would be taken by the most senior ranking judge, Mr. Mikašinović. Since the latter was also unlikely to participate in the machinations, the only solution was to change the Criminal Council from ground up. And this aim was attended to without hesitation.

1. As the first step, on June 13, 1936, Cassation judge Dr. Bačac is appointed the vice-president of the Court of Cassation, even though such a position was not recognized by the law.
2. Next, on June 16, the Press Bureau issues an order, which is sent to the editorial offices of all newspapers via the State’s Attorney’s Office, that not a single word is to be printed about the *Našička* Scandal.
3. Immediately thereafter, Minister Cvetković retires judge Maravić and orders (via telegraph) president Čimić to relieve Maravić of his duties. As a result, the Criminal Council becomes truncated and incomplete.
4. Simultaneously, Minister Cvetković orders (again via telegraph) the appointment of Dr. Bačac to the vice-president duty.
5. Minister Cvetković then appoints three new judges of the Court of Appeals as cassation judges. Long before that, friends of these three judges, together with the defence attorneys of both sides, had already announced the mentioned appointment.
6. Once these changes took place, the defence attorneys of the accused in the *Našička* Scandal pushes for a recusal of the presiding judge Čimić and the officer judge Rogulja. The vice-president Bačac, with help of the newly appointed judges, grants this motion.

The “re-designed” Criminal Council included: Bačac, Žilić, Jackovski and Matašić. (In one of the raids carried out during the *Našička* case investigation, receipts had been confiscated showing that judge Jackovski received “a loan” of 30,000 dinars.)

The newly appointed judge Žilić receives the *Našička* files in the capacity of a case officer, after judge Rogulja had been excluded from this position through machinations.

7. The attorneys of the accused now step in: they demand the trial to begin, and the verdict be reached as soon as possible.
8. After the vice-president Bačac convenes the session, the president Žilić issues a written ban of the session on the grounds that a session may be convened only by the president of the Court of Cassation. The ban is distributed to all judges who had to sign a receipt of the information.

The vice-president Bačac ignores the ban. The president Čimić informs the Justice Minister Cvetković of the matter, but the Minister remains silent.

The vice-president Bačac excludes the State's Attorney Breberina from the Criminal Council session.

Even though the case was tried before the first instance court for six months straight (from May 10 to November 10), all it took the "re-designed" Criminal Council to make its deliberations was SIX HOURS (i.e., three two-hours sessions lasting from 10 am to noon, dispersed over three days)!

9. The Cassation Court exonerated the major figures from the ranks of *Našička* directors and all the major figures from politics. The country suffered hundreds of millions of dinars losses, and the only thing the court did was sending some minor clerks to do time.
10. Dr. Jevremović, the people's representative convicted in the *Našička* Scandal by the judgement of the first instance court in Osijek, shortly before the ruling of the Court of Cassation, on August 2, organized a lunch in the Esplanade Hotel in Zagreb. He spilled away champagne to celebrate his acquittal which was due only on the next day.
11. The general director Sohr got back his passport and could travel abroad.
12. The company from Našice burned tens upon tens of millions of dinars to keep its directors from doing prison time. The sum amounted to approximately 45,000,000 dinars.
13. The Government safeguarded its ministers, its friends and itself. The Minister of Justice, after trivializing both the theory and the practice of justice, left the Ministry.
14. The key "power brokers" in the affair were: Dr. Milan Stojadinović, Đura Janković, Dragiša Cvetković, and Kožul – sitting ministers all of them – assisted by their accomplice, Mr. Mažuranić, a former minister.

GOD HAVE MERCY UPON YUGOSLAVIA!

6. War, Revolution and Loss

The Second World War started in 1939, and in 1941 Hitler's armies together with their allies conquered Yugoslavia. The country was split into separate parts, and Croatia became a Nazi puppet state, called the "Independent State of Croatia" (NDH), functioning under close German and Italian supervision.

At that time, Viktor owned 8% of 200,000 shares of the Gutmann Company. His relatives held approximately half of the remaining 92%. According to the German reports, English and American shareholders held one fifth each. According to Sundhassen, the *Slavex* Ltd. and the *Wiener Bankverein* also held a certain, though insignificant number of shares. According to the National Bank of the Kingdom of Yugoslavia, the *British Yugoslavian* Ltd. from London and *Banque de Credit Suisse Geneve* held 20% and 4% of the shares, respectively.

The new regime, referred to as the Ustasha regime, took over the Gutmann Company on May 13, 1941, with Matija Gjajić, a dedicated Ustasha, as its appointed commissioner. After the *Našička* Scandal, Viktor Gutmann was running the company and the Ustasha authorities demanded of him to hand it over. At the time, the Company held a total of 27,394 treasury shares, 9,000 of which belonged to Ernest Gutmann, 6,246 to Viktor, 5,344 to Alfred Czuczka, and the rest to minor shareholders. The Minister of Finance of the NDH, Vladimir Košak⁴⁸¹, obtained Viktor Gutmann's shares by ordering an employee to remove them from the company safe.⁴⁸² Subsequently, the new authorities requested of him to surrender the shares in writing, which he refused to do until the word "voluntary" was removed from the document.⁴⁸³ In the process of acquiring shares from individuals who had been shareholders for a longer period, the new government managed to collect over 30% of the shares, while the rest remained in possession of other family members – the ones living in England and the United States. The remainder of Viktor's shares, being deposited in Switzerland in 1941, were transferred to the *Creditanstalt*. The bank, according to Viktor's account, anticipated Germany's ultimate defeat hoping that it would eventually take control over the Company for the benefit of the once liberated Austrian state. Instrumental for the process was a man called Joham, "who was an anti-fascist and an opponent of the German

481 On Košak and other Croats in the German *Grosswirtschaftsraum* see: Šute, *Organizacija i djelovanje Gospodarske sloge...*, 290–291.

482 *Baron Viktor Gutmann: Sudenje i smrt*.

483 *Baron Viktor Gutmann: Sudenje i smrt*, Collection of the Museum Belišće (hereinafter: **Museum Belišće BVG**), 31.

occupation. However, they never dreamed that Yugoslavia would end up under communist rule.”⁴⁸⁴

At first, Minister Košak promised Viktor Gutmann that he would make sure that Viktor and his family would be allowed to flee Croatia if he sold his shares that were outside Croatia to the Government (for US dollars). After Viktor’s refusal, Košak put his secretary Anto Barić in charge of the Company and had Viktor arrested. During the detention, Viktor was interrogated and even threatened with execution by a firing squad. His wife and children were thrown out from their home and forced to leave all their personal belongings behind. By the end of July 1941, Viktor was transferred to Belišće where he was forced to attend the general meeting of the Company’s shareholders. A police agent escorted him and let him know that he had orders to return him to jail after the meeting. During the meeting, Viktor learned that the Ustasha regime, in addition to his 6,200 shares, had acquired additional 40,000 shares from various owners. According to the Company’s by-laws, a general meeting was valid if 10% of the total shareholders’ votes were present. The only entity that could prevent the regime from taking over the company was the *Creditanstalt-Bankverein*, a reputable Vienna bank, which acquired 80,000 shares (Sundhaussen puts this number to 91,000), i.e., 42% of all foreign shares. However, the bank was unable to take part in the general meeting and present the shares since the share transfer agreement stipulated that the sellers, i.e., Gutmann’s relatives living abroad, would hand over their 87,000 shares and collect the payment only after the war was over. The transfer was to take place through *Schweizerische Bankgesellschaft* in Zurich.⁴⁸⁵

Combining shares plundered from non-Arian shareholders with other registered shares, the Board appointed by the Commissioners convened the shareholders meeting on August 3, 1941, where it produced a total of 64,573 shares. *Creditanstalt’s* attempts to overtake the Company were thwarted by invoking a law passed on October 1940, according to which the shareholders had to register their shares in Zagreb if they wanted to exercise their right to vote in a shareholders’ meeting. Realizing that the Croatian government would prevent them from taking over the Gutmann company, the *Creditanstalt* appealed to the German Minister of Foreign Affairs and to the Ambassador to Croatia Sigfried Kasche. On August 3, 1941, the newly appointed management adopted a decision on capital increase, a move that required

484 Holm Sundhaussen, *Wirtschaftsgeschichte Kroatiens im nationalsozialistischen Großraum 1941–1945 das Scheitern einer Ausbeutungsstrategie* (Stuttgart: 1983), 142–144; Karpati, “Kronologija razvitka organizacije kombinata...”, 247; Museum Belišće BVG, 31.

485 Sundhaussen, *Wirtschaftsgeschichte Kroatiens...*, 142 et passim; Museum Belišće BVG 12–19; DAOS 241, Box 1, Jacket 19: Chamber of Trades and Crafts in Osijek, no. 8726/1939; Ibid., Jacket 1: statistics on industrial companies.

approval of at least 70% of voters present. The only dissenting voice came from Viktor's brother Ernest who was allowed to participate since his wife was not Jewish. In 1942, he was arrested and transferred to the Jasenovac concentration camp where he was later murdered. When the war broke out, Ernest had sent his family to Switzerland, but he himself remained in Yugoslavia, together with Viktor and Viktor's family.

At its meeting of August 3, 1941, the Company's new management decided to replace the registered shares and set the par value of a single share to 200 kuna. 300,000 shares worth (par value) 60 million kuna were issued, with the total number of shares being 364,573 and the capital stock amounting to 72,914,000 kuna. By adding the newly issued shares to the 65,000 ones previously plundered from the Jewish population, the NDH government got hold of 344,169 shares, the rest remaining in the possession of individual investors. The Company, now fully controlled by a management appointed by the Ustaha regime, also operated under a new name – *Šumsko veleobrotno* d.d. The Management consisted of Matija Gjaić (married to the sister of the *Poglavnik*, Head of the Ustaha State, Ante Pavelić) as the general director, and Dr. Bruno Tetmayer, Pavao Smerd, Ivan Juvančić, and Zlatko Kemfelj as directors. They were succeeded by the following individuals (according to the business report submitted on May 19, 1942, for the fiscal year 1940/1941): Ante Abramović as the president, Baron Dr. Ivan Skerlec as the vice-president, and Matija Gjaić, Krešimir Katić, Stevo Knežević, Radoslav Lorković and Junus Mehmedagić as members, and Rajko Hvala, Makso Hranilović, Mihovil Markić and Fedor Pucek as the Supervisory Board members. In the following years, baron Skerlec did not appear as a management member. The Management was completely dedicated to serving the interests of the Third Reich. Its conduct was regulated by the Agreement on Economic Cooperation from May 1941, according to which the occupation forces had an unlimited right to industrial raw materials, while the domestic companies' managements were obliged to provide any form of support to the occupational forces.⁴⁸⁶

Creditanstalt filed a lawsuit. However, since the Croatian government was dedicated to accommodating Germany's visions for the lumber industry, the bank failed to garner support from Germany in its legal battle and ultimately fell short of establishing control over the Company. Having been established only few weeks earlier, the Government was eager to assert itself and quench any dissent. "It is questionable whether the [German] ambassador would have taken the same stance towards the issue, or that he would be able to take such stance in the first place, if the Croatian government had placed Croatian economic interests above everything else or if, for

486 Lazić, "S. H. Gutmann d. d. Belišće...", 437–438; Sundahussen, *Wirtschaftsgeschichte Kroatiens...*, 145; DAOS 241, Box 40: Business report on the 23rd business year 1940/1941.

instance, Göring decided to support the desires of the *Creditanstalt-Bankverein*.⁴⁸⁷ At the first court hearing on November 18, 1941 in Osijek, legal representative of the *Creditanstalt*, Ante Kuntarić, was unable to attend. In addition, its Vienna representative was drafted into the military just before the hearing. After being demobilised a few days later, he suddenly gave up his mandate, probably not of his own will. On December 17, 1941, the court of first instance in Osijek dismissed the claim against S. H. Gutmann Ltd. However, it had hardly discouraged the *Creditanstalt-Bankverein* in its intention to take over the control over the Company.⁴⁸⁸

In July 1942, Viktor Gutmann was arrested again and thrown in jail together with his wife and children, with the aim of finally transferring them to a concentration camp. As in the case of their previous arrest, workers and some senior officials advocated for their release and sent their demands to Prefect Hefer. Eventually, the family was released from detention and Gutmann was summoned for a meeting with Minister Košak. Gutmann learned there that Košak's group had managed to acquire 33% of the Company's shares. However, this was not enough, especially in the light of the claims filed by *Creditanstalt*. To accomplish his purpose, Košak threatened Gutmann with sending his family to a concentration camp unless he arranged a buy-back of his family's internationally owned shares for the new management. This was the beginning of a nerve-racking tug-of-war between Viktor Gutmann and Košak. Viktor was well aware that it was unlikely that he and his family would continue much longer to manage escaping death in a camp. But now he realized that Košak was desperate to obtain his family's international shares. Thus, if he could drag out his "attempts" to obtain these shares until an eventual Allied victory, which he counted on, he would save his family from a death which they would not otherwise escape.

So, Viktor Gutmann went for a trip to Switzerland where he had relatives, while his wife and children remained in Belišće as hostages. He knew that were he to obtain the shares for Košak, it would mean death for him and his family, because this would render him dispensable. Thus, "he decided to buy time, i.e., to extend the negotiations on the acquisition of the Company shares for as long as possible; with no success, however."⁴⁸⁹

Commissioner Gjaić and engineer Katić accompanied him on his trip to Switzerland. In Zurich, he met with Dr. Grimm, his old acquaintance from Vienna, who linked him with Jager, the director of the Swiss Bank Corporation. At a secret meeting, the two agreed to help Viktor Gutmann and they made a plan. "[Viktor] will make an offer for purchasing the Company's shares, but Jager will not have any shares available for sale, so he will demand a large collateral in Swiss francs pledged

487 Sundahussen, *Wirtschaftsgeschichte Kroatiens...*, 145–146.

488 Ibid.

489 Museum Belišće BVG, 25.

for finding and purchasing the desired shares.⁴⁹⁰ Despite the fact that several thousand shares were in the market, when the commissioner and Katić met with Swiss brokers, there were no shares available. In early 1943, Gutmann, complying with Košak's order, was prepared to go to Switzerland again, but tried to delay the trip for as long as possible. While waiting, he was arrested again, together with his family, on May 3, 1943, along with a group of 40 Jews. They were detained in the St. Ana Elementary School in Osijek. As they soon found out, the entire group was designated to be handed over to the Gestapo for deportation to Auschwitz: Later that day, the entire group had to pay 300 kuna per person for transport costs. Meanwhile, there was another development. Mira Dannenberg, a close friend of the Gutmann family and a member of the German nationalist organisation *Kulturbund*, intervened with the county prefect Hefer, explaining that if Gutmann were arrested by the Gestapo he could be forced to surrender the shares to the Germans instead of the Ustasha authorities. Thus, she made Viktor's persecutors believe they still needed him. Hefer explained to Košak that the deportation could have unwanted consequences, and this saved the entire family.⁴⁹¹ The Gutmanns spent the following 4 months in jail in Zagreb. Later, in August 1943, Košak and Barić were removed from office and replaced by Hondl, who, according to Viktor's account, took a more humane approach to the acquisition of shares. The family was released from jail under the condition that they remain in Zagreb, under police surveillance.

In November 1943, a substantial number of Gutmann shares were about to enter the market in Budapest. Gutmann and Hondl met with Dorogy, who was skilled in such transactions. According to regulations governing the exchange of foreign assets, any such transaction was to be pre-approved by the Hungarian National Bank. Gutmann arranged with Dorogy that such a pre-approval would not be given. Hondl was told that the obstacles to this transfer of shares were much larger than they actually were. Hondl swallowed the explanation and they returned to Zagreb. Gutmann knew that selling such a large number of shares to the Ustasha regime would mean a death sentence for him and his family. Eventually, he managed to get Hondl on his side. During the entire 1944 and until the liberation of Zagreb in May 1945, Viktor Gutmann was employed as a clerk in the *Tanin* company, biding his time with no real job to do. He got this position through Hondl and one Mr Pertot, a senior official at the Ministry of Finance. Besides, the state commissioner Rotković responsible for the *Tanin* Ltd. knew Gutmann before the war and "felt that he owed him on account of favours from the past".⁴⁹²

490 Ibid., 27–29.

491 Ibid.

492 Ibid, 30–31.

Simultaneously with the legal battles over the Gutmann Company, the German share in the *Našička* Company was being negotiated. In May 1941, Herman Berchtold, a representative of the Vienna Corporative Central Bank, notified the German embassy that *Našička* needs to be placed under control. Administrators of the State Office for Forests of the German Reich, who had already inspected the ownership structure of *Našička* for a whole year, complied. Accepting the opinion of Berchtold and the Office for Forests, the Ministry of Foreign Affairs agreed that this particular company was “of significant interest”. It considered a course of action that would have the Croatian government declare void any ownership over shares that were held by Jewish shareholders based in Switzerland. After that, the majority ownership in the Company would be sold to Germans, payable in German marks. Minister Košak accepted the idea. The German-Croatian business venture took off with signing a preliminary agreement in which the main negotiator on the German side, Rudolf Timmel, demanded 45% – more than 40% in any case – of the voting rights for the Germans.⁴⁹³

The Company was fully owned by Swiss capital. There were 600,000 shares, two thirds held by *Unions des Usines* and one third by *Des Industries Minières et Annexes*. The authors of the plan hoped to achieve the following: Jewish owners would lose their stakes, *Des Industries Minières et Annexes* would remain as a shareholder with 30% stake, and the rest would be held by Croatian private owners represented by count Petar Pejačević. The German investment was to be steered by the State Office for the Reich’s Forests. Berchtold was happy with the agreed scenario because count Pejačević was thought of as a keen sympathizer of German authorities; so, having him at the helm was assurance that *Našička* would serve German interests. The expropriation of the original owners was completed on November 4, 1941 when a commissioner of the Company was appointed. Meanwhile, a member of the Swiss government visited Zagreb and informed the Croatian authorities that Switzerland would not welcome any move against *Našička*. According to his information, in 1921, the Swiss state held 80% of the stock, while 20% was owned by Hungarian private investors. Similarly, Hungary lodged a protest against such unilateral expropriation. Disregarding the fact that Croatian and German business decisions were subject to dispute – The Croatian side for not being able to obtain hard currency required for the compensation payments; the German side for not allowing in-kind payment of the compensation – the deal was finalized on March 2, 1942. The final deal was very much in line with the original intentions of the actors and the provision that the German share could never fall below 40%. In-kind payment of the

493 Sundhaussen, *Wirtschaftsgeschichte Kroatiens...*, 146.

compensation was nipped in the bud by the Germans as they forbade any export of first-class products. In early July 1942, Minster Košak ordered Timmel to undertake any measure necessary to increase the war production in *Našička*. What this actually amounted to was putting the Company under Timmel's control – a move vital for German interests since the Company disposed with large and valuable lumber stock that could fetch a good price, both in the country and abroad. When the factory was finally liberated by the Partisan forces, the carelessness of the soldiers almost caused a fire in one of the facilities. The warehouse was extremely well guarded. It is alleged that its role in the first five-year plan was nothing short of amazing.⁴⁹⁴

During 1942, expert witnesses were called to weigh in on the Gutmann and the *Našička* companies. A court expert consulted in the case of *Našička*, Leutgebrun, expressed an opinion that “the rights vested in a Company share are subject to the legal system prevailing in the territory of the Company's headquarters, meaning that the real estate, i.e., the land and the soil, are to be taken as the final criterion for enforcement of the law rather than the whereabouts of a ‘floating stock’”.⁴⁹⁵ According to that opinion, favourable to the German side, it was within the government's rights to take control of the Company. The issue of compensation payment was of a secondary importance and, ultimately, the government had the authority to surrender the Company to the German-Croatian consortium. In addition to finding a legal cover for the takeover, NDH had another problem: presumably, it would be held politically accountable for the expropriation of Swiss assets, which would have repercussions for business and trade relations between the two countries. Moreover, the Croatian government was uncertain whether the Third Reich, its political power and its ability to impose its own interests notwithstanding, would be willing to back up an expropriation without compensation on international markets, even though the expropriated party was Jewish. The situation was even more complicated in the light of the fact that the expropriation of *Našička* could weaken the position of the *Creditanstalt-Bankverein*. So, the Berchtold Group found itself caught between a rock and a hard place. On the one hand, it was reluctant to push for the nationalization of *Našička* since that would prevent an expert examination that the NDH representatives demanded as a prerequisite regarding the Gutmann case. On the other hand, the State Office for the Reich's Forests advised the Berchtold Group to oppose an amiable settlement between the Croatian and the Swiss governments by handing over one fifth of the lumber stock.

The decision on further actions was supposed to be made in Berlin where, in February 1943, the Ministry of Foreign Affairs concluded that the Leutgebruner's expert opinion failed to provide any arguments in favour of expropriation. Timmel

494 Sundhaussen, *Wirtschaftsgeschichte Kroatiens...* 146–148.

495 Ibid, 147.

proposed a solution. He surmised that cancellation of the already implemented expropriation was an option, but the Geneva holding needed to issue a legally binding statement of consent for transferring 75% of its share capital in favour of the NDH, and the NDH government would have to realize this option within one year after the end of the war. The sale price of the shares would be determined by a court expert evaluation. As a consideration, the Swiss company would need to acquiesce to the fact that the Berchtold Group would take over at least 40% of the overall number of shares and would, pursuant to the German-Croatian agreement, appoint its general director. With the approval of the Minister Košak, Timmel was supposed to start mediation negotiations with the Geneva owners, but it appears that the mediation had failed.⁴⁹⁶

German interests stretched beyond the territory that was historically Croatian, affecting subjects located in the part of the NDH that comprised today's Bosnia and Herzegovina. Mid-June 1941, the Luftwaffe Command from Wrocław and the Ministry of Forestry and Mining concluded a contract according to which the Wood Industry Zavidovići would be leased for a one-year period. The lease worth 68.4 million kuna also included the products in stock (storage). The main goal of the Zavidovići company was to construct barracks for the Luftwaffe. According to Sundhausen, the lease agreement was extended until October 31, 1942, when this company was taken over by the government. At that time, the Army stationed in Croatia was already unhappy with the supply from Zavidovići, especially concerning the supply of special products required for the wooden barracks construction.⁴⁹⁷ The production shortfall was a consequence of lumber shortages which were, in turn, caused by German barrack production industry being swamped with orders. The barracks were desperately needed for housing many million workers employed in the war industry, "so, even the most urgent orders by the Army had to be declined". The plan was to sell Zavidovići to *Šipad* Ltd. and thus avoid the mentioned difficulties. According to the arrangements from November 1, 1942, *Šipad* undertook to deliver 50% of total barracks-related orders until October 1943.

Viktor Gutmann spent his career (from 1921 until 1941) in factories, performing work connected with wood processing technology. Initially, under the management of his cousin Arthur, his influence was negligible, but after Arthur's departure from the company, Viktor's sway grew ever stronger, and he would eventually replace his elder brother Ernest at the helm. (It is unknown when exactly this happened; what

496 Ibid, 146–149.

497 Ibid, 149.

is known is that Ernest pledged a part of his shares portfolio in the Company's treasury due to certain debts). Unlike his predecessor, Viktor urged for the reduction of timber harvesting, and during the Great Depression advocated, and later implemented, a reduction of salaries in the management. He also cut weekly workdays and thus kept most of the staff permanently employed. He also supported increased investments in technical improvements and greater benefits for blue- and white-collar employees. The older members of the family often disagreed with his ideas, which explains why he never became a member of the Management of the *Podravina* Ltd.

The mid-1930s is the period when Viktor takes control over the Company. This is also the period in which his family starts to participate more intensively in the everyday life of the town of Belišće – for instance (according to Hekenberger's testimony), by attending social gatherings organized by the Company's employees or by going to the cinema where they sat together with the workers. In 1928, when their daughter Nelly was born, baroness Louise Gutmann brought the baby care equipment as a gift – the equipment that all women who became mothers in that year also received. Viktor brought the same gift in 1934, on the occasion of their son Franzi's birth. Viktor and his family had manners, and in the lack of institutions, or better habits, to most of the people in Belišće they were a role model.⁴⁹⁸ "During the last 10 years of his active engagement in Belišće, ... employees were able to put some money aside and had enough means to construct 100 modern residential buildings on the road from Belišće to Valpovo, for which the company provided lumber and bricks."⁴⁹⁹

The Company's bakery provided bread for the employees at fair prices, the distribution of bread being organized through the local trade union store. This store was established in 1928, under the initiative of Arthur Gutmann who provided interest-free funding for establishing the store, "under the condition that the subsidized flour is not sold to foreigners, i.e., that it is sold to the ones who need it."⁵⁰⁰

After the German aggression, Viktor organized grain distribution in Belišće. Each household received six months' worth of supply, which prevented the supply from being confiscated for the German army.⁵⁰¹ Viktor's immediate family, being squeezed between interests of the Nazi state and its satellites, survived by relying on his connections and friendships, but mainly by his skills which he used to prevent the Ustasha and the Nazi to obtain shares of S. H. Gutmann Ltd. Members of Viktor's family, living in Britain and the United States, owned sufficient S. H. Gutmann shares to confer to their owner the majority in managing the company.

498 J. Hekenberger, *Autobiografija*, 34–35.

499 Museum Belišće BVG, 8.

500 Ibid, 9; Volner, "Odnos poduzeća...", 112.

501 Museum Belišće BVG, 8–9; DAOS 123, Box 2463: Dr. Hugo Spitzer.

Viktor learned that both the NDH, and the *Wiener Bankverein* on behalf of Austria, were anxious to obtain these shares, and he convinced the Ustasha minister Košak that he could convince his relatives to sell them to the NDH. At the same time, he secretly informed his relatives to enter negotiations, but to never agree to a sale, but delay and keep raising various problems. Ignorant of these plans, Košak agreed, Viktor travelled twice to Switzerland (with his wife and children kept in Zagreb under guard as hostages) to “negotiate” and dragged these negotiations out till the war ended – without ever buying a single share for the NDH. Termination of these phony negotiations at any time would have resulted in death in a concentration camp for Viktor, a Jew, and his family.

During 1942, Viktor thought about joining the Partisan movement; he even talked to one of its representatives in the office of lawyer Mark Leitner in Osijek. He dropped the idea after realizing that such a move would pose a grave danger to his children. He and his wife helped the Partisans with money, clothing and other goods whenever they were in position to do so. They financed a secret shelter for the Partisan children. The shelter was managed by Annemarie Wolf, who was later imprisoned and murdered in Jasenovac. Her daughter stayed with the Gutmanns until the end of the war. Even during their second detention in 1943, which they spent in the Savska Street prison in Zagreb, they continued to aid the Partisan families, though in a limited way. During that period, Viktor was told by other detainees that, being an engineer and a person prosecuted by the Ustasha regime, he “would be needed in the rebuilding of the country”. “A great future lies ahead”, they would say.⁵⁰² He believed that he would not be prosecuted because he was innocent and without blood on his hands. He hoped he would work at some ministry – at one that would appreciate his forestry expertise and would need his expert assistance.

After the war ended, being acknowledged as a victim of the Ustasha regime by the new Communist authorities, he and his family were granted a vacant apartment. As a forestry expert, he made himself available to the Ministry and was promised a position. He was sent to Bosnia where he inspected the local wood industry and gave his opinion on the condition of local forests. He held this position from June to August 1945. In September, he entered negotiations with the Ministry about his future position and his family began feeling safer. In November, he was appointed Forestry Industry Advisor. However, his wife, on holiday in Dalmacija, received a telegraph to return to Zagreb immediately. He had been arrested on a Sunday, when all offices were closed, and no lawyer could be found. On Monday he was allowed to talk to a lawyer – a one who knew nothing about him – for one hour. On Tuesday, the trial of 10 accused persons, including him, took place. On Wednesday, the sentences were passed.

502 Museum Belišće BVG, 32, 34.

Viktor Gutmann was tried and sentenced to death even though there was not a single point in the indictment that charged him with any crime punishable by capital punishment. One part of the accusation was his supposed cooperation with the enemy in the sense that he offered his expertise, both as a former advisor in the Company and as an experienced businessman. Viktor did not offer his expertise – he had no choice but to answer whenever Gjaić asked him for advice. The other part of the accusation was his alleged approval of the intervention of the Ustasha forces against the Partisans. He was found guilty of the death of 300 Partisans who were killed during the liberation of Belišće. The court proclaimed him guilty because he supposedly supported the action of commissioner Gjaić who had sent requests to Ustasha ministers Košak and Frković on two occasions – in April 1941 and in December 1943 – to provide him troops for resisting the Partisans who presented a threat to the town of Belišće.

Both accusations were absurd. Viktor Gutmann was a Jew and as such was afraid for his life. He had no influence on any activities in Belišće, interacted very little with Gjaić, and certainly would not have had access to information about major government activities such as the planning of military action. It is important to note that Viktor Gutmann and his family left Belišće forever in the spring of 1943, so he couldn't have been responsible for fortifying Belišće against the Partisans, even if he had been in a different position. During the trial, which commenced on December 20, 1945, it was ascertained that it was Gjaić who, being the responsible person of the Company at the time, organized the defence of the town. Gjaić was handed a 20-year prison sentence, but he served only 18 months, after which he was employed in Sisak, as a wood industry expert. The State's Attorney failed to refer to any evidence against Viktor and the case was not heard at all. Viktor was denied the right to call his witnesses – the explanation given by the court to his defence lawyer was that there was no time for witnesses because 10 accused had to be tried in two days. Viktor was sentenced to death without being questioned on the subject of the charges.⁵⁰³

Luise Gutmann, Viktor's wife, started preparations for the appeal process, searching for witnesses who would confirm that they had been prosecuted by the Ustasha regime and that the family never collaborated with the regime. One of their witnesses was the very president of the Supreme Court named Rukavina, "whose son had been with the Partisans", for which he (i.e., Rukavina) and his wife were both imprisoned. Luise Gutmann compiled approximately 20 letters, and her daughter went to Belišće and returned with a petition signed by numerous Company workers asking that Viktor be released. "Rukavina submitted the appeal to the higher court, making sure that the appeal reaches one highly appreciated judge who had great respect for the law. He later told

503 *Ibid*, 36–41.

Luise Gutmann, and this was confirmed by Dr. Georgijević, Viktor's defence attorney, that only a couple of days later the case file was sitting on the table of an ambitious judge with no moral compass."⁵⁰⁴ By the end of January 1946, "that man, without as much as taking a serious look at the case, confirmed the court verdict." The family had only one resort left: to seek the clemency from the Marshall Tito himself. The Secretary of the Office of the President of Yugoslavia, on February 16, 1946, told Luise: "Calm down, the President has not seen this case yet, and no capital punishment can be enforced without his signature." However, the execution was carried out on Sunday, February 17, 1946. At that time, Tito was on the island of Brijuni, and all offices were closed.

Viktor Gutmann was brought before the firing squad at 5 a.m. on February 17, 1946. Later, his coat was sold in the prison and "had a bullet hole on the upper left side of the back". A few months later, when Luise was interrogated by the coroner, she took the opportunity to ask about Viktor's crime. This is her memory of the occasion: "He sat back, looked at me for a while and said: *In our society there is no place for men like him. We do not need such people.*"⁵⁰⁵ It should be noted that Viktor could have been a threat to Tito's ruling party because he was an engineer, an ideal type of man for the socialist ideology and as such a possible opponent.

During the revision of the process, which was initiated by Viktor's daughter Nelly Auersperg, the County Court in Zagreb overturned the previous verdict on April 25, 2016. As the rationale of the court's decision would have it, "Viktor Gutmann was convicted during the communist rule for a political offense, and a politically motivated offence, and the verdict was a product of abuse of political power, and the ruling against him violates internationally recognized principles of the rule of law and of a democratic society."⁵⁰⁶

It was established that Viktor Gutmann was denied of all elementary human rights. For instance, in the statement of facts of the indictment that was delivered to him, it was not mentioned that he was charged for approving the intervention of the Ustasha forces against the Partisans, nor was this heard in the proceeding. It was only when he received a copy of the verdict that he was sentenced "to death for approving such an intervention" that he became aware of this allegation. Indeed, a regime that kills people such as Viktor Gutmann can no longer be deemed as an antifascist regime; such a regime has a need to develop a cult of antifascism for its own reasons. Yugoslavia was heading for a new authoritarian regime, which the communist leadership strived to achieve.⁵⁰⁷

⁵⁰⁴ Ibid, 42–45.

⁵⁰⁵ Ibid.

⁵⁰⁶ In the name of the Republic of Croatia: Verdict in the criminal proceedings against Viktor Gutmann, May 30, 2016.

⁵⁰⁷ Ibid.

After the Second World War, the authorities of the People's Republic of Croatia, as one of six republics of the newly established Yugoslav federation under the communist regime, were taking statements from all surviving members of the Gutmann family regarding the shares they still owned. Some of the family members declared their holdings in writing. Eva Barscsay, Arthur Gutmann's daughter, claimed to own 450 shares. She listed Budapest as her address. Alfred Czuczka claimed to own 58,325 shares. Edita Neumann de Vegvar claimed to own 15,600 shares. During the war, she resided in Canada and the United States. On behalf of Ernest, Viktor and Otto, 2,500 shares were claimed via letters from Paris and Vienna in the period between December 1945 and December 1946. Among the data concerning the ownership of the shares, there is a document dated April 14, 1942, indicating a transfer of land plots. The land was transferred from previous owners, i.e., from Barons Ernest, Viktor, Arthur, Dr. Henrik, Otto and Ladislav Gutmann, Baroness Lilly Skerlec, Štefanija Gutmann and Ana Stern in favour of the *Šumsko veleobrtno* Ltd. The underlying document was an agreement executed by Viktor Gutmann on behalf of the family members and Pavao Fišer, an attorney from Osijek. With that, *Šumsko veleobrtno* Ltd. registered to its name all real estates, factory facilities and every other property in the Belišće area. According to a calculation dated April 6, 1941, the value of this robbery amounted to 91,506,610.72 dinars (adjusted for the inflation before the April War).⁵⁰⁸

During the war, Belišće facilities did not operate at full capacity. In the first year, the production dropped to 75% of the installed capacity, only to drop to 50% in the next year and to 30% in the period thereafter. The tannin factory suffered from intermittent shutdowns; the dry distillery was all but shut down completely. Transport connections with former Gutmann estates on Papuk were usually blocked by Partisan actions and the emergence of Partisan controlled territories. The number of employees was reduced, partially due to political and ethno-religious persecutions, partially to mobilization. The number of employed in all the facilities of the Company in February 1943 was 934 (for comparison, in 1941, the Company employed 2,200 people). Due to shortages of raw materials, *Šumsko veleobrtno* Ltd. constructed five kilometres of railroad to Baranja, from where it acquired timber from Vojvodina to satisfy the needs of the war production. Dividends paid by the Company during the war (10%) were obviously financed by the sale of stocked products.⁵⁰⁹

With the judgement of the District People's Court for the City of Zagreb from November 21, 1945, the entire Company was confiscated. To provide justification

508 DAOS 241, Box 1, Jacket 15: registration and transfer of shares 1941–1952; *Ibid.*, Jacket 2: annexed documents and statistics; *Ibid.*, Jacket 13: statements regarding ownership of shares 1946–1947; *Ibid.*, Jacket 14: shares 1944–1947.

509 Salajić, *Staro Belišće...*, 107–110; see also: Lazić, "S. H. Gutmann d. d. Belišće...", 439 et passim.

for the confiscation and probably to avoid paying any compensation to the owners, Viktor Gutmann was found guilty of collaboration with the enemy. One of the allegations was that the Company produced firewood, parquet, tannin, timbers, lumber, sawn lumbers of various types, railroad switching building material, acetic acid, acetone, calcium acetate, methyl alcohol, tar oil, acetone oil, carbolineum and other dry distillation products throughout the occupation period. During the war, the Company's turnover for the entire period was slightly above one billion dinars, adjusted for inflation. The products were mainly sold to various military formations and to private companies from Croatia and Bosnia and Herzegovina. The goods were also sold to Serbia, Czechoslovakia, Italy, Germany, Hungary, the Netherlands, Romania, Bulgaria, etc. Investments into the Company during the occupation amounted to slightly less than two million dinars. For comparison, in the period between 1938 and April 6, 1941, the investments amounted to 32 million dinars. The total value of the investments in tangible assets amounted to slightly over one billion dinars.

After the confiscation, Lazar Milanković was appointed as the sequestrum manager. According to the Confiscation Ruling, the Company possessed fixed assets in the amount of 45,961,335 dinars and a working capital in the amount of 29,464,546 dinars. The description of its business items included forest exploitation, tannin production, dry distillation, impregnation, and barrel making. Among additional facilities it mentioned sawmills, a brick factory, manufacture and repair of railway cars, river vessels and various machines. On October 23, 1946, the Company was placed under administrative management of the General Directorate for Chemical Processing of Wood at the Ministry of Industry of the Federal People's Republic of Yugoslavia.⁵¹⁰

510 DAOS 241, Box 1: data on assets and property rights, April 18, 1946.

7. Conclusion

After the restoration of the civil government in Slavonia in 1745 (with a part of the territory remaining under military rule), the core of the country's economy was built around the newly created large estates, with feudal relationships at its basis. Estates had been given to the nobility for its war effort contributions, either for direct military engagement or for financially supporting war operations. Large estates were economically sustainable due to the serf labour. It is noteworthy that certain elements of the feudal social order established in the 18th century remained until the beginning of the 20th century when all vassal obligations were finally legally abolished. Since the end of the 18th century, feudal estates had been increasingly exposed to reforms towards capitalist economy, their owners being ever more engaged in trading agricultural products. This development was significantly accelerated by the favourable position of most of the estates, i.e., alongside river routes leading primarily towards the Hungarian capital (Budapest). The surpluses, which they exchanged for manufactured luxury goods, mostly derived from the labour and natural rent of their subordinates. To cite an example of the Valpovo estate, in the period from 1801 to 1810, the serfs were obliged to contribute 22% of corn, 45% of oats, 56% of barley, and 96.5% of the wheat production to their feudal lord. From the end of the 18th until the mid-19th century, productivity by the Slavonian population stagnated or increased minimally, while production on feudal estates increased, especially of cereals.

With the abolishment of feudal relations, the income of Slavonian feudal estates dropped significantly. According to Igor Karaman, the income from cereal production on the Valpovo estate decreased by 53%. The introduction of the capitalist economy into Slavonian rural areas had been accelerated by economic crises. However, the agrarian reform retained the characteristics of feudal custom and it hardly contributed to making agriculture into a profitable activity. Its most noticeable consequence was that land plots became ever more fragmented; investments into improvement of production were minimal, if any at all. Those peasants who were able to purchase land, purchased it to feed their families, and if they produced anything on that land, it was wheat whose price sank from 15 to 5 forints per metric cent in the period between 1873 and 1895. As noted by Rudolf Bićanić, the situation was worsened by high taxes which were in turn unavoidable considering the growing public sector – a direct consequence of the newly created administration of the “Banate of Croatia”.

Intensive exploitation of Slavonian forests was a relatively recent development. A complete opening of these forests to industrial exploitation did not take place before

the 1860s. The first trace of this development, discounting the collection of acorn and other forest products, was associated with the production of glass, gunpowder and extracts necessary for leather processing and soap making. These manufactures appeared in Slavonia around the middle of the 18th century. In that period, ash, elm, and beech began to be harvested for industrial needs. Forest works had been organized around lumber and firewood production for which feudal lords found retailers not only in Slavonian towns, but also in places as far as Budapest. The peasants, former serfs, also started to look at forests as potential sources of income. This new way of thinking was prompted by the fact that many of their economic activities – like animal husbandry, pig feeding, sheep, and goat grazing – were already partially dependent on forests. Since such activities constituted the basis of the peasant economy in the period when feudal relations had been abolished, the only way to satisfy the peasants needs was to legally regulate their use of forested and arable lands. Consequently, many feudal lords entered the era of industrial revolution deprived of farmlands. Since they were forced to find a new source for financing their large estates and their way of life, they turned to forests. Direct conflicts between large estate owners and former serfs would escalate during a legal process by which the latter had been compensated with forests. Peasants acquired ownership rights over forests through the institution called “land cooperative”. However, it should be emphasized that feudal lords had been very reluctant to give up their ownership rights – so much so that peasants acquired only a tiny portion of the total surface area of the forested lands, the allocated plots being fragmented.

The forested land that thus became a matter of dispute was mostly covered by oak, and the Slavonian oak forests, in terms of quality and technical properties of its timber, could hardly be outmatched by any other type of forest in Europe. This fact can be aptly illustrated by a statement dating from the times of extensive exploitation of the Slavonian forests: “Oak wood from the area of mild climate is the best and most excellent one because the belt of sessile- and peduncle oak forests overlaps with the grapevine belt”. It is especially worth noting that, according to the 18th century forest law, peasants were not allowed to harvest ancient oak forests, nor were they able to do so regarding the tools that were available to them. It was not before the period when Slavonia started to play a more important role in the barrel production industry, i.e., in the 1830s, when the “axe with an eye socket” came into common usage. In terms of profit, during the initial stage of exploitation of Slavonian forests, i.e., until 1875, it was only the local utilization value of oak forests that had been recognized by the estate owners. Forests were sold very cheaply, and this did not change until 1880, when the price of a piece of a giant oak reached 20 forints and more (according to the value of land capital and in relation to rent). As much as this business seemed profitable, it actually incurred losses. The price of an acre of

forest containing 15 giant oaks older than 160 years amounted to 350 forints, and if the rotation period was included in the calculation, the price would rise ten-fold. According to forestry experts, production of giant oaks had been unprofitable, so the rotation period of 120 years had to be halved, i.e., reduced to 60 years.

Salomon Heinrich Gutmann joined the lumber trade around 1856. What made him convert from a small agrarian-product merchant into a lumber processing and lumber trade entrepreneur was the demand for railroad sleepers, construction- and barrel material. At first, he limited his business project to purchasing forests in the vicinity of railroad routes. He bought forests in Slavonia, which he initially rented for harvesting, but as soon as 1860, he constructed a lumber processing facility near the railroad in Nagykanisza (Hungary), with a service siding. During the 1860s, Gutmann gradually built up a reputation of a manufacturer who overmatched his competitors in quality. War circumstances in Western Europe, especially the Franco-Prussian War of 1870, caused significant interruption in barrel material sales. The war in France caused significant devastation, and since Germany took over Alsace, lumber had to be imported from the Austro-Hungarian Empire. Again, since circumstances for purchasing lumber in Slavonia was favourable, and Slavonian lumber had the required quality, no wonder that French and Belgian suppliers switched to a new source of raw material. In Croatia/Slavonia, it was the Gutmann brothers: Edmund, Vilim, Izidor, Alfred and Ladislav, who in 1884 constructed the first permanent sawmill – the one in Belišće. Once all trees around their facility had been cut, they constructed a forest railroad leading to new sources of timber. Regarding the capital invested in the railroad, this operation can be considered as a genuine revolution in the forest exploitation business of the period. When the company purchased forests within a 100-kilometre radius from Belišće, and then decided to construct a railroad from Belišće to the forested areas, the business community believed that “the Gutmanns were about to waste all of their possessions acquired thus far”. However, by 1901, the Gutmanns became the largest landowners in the area between Pakrac and Virovitica in the northwest and Petrovaradin and Zemun in the southeast, with a total surface area of 35,023 hectares. The Gutmann company was organized as a joint-stock company in April 1918. The president and the management members were from the family circle, while a smaller portion of the management members came from the circle of prominent politicians and entrepreneurs. Apart from the male descendants, Ladislav’s son in law Alfred Czucka was also a member of the management; in fact, over time he became the largest individual owner of the Company shares.

In Slavonia, the Company fought fierce competition from companies *Neuschloss* (from 1920, *Našička* Ltd.) and *Societe d'importation de chênes*. *Našička* was established in 1887 through a merger between a Hungarian Count Karlo Neuschloss

from Pest, Jacques Smidt from Strasbourg, and an Italian Count Luigi Marccotti. From its humble beginnings, a sawmill with four head saws and small tannin extraction facility, it became a world-renowned corporation. With production that included almost all types of industrially utilized wood from the area of Central Europe, the company took the top position among lumber trade companies in terms of quantity and quality of its products and in terms of production system and organization. *Neuschloss* also constructed railroads for delivering timber to the sawmill, while the Gutmann company built a railroad from Đurdenovac, an industrial settlement with important facilities, to Šentiljevca on the Drava River where an industrial port had been established. Within a half of a century, the Company exploited all the forests in the vicinity of Đurdenovac and negotiated a concession for harvesting forests on the Majlath and the Prandau estates. After the First World War, a new joint stock company had been established that took over the former tannin factory, the steam sawmill and the forest estates belonging to the former *Neuschloss* company. Through this takeover, the *Našička Tannin Factory and Steam Sawmill* emerged. The company belonged to a concern called *Union des Isines et des Exploitations Forestieres de Nasic, S.A.* from Geneva which was its main shareholder and financier. The concern also possessed similar factories in Budapest, in Bukarest and Vienna. In addition to the already mentioned activities, the Company dealt in impregnation of railroad sleepers and telegraph poles in its facilities in the town of Karlovac. In Karlovac, the Company had also leased an impregnation manufacture and a steam sawmill. In Bizovac, it parcelled lands bought from Count Gustav Norman Ehrenfels. *Našička* also owned *Kutjevo Ltd.*, a lumber industry company from Zagreb, the mentioned company in Karlovac and the *Našička Drevodělna a.s.* from Prague. It also held large shares in important national and international companies.

The government of the Kingdom of the Serbs, Croats and Slovenes (later to be renamed Yugoslavia) started encroaching on private ownership as early as 1919 when the Agrarian Reform was introduced. Forest estates were put under state control pursuant to a government regulation from February 11, 1920. All large forest estates were put under “sequestrum”, a specially designed institution that was supposed to take care of the forests, particularly those whose ownership status would be subject to revision or those indispensable for economic survival of local populations. The proponents of the Agrarian Reform proposed various measures to make such a comprehensive project work. Reform critics opposed the “fragmentation of large estates”. The authorities tried to meet the factual needs considering the layout of arable lands, settlements and forests. Large estate owners were eager to exempt their estates

from sequestration and reclaim the confiscated land, notwithstanding the fact that such requests conflicted with social principles motivating the implementation of the Agrarian Reform in the first place. In the end, the whole project turned into a large-scale corruption affair, for which the large estate owners and the industrialists had born the least responsibility – mostly because they could afford themselves lobbying as a legal way of pursuing their interest. However, the need for protecting their ancestral lands and for ensuring raw materials necessary for the lumber industry forced them to pay high-ranking politicians and state administrators.

One of the points of this book is that if persons at the highest positions of power were willing to turn a blind eye, or even actively support certain interest groups, this was sufficient for these groups to design and carry out corruption schemes serving their interests. Undoubtedly, corruption was widespread, but it had also been frequently exposed when this was ordered “from above”. Sometimes, the authorities themselves created problems intentionally so that, by not solving them, they could take advantage from large estate owners who were not allowed to dispose of their own property, or from industrialists who needed raw materials, or from land claimers. At the same time, it was expected of all these groups to be politically loyal and sit at the same table.

In Yugoslavia, the Great Depression of 1929 had been mostly felt as a crisis of industry. The industrial branches working for exports were faced with great obstacles in crediting their production and selling their products. The fall of the *Creditanstalt* from Vienna initiated a collapse of private banking in Croatia. The banks which until then had been significantly involved in crediting industry – from securing working capital to financing investments in the development and rationalization of production – took money out of the country paving the way for state interventions in banking and industry sectors. In the background of these events, as early as in 1926, the peasants started facing increased problems with repaying their debts. Prices of wheat fell steeply and many of those who took loans to purchase land and feed their families gradually fell into the insolvency trap. They produced agricultural goods for the market just to be able to repay their debts and pay taxes. With almost nothing left to invest into improvement of farming, it was impossible for them to switch to more profitable cultures. Thus, they attempted to be the masters of their own production. Moreover, it often happened that wheat had been purchased by middlemen who took most of the profits. At the same time, being ignorant about markets and averse to taking risks, peasants were reluctant to try their luck with other types of crops, and they lacked initiative to join forces through farmers’ cooperatives. The crisis could have been eased by increased spending in rural areas, but money had been slowly pushed out of these regions because of the deflation policy of the Yugoslav National Bank. This tendency did not change until the programme of stabilizing the domestic currency (dinar) finally collapsed.

By some views, the Yugoslav industry became a political problem in the times of economic crisis since it lacked healthy foundations in the first place. That is, it was developed almost exclusively in the interest of foreign investors and maladjusted to the needs of the population. One of the crucial issues regarding its development can be summarized by the following question: why support domestic production, protected by import customs, when cheaper products can be obtained through import. Investments of European capital failed to drive the economic growth; rather, these investments were just a way of extracting profit, often at the expense of exploiting cheap and unqualified workforce. Cartelization of certain industrial branches was carried out with the government's approval, despite various attempts at centralization of industry, especially in the times of crisis. For instance, there were attempts at establishing an investment bank for industrial companies whose working capital, according to one proposal, was to be financed by industrialists themselves, within their means.

There is still no final judgement on the development of economic relations in the Kingdom of Yugoslavia in the period after 1936. According to Smiljana Đurović, there are clear signs of planned economy and planned measures implemented during the government of Milan Stojadinović. Also, reports of the Chamber of Trade and Commerce in Osijek testify to the fact that many of its members had a favourable opinion on state intervention in economy since this kind of policy was thought of as ensuring markets and minimal prices for industrial goods. On the other hand, there were severe doubts regarding political appointments, especially in cases of inexperienced or incompetent managers. The encroachment of politics into economy after the Great Depression should be a separate research topic of the economic history of Croatia and Yugoslavia, especially regarding the fact that this trend continued after the Second World War.

Researchers focused on the economic history of Croatia during the Second World War emphasize the thankless position of the so called "Independent State of Croatia" (NDH) in the economic plans of the invaders. It was the principal stance of the Ustasha regime to accept everything that suited the economic interests of the Germans. Nevertheless, the system of appointing commissioners into companies with non-Arian ownership cannot be characterized as anything other but theft. Property of the racially unwanted individuals was confiscated, while the same type of property remained in the hands of the so-called racially acceptable individuals; moreover, members of the acceptable races benefited from the non-Arian property. Nationalization according to a racial criterion is scandalous in itself and should not be compared with the development of a communist society in post-war Yugoslavia. Despite similarities – encroachment on private property in the first place – these processes are essentially different. Certain historians interpreted the post-war

nationalizations in South-Eastern Europe (Greece excluded) as a continuation of a process initiated by the Great Depression – a process that resulted in the insulation of this part of the continent from European commercial and financial interests. Nevertheless, as Viktor Gutmann's case shows, nationalizations were publicly justified by unsubstantiated indictments which could even end up in death sentences.

As pointed out in the introduction and repeated throughout the book, entrepreneurship is possible only if a state, holding the monopoly on the use of power, can guarantee free markets and healthy competition. The corruption scandals described in the book show how a state can fail in fulfilling this role and how it can break its word. The case of Baron Viktor Gutmann, compared to the case of Count Petar Pejačević, illustrates the possibilities and consequences of the misuse of state power.

Being inaccessible to Yugoslav authorities, Count Petar Pejačević, the former ambassador of the NDH to Madrid, was sentenced *in absentia* at the District People's Court in Osijek on November 20, 1945, to 15 years of prison with forced labour. He never returned to Yugoslavia after the war. As explained in the book, he played the key role in the Nazi overtake of the *Našička* Ltd. Viktor Gutmann, in contrast, remained in Yugoslavia after the war and placed himself at disposal to the new authorities as a lumber industry expert. He was even able to find employment, but only to be soon arrested, brought before the court, and sentenced to death. His appeal against the judgement was dismissed and he was executed without much delay. Thanks to the efforts of his daughter, the process against Viktor Gutmann was pronounced legally invalid in 2016. Unfortunately, his son had died years earlier and did not live to experience the annulment.

Glossary

Agrarian Reform is a form of state intervention into ownership rights over arable lands with the aim of improving the life conditions of impoverished landless peasants by re-distribution of these lands. It was implemented either by free allocation of land parcels or by a fair compensation to the former landowners. Agrarian Reform was an indispensable element of the social policy of the interwar Yugoslav state.

Allodial is a traditional designation for feudal possessions utilized by a feudal lord according to his own needs. This type of ownership was exempt from all constraints, duties, or levies. The part of a feudal estate with peasant homesteads (*urbarial communes*) could not be transformed into allodial lands.

Ban is a traditional title of a high-ranking state official in Croatia. The title was used already in the early medieval period as a synonym for the viceroy (Lat. *prorex*). Traditionally, *ban* was elected by the king, and he pledged allegiance to the king during the enthronement ceremony in the Croatian parliament (*Sabor*). After 1868, it was the Hungarian Minister-President who proposed the nominee for the Croatian *ban*. After the nomination had been accepted by the king, the *ban* was appointed to the position of the prime minister of the government of the Triune Kingdom of Croatia, Slavonia and Dalmatia.

Banate (*banovina*) is a name for an administrative-territorial unit in the Kingdom of Yugoslavia governed by a *ban*. Economically and politically, the division of the state into banates corresponded to the centralistic system of government. The establishment of the Banate of Croatia (*Banovina Hrvatska*) in 1939, with significant elements of political autonomy, was a harbinger of the Kingdom's transformation from a centralistic into a federalist political system. However, this reform was thwarted by the Second World War and the rapid dissolution of the multi-ethnic state of the South Slavs.

Cartel is a form of voluntary merger of companies competing for the same markets. The purpose of such a merger is to achieve a monopoly position on the markets. Cartels make profits by negotiating the prices of their members' products, instead of reducing the production costs or introducing innovations.

Chetniks (*četnici*) were traditionally members of the Serbian national liberation movement. After 1918, i.e., after the establishment of the Kingdom of the Serbs, Croats and Slovenes, Chetniks, as deserved war veterans, were given special rights,

such as the right to colonisation of the expropriated large estates in Slavonia. During the Second World War in Slavonia, the Ustasha authorities repressed these colonists, so they joined the partisans *en masse*. Chetniks fought the Germans as well as the Tito's partisans – they fought the latter in the hope of re-establishing a Serb-dominated Yugoslavia after the war. They committed many atrocities against Muslim and Croatian civilians in Croatia and Bosnia and Herzegovina.

Enjoyers of rights (*pravoužitnici*) was a designation for individuals enjoying servitude rights in the Military Border area.

Forest property commune (*imovna općina*) was an institution founded in 1871, after the demilitarization of the Military Border, with the purpose of managing and exploiting forests in the areas of the former regiments and for the benefit of their inhabitants. Forest property communes functioned under the same principle as land communes, their main tasks being road construction, building conduits and carrying out other public works.

Green Cadre (*zeleni kadar*) was a common name for deserters from the Austro-Hungarian Army by the end of the First World War. These runaway soldiers were mostly hiding in the forests – hence their name. After it was joined by thousands of returnees from the Russian POW camps in 1918 and inspired by the ideas of the October Revolution, the Green Cadre movement took on a political (socialist) agenda. The members of the movement were massively involved in hold-ups on military or railway posts and plundering of victualling warehouses and large estates. They mostly operated on the territory of the former provinces of Croatia and Slavonia. To put an end to these violent crimes the government of the newly established State of Slovenes, Croats and Serbs appealed for military help both to the Entente states and the Serbian army.

Homestead (*selište*, Lat. *session*) designates a settlement unit consisting of a land plot given to serfs by their feudal lord, a village house, farm buildings and a garden, together with the adjacent arable plots and grasslands. The surface area of a single homestead was regulated by the land register – *urbarium*.

Land cooperative (*zemljišna zajednica*) is a form of exercising ownership rights by former serfs over forests, meadows, pastures and (rarely) arable lands. While it was widespread in Slavonia, similar forms of ownership were also practiced in other parts of Croatia and the Kingdom of Yugoslavia.

Land provisorium (*zemljarinski provizorij*) was an institution established between 1819 and 1821 with a purpose to facilitate the process of determining the net income

of individual land plots by use of land measurements, maps and land value estimates. Besides, it allowed for a more precise regulation of the serfs' right to feudal forests exploitation. Among other things, it determined that feudal lords could sell wood products only after the serfs' needs had been satisfied.

Latifundia is a traditional name for large estates organized according to the principles of market economy. Such estates were typically oriented towards single-crop farming, their profitability stemming from the employment of a cheap, mostly seasonal labour force.

Military Border (*Vojna krajina*) was a territory stretching along the border between the Habsburg Monarchy and the Ottoman Empire, entirely subordinated to the Habsburg military authorities. This area was established as early as the 16th century and retained its special status until 1881 when it was finally re-united with the Triune Kingdom of Croatia, Slavonia and Dalmatia. Its Slavonian part was divided into three regiments: Gradiška, Brod, and Petrovaradin. The local population of the area was specially trained for soldiers – “borderers”. They lived in communes where they tilled lands allocated to them as a compensation for obligatory military service. As a privileged group they also enjoyed special rights pertaining to the utilization of forests and their products.

Optants are persons who are in a political position to “opt for”, i.e., to have a choice of citizenship in cases when a territory that belonged to one state is assigned to another.

Partisans (*partizani*) is a synonym for the armed resistance movement on the territory of the former Kingdom of Yugoslavia after its occupation by the Axis Powers in 1941. From its very beginning, the movement had been strongly influenced by the Yugoslav Communist Party which proclaimed to lead a policy of “brotherhood and unity” of the South-Slavic peoples, especially Croats and Serbs. This policy had been reflected in the organization of combat units which mostly relied on the tactics of guerrilla warfare for accomplishing its main goal – liberation of the country from both foreign invaders (mostly German and Italian troops) and their domestic allies (mostly Ustasha and Chetniks). Other two goals of the Partisan movement were finding a solution for the so-called “national (ethnic) issue” (through a new political arrangement of the re-established Yugoslav state – as a federation of sovereign nations) and carrying out a social revolution under the ideological leadership of the communist party.

Provincial (*Provincijal*) is a traditional name for the civilian part of Slavonia, which was established in 1745, in contrast to the Military Border – the area remaining under military rule until 1881. Provincial included three counties (*županije*) – Požega, Sylvania, and Virovitica counties.

Segregation in the context of the agrarian reform is a process of re-distribution of feudal lands in the aftermath of the abolition of serfdom.

Servitudes (*servituti*) were conveniences, inherited from the feudal period, given to former serfs with the aim of fostering the development of different branches of rural economy. Regarding forests, these conveniences included the right to free logging, grazing and mast-feeding of pigs. However, the enjoyment of the latter was constrained by specific regulations concerning the sustainable management of forests.

Slavonia (*Slavonija*) is a historical region encompassing the whole Eastern part of Croatia bounded by rivers Drava, Sava and Danube. It borders with Serbia in the east, with Bosnia and Herzegovina in the south, and with Hungary in the north. In the west, the river Ilova separates it (geographically) from the central part of Croatia. Its landscape is dominated by fertile plains, dense forests (mostly oak) and river valleys.

State of Slovenes, Croats and Serbs (*Država Slovenaca, Hrvata i Srba*) was a short-lived state established on October 29, 1918, after the Croatian parliament (*Sabor*) proclaimed full independence of all Croatian territories from the Austro-Hungarian Monarchy. This state, whose highest political body was a People's Council, had been intent on unifying all the territories of the Monarchy inhabited by South-Slavic peoples. Parallel to (unsuccessful) attempts at getting recognized by members of the Entente, the Council entered negotiations with the government of the Kingdom of Serbia on possible unification. After the unification had been carried out, the state was resolved.

Urbarium (*urbar*) designates a unique way of regulating ownership rights between feudal lords and their serfs in the late medieval and the early modern period. The word is derived from German *urbar* and adopted into English over Latin. In the 18th century Slavonia, urbarium becomes a public document containing a list of peasants, their obligations to the large estate, the size of their lands and other data. A special institution called “urbarial land commune” kept a register of land plots that were abandoned by feudal lords and left to serfs for their common use. These documents were effective until 1848, i.e., until the abolishment of serfdom. However, they remained in use until the beginning of the 20th century.

Ustasha (*ustaša*) is a member of the Croatian separatist, nationalist organisation established with the aim of overturning the Kingdom of Yugoslavia and setting up of and independent Croatian state. The Ustasha movement was formally established on January 6th, 1929, after the official proclamation of the dictatorship by King Alexander I Karadordević. After the collapse of the Kingdom of Yugoslavia in 1941, the Ustasha and their leader Ante Pavelić came to power in Croatia proclaiming the Croatian Independent State (*Nezavisna Država Hrvatska* or NDH) encompassing territories of today's Croatia, Bosnia and Herzegovina and smaller parts of today's Serbia. Pavelić's movement pursued a racist political agenda modelled after the Nazi-policy of the Third Reich, prosecuting political enemies, opening death camps, and perpetrating genocidal acts against the Roma, Serbian and Jewish communities.

Triune Kingdom of Croatia, Slavonia and Dalmatia (*Trojedinna Kraljevina Hrvatska, Slavonija i Dalmacija*) is a designation for Croatian historical lands – i.e., Central, Eastern and Southern Croatia – as parts of the Austro-Hungarian Empire under Habsburg rule. In the 19th century, the unification of these lands became one of the most important goals of the Croatian National Revival movement and one of the priorities on the agenda of several political parties. Formally, the unification of the three historical regions took place with the establishment of the State of Slovenes, Croats and Serbs in 1918.

Yugoslavia (*Jugoslavija*) is a name for a former state uniting several South-Slavic peoples and other ethnic groups. It was established in 1918 (though under a different name), i.e., after the dissolution of the Habsburg Empire and unification of its southern regions, predominantly inhabited by peoples of South-Slavic origin, with the Kingdom of Serbia (together with some other territories). This first, monarchist Yugoslav state, ruled by the Serbian Dynasty Karadordević, lasted until 1941, when it was occupied by the Central Forces and ripped apart. The second, federalist and “socialist” Yugoslav state, ruled by the Communist party, lasted from 1945 to 1990.

Županija is both a traditional and a contemporary name for a territorial and administrative unit in Croatia akin to *county* in several European countries.

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Founders of Belišće: Edmund, Vilim and Isidor (sitting from left to right), Ladislav and Alfred (standing from left to right), Belišće Museum



Sawn timber warehouse by S. H. Gutmann d.d. in Belišće with a view of the plants of the factory for the production of tannins and dry wood distillation, Belišće Museum



Workers in the Main Workshop of S. H. Gutmann d.d. in Belišće - iron foundry with a furnace dome, Belišće Museum



Tannin factory of Našička d.d. in Đurdenovac, Native Museum of Našice



Boiler room of the company Našička d.d. in Đurdenovac and forest railway locomotives, Našice Homeland Museum



The barrel factory of the company Našička d.d. in Đurđenovac, Native Museum of Našice



Railway station in Đurđenovac on the line Zagreb – Osijek, Našice Homeland Museum



Gutmann brothers: Otto, Viktor and Ernest

