

THE IMPORTANCE OF ARMS EXPENDITURE AND ARMS PRODUCTION IN THE CZECHOSLOVAK ECONOMY*

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Abstract

This article maps out the nature of arms expenditure, its interconnection with arms production in interwar Czechoslovakia, and it investigates the role of arms expenditure in the national economy of the state. At the time of deepest economic crisis, the state minimised arms expenditure, something which had a negative impact on the arms industry. With increasing political tensions, however, the state's demand for arms industry products was rising, and eventually – for strategic reasons – the state endeavoured to support the relocation of production to safer locations. The state's extensive investment in arming itself and in the buildup of defence infrastructure required substantial resources, which the state was unable to cover, not even with the aid of newly instated tax revenue. Thus, the state decided to cover the costs through debt financing. The public debt rose fast, even though the state owed most of this debt to domestic creditors and debt servicing costs also remained reasonable. The multiplication effect of extensive arms costs affected areas where the arms industry was concentrated, while the border region received hardly any stimulus, with high unemployment persisting there.

Keywords: Arms, Expenditure, Military, Unemployment, Gross Domestic Product

Çekoslovakya Ekonomisinde Silahlanma Giderleri ve Silah Üretiminin Önemi

Öz

Bu makale Çekoslovakya silahlanma giderleri karakteri ve bunların iki dünya savaşı arasındaki dönemde silah üretimi ile arasındaki bağlantıları ve ülke

* This article is part of the project, “The importance of arms production and arms for the economies of selected Central European countries during the 1930s”, (IGA VŠE, project: F5/51/2018).

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ekonomisindeki savunma harcamalarının rolünü ele almaktadır. En derin ekonomik kriz zamanında ülke silah sektörünü olumsuz yönde etkileyen silah harcamalarını asgariye indirdi. Artan siyasi gerilimlerle birlikte ülkenin silah ürünlerine olan talebi arttı ve sonrasında da stratejik nedenlerle ülke üretimin daha güvenli yerlere taşınmasını teşvik etti. Silahlanmaya yönelik kapsamlı devlet yatırımları ve savunma altyapısının inşası ülkenin yeni getirilen vergilerden bile karşılayamadığı kaynaklara büyük talepler gerektiriyordu. Bu nedenle giderlerini borçlanarak finanse etmeye başladı. Devlet borçları hızla büyüdü, ancak devlet genellikle yerel alacaklılara borçlandı ve borçlanma oranlarını da makul sınırlar içinde muhafaza etti. Büyük silah harcamalarının çoklu etkisi silah sanayisinin yoğunlaştığı alanlara gelmişken sınır bölgeleri neredeyse etkilenmemiş ve orada yüksek işsizlik devam etmiştir.

Anahtar Kelimeler: Silahlar, Harcamalar, Ordu, İşsizlik, Gayri Safi Yurtiçi Hasıla

Arms Expenditure and Financing during the First Half of the 1930's

Under the difficult economic situation of the first half of the 1930's, the government's budget policy was motivated by the endeavour to achieve balanced budgets,¹ and as such the policy involved, amongst other features, the reduction of public sector expenditure.

Table 1: Forecast and actual National Defence Ministry expenditure²

Year	National Defence Ministry expenditure (in million CSK):	
	Planned	Actual
1930	1 400	1 393
1931	1 400	1 409
1932	1 309	1 310
1933	1 252	1 208
1934	1 212	1 327
1935	1 280	1 476
1936	1 340	2 276
1937	1 360	-

The table above shows planned spending by the National Defence Ministry compared to actual expenditure. The table indicates clearly a noticeable tendency to come up with budgets with a decreasing spending volume each year up to 1934, whereas actual expenditure adhered to the forecasts fairly faithfully up to 1933. This trend was interrupted in 1934 when the actual National Defence Ministry's

¹ Nevertheless, they were unable to meet these objectives. Against plan, there was a gradual increase in budgetary expenditure, which is apparent looking at the government national accounts. See: *Statistická ročenka republiky Československé 1937*, Praha 1937, p. 283.

² *Statistická ročenka republiky Československé 1937*, p. 284. *Statistická ročenka republiky Československé 1934*, Praha 1934, pp. 272-273. *Statistická ročenka republiky Československé 1936*, Praha 1936, p. 274. *Statistická ročenka republiky Československé 1938*, Praha 1938, p. 300. Own work.

expenditure began to rise. Subsequently, there was also an increase in planned expenditure, although it was rising at a somewhat more moderate pace. However, in terms of funding the army itself, it should be noted that this was funded not from the budget alone (Chapter 5 of the state budget), but also from various extrabudgetary sources, whose importance in the funding of the army rose over time. This is shown in the table below. Over time, the proportion of extrabudgetary funds used to finance the army increased from 17.53 % in 1932 to 71.29 % in 1937 when this proportion was at its highest. This level was not reached in 1938 because there was an increase in budgetary funding for the army. Nevertheless, it remains true that in 1938 the ratio of extrabudgetary funding to budgetary funding was 275.56 % of its value in 1932 when this ratio was just 21.25 %.

Table 2: Army funding from budgetary and extrabudgetary sources³

Year	Ratio of extrabudgetary to budgetary funding [%]	Proportion of extrabudgetary funding of total funding [%]
1932	21.25	17.53
1933	21.84	17.92
1934	38.36	27.72
1935	115.53	53.6
1936	149.11	59.87
1937	248.41	71.29
1938	275.56	68.71

One of these funds was the *National Defence Material Needs Fund* established through Act no. 240/1926 Coll.⁴ of 17 December 1926. This fund was established in order to accumulate the funds necessary for procuring the most essential military material and building essential military constructions. The financial source for this fund was to be annual contributions of 315 million CSK paid by the Finance Ministry over an eleven-year period beginning in 1927, but other sources could include various gifts, collections or inheritances. These funds were kept in an interest-bearing current account administered by the Finance Ministry. The National Defence Ministry administered the fund alongside the Finance Ministry, with final annual accounts submitted to the Supreme Audit Office.

It should also be pointed out, however, that in terms of subsidising the fund, the fund did not always receive the maximum 315 million CSK from the Finance Ministry, but as shown in the table below, the actual sums received frequently differed from those laid down in the law. In 1931, for example, a sum of 335.52 million CSK was given to the fund, which came out at 106.51 % of the sum

³ Pavel Šrámek, *Ve stínu Mnichova: z historie československé armády 1932-1939*, Praha 2008, p. 43. Own calculations.

⁴ Collection of Laws and Regulations of the Czechoslovak State ("Coll."), Section 111, Act no. 240/1926, on a military administration budget amendment, of 17 December 1926, p. 1283.

laid down by law. The ministry did this as a result of higher fund expenditure in the previous accounting period.⁵ The Fund was unable to use the entire subsidy received for national defence material needs, with 63 million CSK unspent. The interest received for this unspent subsidy came to over 2.5 million CSK.⁶ This may be why funding was markedly lower in 1932 and 1933 than the 315 million CSK laid down by law - coming out at around just 84.06 % of this sum.

Table 3: Subsidies for the National Defence Material Needs Fund during the first half of the 1930s by the Finance Ministry⁷

Financing of the National Defence Material Needs Fund from subsidies:		
Year	Actual subsidy amount [in thousands of CSK]	Actual subsidy as a proportion of subsidy laid down by law [in %]
1930	287 324.49	91.21
1931	335 520.11	106.51
1932	264 788.99	84.06
1933	264 794.49	84.06

The table below gives information on the National Defence Material Needs Fund's economic activities in 1930-1933. It shows that the fund had its highest expenditure in 1931, following which it appears to be forced to reduce its volume of expenditure due to the economic crisis, something it managed to do, with 1932 financial statements showing expenditure of just 21.80 thousand CSK higher than income. In 1933, a marked surplus was seen, with income exceeding expenditure by 5 million CSK. The fund's net worth⁸ more than doubled between 1931 and 1933, and essentially the same can be said for the value of its assets.

⁵ National Archives in Prague ("NA"), Fond Nejvyšší účetní kontrolní úřad ("NÚKÚ"), box 480, inv. oo. 235, National Defence Ministry ref. no. 2113-dův.V./4.odděl.1932, *Key to financial statements "National Defence Material Needs Fund" for 1931*, p. 2.

⁶ NA. Fond NÚKÚ, box 480, inv. no. 235, Ministerstvo národní obrany ref. no. 2113-dův.V./4.odděl.1932, *Popis jmění Fondu pro věcné účely národní obrany k 31. prosinci 1931 ze dne 18. dubna 1932*.

⁷ NA. Fond NÚKÚ, box 480, inv. no. 235, Ministerstvo národní obrany ref. no. 1964-dův. V./4. odděl.1934, *Účetní závěrka fondu pro věcné potřeby národní obrany za rok 1933 ze dne 27. dubna 1934*. NA. Fond NÚKÚ, box 480, inv. číslo 235, Ministerstvo národní obrany ref. no. 2259-dův.V./4.odděl.1933, *Fond pro věcné potřeby národní obrany. Účetní závěrka za rok 1932 ze dne 29. dubna 1933*. NA. Fond NÚKÚ, box 480, inv. no.235, Ministerstvo národní obrany ref. no. 2113-dův.V./4.odděl.1932, *Fond pro věcné potřeby národní obrany. Účetní závěrka za rok 1931 ze dne 18. dubna 1932*. NA. Fond NÚKÚ, box 480, inv. no.235, Ministerstvo národní obrany ref. no. 2451-dův.V./4.odděl.1931, *Fond pro věcné potřeby národní obrany. Účetní závěrka za rok 1930 ze dne 26. března 1931*. Own work.

⁸ This is the difference between the total financial and non-financial assets and total liabilities. For a precise definition see: "Čisté jmění", *Úspory.cz* [cit. 2018-07-22]. Available online at: <https://uspor.cz/financni-gramotnost/ciste-jmeni>

Table 4: National Defence Material Needs Fund accounting overview, 1930-1933
(data in thousands of CSK)⁹

Item	1930	1931	1932	1933
Net worth	97 882.24	83 288.38	136 349.84	203 616.81
Assets	100 296.56	84 318.61	137 276.00	203 856.04
Liabilities	2 414.32	1 030.23	927.18	239.23
Expenditure	302 067.54	354 702.07	280 439.21	281 480.49
Income	302 447.01	354 402.41	280 417.41	286 492.58
Balance	379.47	-299.66	-21.8	5 012.09

At this time, national defence was also funded through a loan provided for by Act no. 312/1921 Coll.¹⁰ The objective of this act was to procure military clothing and arms for soldiers, with the state to finance these purchases with a sum of 332 million CSK through loan operations, the sale of government bills, overdraft allowances, government bills and other tools. Creditors' promissory notes were exempt from income tax. Nevertheless, it is important to note that in the 1930s the significance of these expenditures was significantly reduced. As J Pavel notes in his study, the expenditures implied in Act no. 312/1921 Coll. fell from 26.56 million CSK in 1928 to a quarter-million CSK in 1933. In other words, total expenditure in 1933 came to 0.85 % of total spending in 1928.¹¹

With Adolf Hitler's rise to power and a general increase in tensions, there was increased pressure within Czechoslovakia for an increase in defence expenditure. In regard to this matter, there was an acceleration in the growth of budgetary and extrabudgetary spending. Act no. 127/1934 Coll. extended the Finance Ministry's obligation to subsidise the National Defence Material Needs Fund with 315 million CSK for a further ten years, and from 1934 the act permitted the awarding of additional finances to the fund.¹² By the final day of September 1936, the fund had collected 3.15 billion CSK.¹³ The overall realised

⁹ NA. Fond NÚKÚ, box 480, inv. no. 235, Ministerstvo národní obrany ref. no. 2113-dův.V./4.odděl.1932, *Popis jmění Fondu pro věcné účely národní obrany k 31. prosinci 1931 ze dne 18. dubna 1932*. NA. Fond NÚKÚ, box 480, inv. no.235, Ministerstvo národní obrany ref. no. 2451-dův.V./4.odděl.1931, *Popis jmění fondu pro věcné potřeby národní obrany k 31. prosinci 1930 ze dne 26. března 1931*. NA. Fond NÚKÚ, box 480, inv. no. 235, Ministerstvo národní obrany ref. no. 2259-dův.V./4.odděl.1933, *Popis jmění fondu pro věcné potřeby národní obrany k 31. prosinci 1932 ze dne 29. dubna 1933*. NA. Fond NÚKÚ, box 480, inv. no.235, Ministerstvo národní obrany ref. no. 1964-dův. V./4. odděl.1934, *Popis jmění fondu pro věcné potřeby národní obrany k 31. prosinci 1933 ze dne 27. dubna 1934*. Own work.

¹⁰ Coll., section 71, Act no. 312/1921, authorising a loan for procuring the first part of augmentation supplies of squadron clothing and arms, of 12 August 1921, p. 1256.

¹¹ Calculated using data in: Jan Pavel, *Velikost a struktura výdajů na národní obranu v Československu v letech 1918-1938*, Praha 2004, p. 25.

¹² Coll., section 53, Act no. 127/1934, on a budget adjustment for the military, of 27 June 1934, p. 461.

¹³ NA. Fond NÚKÚ, box 482, inv. no. 238, ref. no. 18958 Taj. - V./4. odděl 1936, *Stav přidělení fondu podle zákona 127/1934 a zvláštních úvěrů*. As J Pavel noted, Act no. 240/1926 and no. 127/1934

expenditure of the fund came to a total value of 3.92 million CSK in 1934-1937.¹⁴

In December of the same year, a draft bill was discussed at the National Assembly which would increase the length of compulsory military service to two years from 14 months. The table below shows the anticipated growth in key budgetary items linked to this increase in the military service period. The total increase was to come to around 164 million CSK, with expenditure on arms and equipment for new conscripts to see the largest increase, alongside the increase in bed numbers - in relative terms expenditure on these items was to rise by around 47 %. In absolute figures, the highest cost growth was to be seen in payments in kind. In relative terms, costs for military service were to rise by 35 %, while in contrast no increased costs were anticipated for ammunition. Proponents justified the need to extend military service by referring to the threat to freedom and democracy from abroad, more specifically arguing for organisational reasons with older soldiers having already completed their military service period and returned home, while new conscripts did not yet have the necessary skills such that the Czechoslovak Republic basically did not have anyone with whom to defend itself. In terms of the impact on economic development, in this context one should particularly note the voices of politicians using the social issue as an argument. Since some of the conscripts likely did not have any work, extending military service would basically save the state money which they would otherwise use to pay unemployment benefits. In the two scenarios presented, a saving of 30-42 million CSK annually in the state's expenditure on the unemployed was anticipated.

German member of parliament, Fritz Oehlinger, was one of those who were against the measure, claiming that it was a heavy burden for the population at a period of severe economic and social difficulties.¹⁵ Military service was extended to two years through passage of Act no. 267/1934 Coll. on Wednesday 19 December

adjusted the same fund in nominal terms, but not in accounting terms. In: Pavel, *Velikost a struktura výdajů*, p. 28.

¹⁴ Calculated using: Ibid., p. 35.

¹⁵ Chamber of Deputies of the Parliament of the Czech Republic: Digital repository. Common Czech-Slovak digital library ("PSP ČR"). Stenographic protocols from the meeting of the Czechoslovak National Assembly 1929-1935. *Stenoprotokol z 353. schůze konané ve středu 5. prosince 1934.* [cit 2018-07-22]. Available online at: <http://www.psp.cz/eknih/1929ns/ps/stenprot/353schuz/s353001.htm>

Also discussed at the meeting was the unfavourable population growth for the size of the army. This was a major popular topic during the 1930s. Dr J Trapl looked at it, for example, in the magazine *Vojenské rozhledy*, and according to his prognoses most recruits should be found in 1941, 146 thousand men, and from that time the number was to fall to 96 thousand men by 1955. The author also proposed a number of methods to increase the birthrate, and his advice can be considered still relevant today. In: Josef Trapl, "Populace a brannost", *Vojenské rozhledy*, 19/4, (1938), pp. 417-421.

1934.¹⁶ The extension of military service required expenditure to be increased by 175 million CSK for 1935 as undetermined costs, and it was also increased in 1936. The largest percentage of this increase involved personnel costs.¹⁷

Table 5: Anticipated increase in costs as a result of extending military service to two years¹⁸

Type of cost	Original cost [million CSK]	New cost [million CSK]	Growth in cost [%]
Pay	118	149	26.27
Payment in kind	280	385	37.5
Arms, equipment and beds	49	72	46.94
Accommodation expenditure	14	17.5	25
Healthcare	13.14	14.06	7
Total	461	623.5	35.25

Measures ensuring new income were required in order to secure the new expenditure, and these were to be made through a defence contribution provided for in Act no. 266/1934 Coll. Every Czechoslovak citizen aged between 25 and 50 years old paid this defence contribution if they had not served in the Czechoslovak or Austro-Hungarian army for at least 12 weeks. This contribution comprising a ten-percent surtax to income tax was taken off employees' earnings by the employer, although the contribution did not have to be made if the employee's income tax levy did not reach 1 CSK within a week, or 4 CSK within a month. This exemption also applied to people who had been unable to undertake twelve weeks of military service due to a health issue caused by doing military service. Also exempt were heads of families where at least one family member had undertaken military service. This family member could be, e.g., a son or husband. Mothers whose taxable income did not exceed 12 000 CSK and whose weekly total benefits did not exceed 293 CSK, or whose monthly benefits did not exceed 1 265 CSK, did not have to pay the contribution either.¹⁹

¹⁶ Coll., section 96, Act no. 267/1934, on the length of military service, of 19 December 1934, pp. 1037-1038.

¹⁷ Pavel, *Velikost a struktura výdajů*, pp. 28-29. National Defence Ministry costs increased by 49 billion CSK for 1936. This was the result of the increase in personnel expenditure, while expenditure on material needs was to fall. In: Jan Kozák, *Finanční politika československá v době krise*, Praha 1937, p. 26.

¹⁸ PSP ČR. Stenographic protocols from the meeting of the Czechoslovak National Assembly 1929-1935. *Stenoprotokol z 353. schůzky konané ve středu 5. prosince 1934*. [cit 2018-07-24]. Available online at: <http://www.psp.cz/eknih/1929ns/ps/stenprot/353schuz/s353001.htm>. Own calculations.

¹⁹ Coll., section 96, Act no. 266/1934, on a defence contribution, of 19 December 1934, pp. 1035-1037. A specific example of the application of the defence contribution can be found in: Stanislav Čása, "Pozor! Nová daň: Branný příspěvek", *Zpravodaj O. S. Ú.*, no. 33, (1935), p. 4.

Gross revenue from the defence contribution as stated in data on revenue from direct taxes for the state national accounts for 1935, shown in the table below, came to 6.42 million CSK, with the revenue for 1936 coming to 5.54 million CSK, and these figures are markedly below the original anticipated state budgets for these two years. The budgets for the next two years saw a growth in revenue from defence contributions to 8.00 million CSK in 1937 and 8.50 million CSK in 1938. Only 0.86 million CSK less than the state budget for that year anticipated was collected in 1937. In contrast, 1.12 million CSK more than the budget anticipated was collected in 1938 despite territorial changes – in the Czech lands the average contribution proceeds increased by 40 % compared to the previous year, representing the largest increase over the period looked at.

Table 6: Gross defence contribution revenue by region and a comparison of anticipated and actual collection (data in thousands of CSK)²⁰

Region	1935	1936	1937	1938
Bohemia	3 688	3 557	4 649	6 344
Moravia	1 473	1 109	1 350	1 930
Silesia	236	155	250	353
Slovakia	756	660	805	993
Carpathian Ruthenia	56	63	90	0
Czechoslovakia	6 418*	5 544	7 144	9 620
State budget	10 000	10 000	8 000	8 500
Final figures and state budget (difference)	-3 582	-4 456	-856	1 120

Another important source of financing the increased defence expenditure was the “work loan” announced in March 1933, which preceded the defence contribution. The National Defence Ministry received 280 million CSK from this fund, 86 % of which it was to use to restock missing augmentation material, and the remaining 14 % of which was to be used for standard operations at the National Defence Ministry.²¹

²⁰ *Hospodářský rok 1937 v Československé republice*, Praha 1937, p. 101; *Hospodářský rok 1935 v Československé republice*, Praha 1935, p. 38; NA. Fond NÚKÚ, box 2243, inv. no.424, *Skontro přímých daní, daně z obratu a daně z přepychu, rok 1935*. NA. Fond NÚKÚ, box 2243, inv. no.424, *Skontro přímých daní, daně z obratu a daně z přepychu, rok 1936*. NA. Fond NÚKÚ, box 2244, inv. no.427, *Skontro přímých daní, daně z obratu a daně z přepychu, rok 1937*. NA. Fond NÚKÚ, box 2244, inv. no.427, *Skontro přímých daní, daně z obratu a daně z přepychu, rok 1938*. Own work and calculations. *The total sums also include revenue from the Finance Ministry to the sum of around 209 thousand CSK. It should be added that the values in the table are rounded, and as such data may differ slightly in the range of thousands of CSK.

²¹ Pavel, *Velikost a struktura výdajů*, p. 28. In 1936, funds received from the “work loan” covered 21.53 million CSK of defence expenditure. In: NA. Fond NÚKÚ, box 487, inv. no. 239, *Nejvyšší účetní kontrolní úřad ref. no. 299 res. 1937. Dohlídka u ministerstva národní obrany v roce 1937. Sdělení o poznatcích a vadách. Spis ze dne 30. října 1937*, p. 7 (information section).

In order to acquire funds for the air force, the “National Air Force Collection” was declared in 1934.²² In 1934, donations made to the collection came to 12.363 million CSK, in the subsequent year 3 million CSK was collected, while in 1936 just 186 thousand CSK was collected. Thus by 1936 the collection had managed to receive 15 550 thousand CSK, with 15 346 thousand CSK used to place a number of orders.²³

Defence Investment Projects, the role of the Arms Industry and Other Sectors

On Thursday 4 June 1936, the Supreme National Defence Council²⁴ met and discussed a number of points regarding national defence and how costly this would be. In the first part of the meeting, the National Defence Ministry endeavoured to procure additional funding to arm the military and fortify the country out of fear of external danger, multiplied by Hitler’s occupation of the Rhineland demilitarised zone. The original request for funds of a total of 7.802 billion CSK for 1936-1938 as formulated by the National Defence Ministry previously in 1936 did not appear to suffice, since a billion CSK designed to construct fortifications was unable to cover the necessary faster pace of construction, nor the construction of fortifications which now appeared necessary for political reasons. In order to cover these costs, the National Defence Ministry requested that this sum be increased by a further 1.5 billion CSK, such that the total funds came to 9.302 billion CSK. In the end however only funds of 8.775 billion CSK proved necessary, since the above expenditure could also be covered by 427 million CSK from the National Defence Material Needs Fund and also through a loan for 100 million CSK provided by the Public Works Ministry.²⁵ The Finance Ministry was against this request, only promising 7.275 billion CSK to cover costs for arming and fortifying the national border, with a further 1.5 billion CSK able to be released to pay necessary expenditure in 1938 and subsequent

²² Ladislav Kudrna, “Zpráva divizního generála Ing. Aloise Vicherka o událostech od československé mobilizace do 4. března 1941. Neznámý archivní dokument ve světle faktů,” *Securitas imperii*, no. 18, (2011), pp. 70-143.

²³ NA. Fond NÚKÚ, box 487, inv. no. 239, Ministerstvo národní obrany ref. no. 10349 Taj. pres./19. odděl./1938. *Dobřídka NÚKÚ u MNO v r. 1937, dodatek z 19. dubna 1938*, pp. 8-9.

²⁴ This body was established in 1933 and comprised ministers of the Czechoslovak government who were appointed and removed from their role by the Prime Minister, who chaired the council, on the suggestion of the President of the Republic, who had the right to take over presidency of the council. The council also included various advisors from the military and from other sectors where required. Its job was to make decisions on civil defence plans against the Czechoslovak Republic’s enemies. It dealt with urgent questions in military power. The economic side of its activities focused on the production, circulation, distribution and utilisation of goods and the use of labour forces. In: V. KR. (unknown name), “Nejvyšší rada obrany státu,” *Venkov*, 28/238, (1933), p. 1. Also found in: “Naše armáda”, *Legie: Organ nezávislé jednoty československých legionářů*, 8/42, (1933), pp. 2-3.

²⁵ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Schůze nejvyšší rady obrany státu dne 4. června 1936*, pp. 2-3.

years.²⁶ The resolution of the Supreme National Defence Council shows that the decision made was the proposal submitted by the Finance Ministry.²⁷

The second part of the meeting focused on the direct extent and programme of building fortifications on the country's borders. The National Defence Ministry further requested that it be allowed to recruit 300 civil technicians and engineers for a temporary period to accelerate the construction of the border fortifications. They also requested a short-term reactivation of eight retired officer-rank engineers.²⁸ In this matter, the Supreme National Defence Council decided upon a total fortification works expenditure of 10.014 billion CSK.²⁹

Another point on the meeting's agenda was the National Defence Ministry's proposal as discussed the previous month to build and move the arms industry, including securing stores of the most important raw materials. In order to do this, a special commission was established comprising figures in the National Defence Ministry and Finance Ministry who were instructed not just to assess proposals for building and moving industry, but also to procure the most important raw materials for national defence.³⁰

The fourth part of the meeting also looked into increasing the quota to create new fortification forces by 30 thousand men and also increasing the number of new weapons. Previously an annual quota of 70 thousand men had been set, with this quota able to be increased by 75 thousand men if necessary. From a financial perspective, the National Defence Ministry's request meant an increase in expenditure of 280 million CSK. In addition to this, however, extra personnel costs of 60 million CSK had to be added, meaning an increase in the total budget by 340 million CSK. Nevertheless, it should also be noted that it was anticipated that this request would not begin to be undertaken until the period subsequent to 1941.³¹ It seems that the National Defence Ministry's lobbying was at least partially successful, as in March of the following year, Act no. 26/1937 Coll. was passed, which abolished the five-thousand limit for increasing conscript numbers.³² The

²⁶ Ibid., p. 4.

²⁷ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Usnesení NROS z 9. schůze, konané ve dnech 27. 4., 8. 5. a 4. 6. 1936*. The government took note of this resolution on 5 June 1936

²⁸ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Schůze nejvyšší rady obrany státu dne 4. června 1936*, p. 6.

²⁹ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Usnesení NROS z 9. schůze, konané ve dnech 27. 4., 8. 5. a 4. 6. 1936*.

³⁰ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Schůze nejvyšší rady obrany státu dne 4. června 1936*, pp. 6-7.

³¹ Ibid., pp. 9-10.

³² Coll., section 11, Act no. 26/1937, amending Section 3 of the act of 11 May 1932, no. 66 Coll., of 3 March 1937, p. 413. Section 3 of Act no. 66/1932 Coll. laid down that the number of conscripts could be increased if needed by the National Defence Ministry with the consent of the

penultimate point of the Supreme National Defence Council meeting was the issue of the statutory regulation of dealing in mineral oils. Also involved in discussions were top ministerial officials, with representatives of refineries, mineral oil merchants and the Industry Union General Secretary also stating their positions. An outline for any future modifications was also prepared at the meeting, although the law was not enacted until March 1946, with the act passed differing from the ten-year old outline in certain matters.³³

The final point discussed was the Finance Ministry's proposal that reducing unemployment be incorporated into fortification and other work. The National Defence Ministry was to submit a proposal dealing with the issue of establishing work camps for earthworks in fortification, railway, road, water construction work, etc.³⁴

However, state expenditure was also focused directly on stimulating arms production within the Czechoslovak Republic. This was seen in particular at the 10th meeting of the Supreme National Defence Council which building on the 1936 resolution regarding the construction of the armed industry, decided to construct a new factory producing aircraft machine guns. The new factory was to be built in Uherský Brod and to come under the arms company in Strakonice. A new limited liability company was to be set up in order to build the factory. The state was to be the majority owner of this company with 51 % of share capital, or it could have fewer shares on condition that the state had the final word over all other shareholders in the factory. The state's buy-in to the factory involved the supply of machinery to a value of 7.10 million CSK,³⁵ although modifications to the number of machines and price increases meant this sum later grew to 7.78 million CSK.³⁶ Another deposit of 6 million CSK was to be borne by the Strakonice munitions factory. The munitions factory was to secure assets of a long-term nature for the new factory - i.e. land, buildings and also intellectual property. Share capital was to come to 7 million CSK at most. In the event that a limited

government, but that the number of conscripts should not exceed 5 thousand conscripts.. In: Coll., section 26, Act no. 66/1932, on the length of military service and on some changes to the Defence Act and the act of 8 April 1927, no. 53 Coll., of 11 May 1932, pp. 333-334.

³³ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Schůze nejvyšší rady obrany státu dne 4. června 1936*, pp. 12-13. Coll., section 23, Act no. 48/1946, on managing mineral oils and fuels, of 5 March 1946, pp. 270-272.

³⁴ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. 1946 Taj. § gen. sekr. 1936, *Schůze nejvyšší rady obrany státu dne 4. června 1936*, pp. 13-14.

³⁵ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20424 Taj.-gen. sekr. 1937, *Vybudování nového závodu fy „Česká zbrojovka Strakonice“ - usnesení 10. schůze NROS, 5. června 1937*, pp. 1-2. It should further be noted here that data on the state's deposit differed slightly in different parts of the document - according to one of the officers employed at the National Defence Ministry, 7.75 million CSK was spent building the new factory.

³⁶ NA. Fond NÚKÚ, box 481, inv. no. 237, Generální sekretariát Obrany státu ref. no. ref. no. 20424 Taj.-gen. sekr. 1937, *Usnesení NROS z 10. schůze, konané dne 3. května 1937 z 5. 6. 1937 - zvl. čís. 7 Taj.*

liability company could not be established, the factory was to be managed by a temporary administration committee comprising representatives of the Finance Ministry, the National Defence Ministry, and the Strakonice munitions factory. Each of these entities was to have one representative within the committee.³⁷ At the end of June 1936, the new factory was established with production beginning in January 1937 and work given to two thousand people.³⁸

The Supreme National Defence Council further decided to construct a new Československé zbrojovky Brno, a. s. (Czechoslovak munitions factory Brno) factory to produce large and heavy machine-guns in Vsetín, Moravia at a total budget cost of 453 million CSK. 34 million CSK of this was to be used to procure machinery designed for producing ammunition for large machine-guns. Funding of the costs for constructing the Vsetín factory was to be covered from foreign and domestic sources. The Brno munitions factory was told to increase its share capital by 50 million CSK to 120 million CSK as soon as possible using a 400 % premium on their shares. The share subscription price at a nominal value of 400 CSK was set at a level of 2 000 CSK. The Brno munitions factory was to pay the remaining 203 million CSK from its own sources. The resolution also “recommended” that all government departments support Brno munitions factory by prioritising it for any procurements.³⁹ By 1937, the state issued almost 200 million CSK from loan proceeds from the increased share capital of the Brno munitions factory to go towards national defence (see below).⁴⁰

In fulfilling the programme for building up the arms industry, the creators of the defence policy focused on building up the aviation industry, submitting a proposal in this regard to the Finance and Defence Ministries’ joint commission. The proposal was discussed by the Supreme National Defence Council at its tenth meeting, and they came to the following resolution: For the purposes of rebuilding and transferring the aviation industry, the Supreme National Defence Council recommended releasing the sum of 130 million CSK from the revenue of the national defence loan. The Finance Ministry and National Defence Ministry were told to agree to the capital involvement of the state such that the state would be ensured the final word in the constructed factories. Some of the most significant

³⁷ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20424 Taj.-gen. sekr. 1937, *Vybudování nového závodu fy „Česká zbrojovka Strakonice“ - usnesení 10. schůze NROS, 5. červen 1937*, p. 2.

³⁸ “Historie České Zbrojovky”, CZUB.cz [cit 2018-07-22]. Available online at: http://www.czub.cz/wp/cs_CZ/o-nas/historie-ceske-zbrojovky/

³⁹ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát obrany státu ref. no. 20426 Taj.-gen.sekr. 1937. *Vybudování nového závodu fy „Čs. zbrojovka a. s. Brno“ - usnesení 10. schůze NROS*, pp. 1-3.

⁴⁰ NA. Fond NÚKÚ, box 484, inv. no. 239, Ministerstvo národní obrany ref. no. 22.085 Taj.-V/4. odděl.1938. *Dotace fondu pro věcné potřeby NO. A účtování výnosu z půjčky obrany státu v roce 1937 ze dne 10. března 1938.*

firms expressing an interest were the Avia and Walter factories, and Aero's aviation division and Českomoravská Kolben-Daněk.⁴¹

In securing national defence, there was also an expansion of investment in building the railways. There was a resolution that the total sum spent on this construction should come to 3.11 billion CSK, 1 billion CSK of which should be invested in constructing a line between Prešov and Khust, between Prešov and Poprad via Orlov, and between Prešov and Uzhhorod. Although the building of these lines had begun in 1935 and continued in 1936, there was a lack of funds for its further construction, something the resolution dealt with. They planned the gradual completion of the railway lines by 1944.⁴² The specific construction plan for some sections was prepared at the end of June 1937 by the Railways Ministry. Construction of the three railway sections was begun. Only preparatory work for the first section of line heading from Khust to Svaliava, roughly 70 kilometres long and at a cost of 320 million CSK, took place in 1937, with actual construction not anticipated until the following year. The case was similar for the 74-km long Strážske-Prešov section of line whose costs were the same as for the Khust-Svaliava section. The final section in the plan was the line from Vernár to Poprad (Veľká district) which, although only 32 kilometres long, required construction costs of around 160 million CSK. The construction of this section of line was to begin in 1937.⁴³

The next decision on defence investments was made a month later, i.e. in July 1937. This was a proposal from the Finance and National Defence ministries' joint commission to construct new factories to produce ammunition for large machine-guns. The Supreme National Defence Council agreed to the method by which the military were to purchase the machinery and production equipment necessary to produce ammunition for large machine-guns. This method is indicated in the table below.

⁴¹ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20428 Taj.-gen. sekr. 1937, *Vybudování leteckého průmyslu - usnesení NROS, 5. června 1937.*

⁴² NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20429 Taj.-gen. sekr. 1937, *Rozšířený železniční investiční program, usnesení NROS, 5. června 1937, pp. 1-2.*

⁴³ NA. Fond NÚKÚ, box 482, inv. no. 238, Ministerstvo železnic ref. no. 31.911/II-2b/1937, *Úhrada výdajů za přípravné práce pro projektované dráhy Chust-Svalava, Strážské-Prešov, spis ze dne 30. června 1937.*

Table 7: Partial company costs coverage for production of equipment to produce ammunition, and the maximum sum for which the state would purchase the equipment to produce ammunition from these companies⁴⁴

Company name	Location	Maximum sum [thousands of CSK]
Tauš	Nové Město nad Váhom	1 980
Bratři Micherové	Stará Turá	2 895
Minerva	Boskovice	2 100
Báňská a hutní Armat	Trnava	2 200
Ing. Janáček	Ransko	2 200
Total costs		11 375
Company name	Investment costs covered by state[%]	
Tauš	56,5	
Bratři Micherové	65	
Minerva	70	
Báňská a hutní Armat	68	
Ing. Janáček	60,5	
Average	64	

The equipment and machinery to produce ammunition for large machine-guns were to be owned by the military, but they were to be maintained by the above listed companies up to 1947. Following this date, it was anticipated that the machinery would be returned to the companies.

The Supreme National Defence Council awarded the company Sellier & Bellot 11.25 million CSK, representing 75 % of investment costs. Such a high sum was invested due to special manufacturing procedures and difficulties requiring significant investment sums. In order to minimise costs as far as possible, the state was to pay the eleven-million sum in the form of subsidies, meaning that the company did not have to tax on earnings. In this case, the state did not purchase the equipment for manufacturing the ammunition, but reserved the right to use the equipment until 1947. Another condition was that Sellier & Bellot also build a new bullet factory at a combined cost of 15 million CSK, with both sections maintained until the end of 1952, with the company able to charge these costs to the price of the ammunition supplied to the military produced in its old factory in Vlašim.⁴⁵

As part of building up the defence industry and its relocation, the Supreme National Defence Council submitted a proposal to build a new factory to produce explosives. Council members agreed that a new factory would be built at a total cost of 250 million CSK, followed by construction of a new nitric acid manufacturing site at a cost of 70 million CSK. Both these new factories were to

⁴⁴ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20466 Taj.-gen. sekr. 1937, *Zřízení nových výroben munice pro velké kalometry - usnesení NROS, 12. července 1937*, pp. 1-2. Own work.

⁴⁵ *Ibid.*, pp. 2-4.

be located in Turčiansky Svätý Martin (today's Martin) in Slovakia. The construction of the factories and their operation was to be entrusted to the company Explosia, a.s., then holder of monopoly rights to manufacture explosives. The first phase of construction was to end in 1939 with roughly half of the factories built as expressed in terms of funds, and the second and final phase to end in 1942. Explosia committed itself to pay construction costs in full for the first phase, while there was an option of state involvement in construction costs in the second phase with Explosia to negotiate the size of this involvement with the Finance Ministry and National Defence Ministry. The same parties were also to agree on a price for the explosives.⁴⁶

Another huge increase in arms expenditure was approved by the Supreme National Defence Council at its 11th meeting held on 9 July and 14 July 1937. As long as public finances income and expenditure was balanced, the military was to receive funds of 5.648 billion CSK, 3.198 billion CSK of which was to be spent on securing material equipment for the army, and the remaining 2.450 billion CSK to be invested in the construction of military fortifications. It was anticipated that this sum would be paid out gradually between 1938 and 1942. The National Defence Ministry was able to make use of these funds upon agreement with the Finance Ministry.⁴⁷

Since the state was unable to fund the growth in defence expenditure from its own resources, politicians were forced to increase the national debt. The means for acquiring the funds needed was a national defence loan provided for by an act passed in the Collection of Acts of 30 May 1936. This loan involved lenders to the state being able to purchase bonds with a 4.5 % or 3 % interest rate. This loan was to be amortised over a fifty-year period beginning in 1938 (i.e. until 1987). Interest received from bonds with the 3 % interest rate was tax exempt.⁴⁸ Individual bonds were issued for the values of 500 CSK, 1 000 CSK, 5 000 CSK, 10 000 CSK and 50 000 CSK. The subscription period was from 8 June 1936 to 11 July 1936. Its purpose was not just to secure "security and peace", but it also represented a means to reduce unemployment.⁴⁹ As the press at the time stated, the national defence loan was highly popular amongst the population, as over the determined period bonds to a total value of over 3.55 billion CSK were subscribed to.⁵⁰

⁴⁶ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20467 Taj.-gen. sekr. 1937, *Výbudování nového závodu na výrobu výbušnin - usnesení NROS*, pp. 1-3.

⁴⁷ NA. Fond NÚKÚ, box 482, inv. no. 238, Generální sekretariát Obrany státu ref. no. 20474 Taj.-gen. sekr. 1937, *Povolení finančních prostředků pro vojenské účely - usnesení NROS*, pp. 1-2. These funds were described as Special Loan I. In: Karel Straka, *Československá armáda, pílň obrany státu z let 1932-1939*, Praha 2007, pp. 66-67.

⁴⁸ Coll., section 39, Act no. 142/1936, on a national defence loan, of 29 May 1936, p. 555.

⁴⁹ "Půjčka obrany státu", *Národní osvobození*, 13/132, (1936), p. 8.

⁵⁰ "Peněžní trh a půjčka obrany státu", *Národní listy*, 76/210, (1936), p. 6.

The presidency of the ministerial council discussed the distribution of the funds and ratified the awarding of funds as shown in the table below. Their resolution anticipated the distribution of funds to an amount exceeding 1.24 billion CSK with 81 % of all funds to be directly given to defence and arms, 250 million CSK of which was subject to further decision-making, and in April of that year the assignment of 2.55 million CSK was decided upon for special defence purposes.⁵¹ A further 13 % of the sum was given to the Public Works Ministry for the construction and renovation of airports, electrification of the state and construction of roads and bridges.

Table 8: Distribution of funds received from the national defence loan according to a Ministerial Council Presidency Resolution of 18 February 1937⁵²

	User	Sum [thousands of CSK]
1	Public Works Ministry	163 900.00
1a/	Aviation	71 300.00
1b/	State electrification	4 000.00
1c/	Construction/maintenance of roads and bridges	88 600.00
2	State Water Management Fund	66 706.80
3	National Defence Ministry (1937)	753 000.00
4	National defence special circumstances	10 000.00
5	Other funds for the National Defence Ministry to fund arms	250 000.00
Σ	Total	1 243 606.80

The National Defence Ministry ordered ammunition of 3.7 cm and 4 cm calibre from Škoda Works in early 1938 at a total value of 297.36 million CSK. The ammunition was to be supplied in stages, but by the end of 1939 at the latest. At the request of the Finance Ministry, payment was not to be made in cash, but rather Škoda Works was to be paid with the highest possible sum of bonds issued within the national defence loan. Škoda Works promised that rather than cash payment it would take national defence loan bonds with a 4.5 % interest rate to the value of 20 % of ammunition costs, and also 25 % of the price in supply bills. It was imposed on Škoda Works that in purchasing raw materials and parts necessary to implement the order they should under similar quality and price market conditions prioritise supplies from Poldi ironworks on condition they do not use raw materials and parts.⁵³

⁵¹ NA. Fond NÚKÚ, box 482, inv. no. 238, Ministerstvo financí Ad. č. 22508/37-I/1. *Využití půjčky obrany státu, 29. dubna 1937.*

⁵² NA. Fond NÚKÚ, box 482, inv. no. 238, Předsednictvo ministerské rady ref. no. 1549/1623/5/37/m.3r. *Využití půjčky obrany státu, 18. února 1937*, pp. 1-2. Own work.

⁵³ NA. Fond NÚKÚ, box 485, inv. no. 239, K ref. no. 505 res. 1938. *Sdělení o požnatcích a vadách 1938*, pp. 16-17.

The same payment method would apply to other orders made by the National Defence Ministry. This included the order for bridge material from Alfréd Ippen, bridge and engineering works for 7.84 million CSK and bridge parts for 2.04 million CSK. Bridge parts for 4.12 million CSK and machinery for 1.60 million CSK were ordered by the National Defence Ministry from Českomoravská Kolben-Daněk. The National Defence Ministry purchased propulsors to a value of almost 2.50 million CSK from Prague company Josef Walter. The order for roller devices from Olomouc company Ing. Adolf Salivar for 349 thousand CSK and for carriages from Neptun, J. Jakoubek a spol. for 158.20 thousand CSK can be considered less costly orders.⁵⁴

The National Defence Ministry also planned to purchase combat vehicles paid for by the National Defence Material Needs Fund (from an accounting perspective both the fund according to Act no. 240/1926 and according to Act no. 127/1934). Already in December 1935 the ministry had placed an order for the production of 160 vehicles from Škoda Works and Českomoravská Kolben-Daněk, each responsible for half the order. The total cost for purchasing the vehicles came to 84.18 million CSK, of which the order of vehicles from Škoda Works totalled roughly 0.13 million CSK more than those from Českomoravská Kolben-Daněk, and the vehicles were to be delivered by 15 February 1937. On 12 May 1936 the original order was expanded by a further 35 vehicles at the same price as the original order, increasing total costs by 18.42 million CSK to 102.60 million CSK. There was a further modification to the originally agreed amount in the subsequent year when the ministry requested the purchase of a further 103 armoured vehicles. Škoda Works was to manufacture 51 vehicles, while Českomoravská Kolben-Daněk was to secure 52 armoured vehicles. This changed involved costs increased by a further 55 million CSK to a total 158 million CSK. The delivery deadline was extended to the last day of February 1938.⁵⁵ The need to quickly furnish the air force with new equipment so that they were not outdated by the time they were delivered meant that the National Defence Ministry decided to purchase new aircraft prototypes – multi-seater fighter bombers. The National Defence Ministry ordered the A-300 aircraft prototype from Aero, with the price agreed at 4.70 million CSK. The National Defence Ministry paid half this price through two interest-bearing instalments for 50 % of the agreed price. The second prototype ordered came from Avia, and this aircraft cost 4.88 million CSK. The ministry also purchased 20 complete Zlín Z-12 aircraft from Zlínské letecké akciové společnosti, plus five engines for the aircraft and four propellers. In total, this order came out at 844.8 thousand CSK. The last aircraft purchased was the well-equipped cabin aircraft, the Beta-Minor-Be 51, designed for the Czechoslovak aviation attaché in London. Following negotiations between representatives of the

⁵⁴ Ibid., p. 14.

⁵⁵ NA. Fond NÚKÚ, box 485, inv. no. 239, K ref. no. 505 res. 1938. *Sdělení o poznatcích a vadách 1938: Informační část*, pp. 1, 3-6.

state and company Eng. P. Beneš and Eng. J. Mráz, the Choceň aircraft plan managed to reduce the price of the aircraft by almost 4 thousand CSK to 104 thousand CSK.⁵⁶

In 1937, the National Defence Ministry also purchased 124 instruments for engineers' mobile kit from Českomoravská Kolben-Daněk with a total cost of almost 1.6 million CSK financed from the national defence loan money (included in the "Special loan" section). The delivery was to be completed by the end of July 1938 at the latest.⁵⁷ The same money was also to be used to fund a March 1938 order for single-cable aerial lifts and steel cables for military purposes from a company called "Belka" for a total of 2.46 million CSK.⁵⁸ The ministry ordered 2 600 long coats for its soldiers using funds accumulated as part of the "Special loan" for a total price of almost 1.89 million CSK. 1 400 coats were provided by the Hlinsko fur co-operative which offered the cheapest price. The remaining 1 200 coats were shared out amongst four other companies.⁵⁹ The same funds were also used to finance the purchase of 36 workshop-produced hauling machines from the František Melichar - Umrath a spol. Combined farm machinery plant for 1.71 million CSK.⁶⁰ The National Defence Ministry ordered 158 petrol generators of 8 kW and 4 kW power and 16 electrical charging units for a total cost of almost 6.80 million CSK. Almost 61 % of this sum was to be covered by the National Defence Material Needs Fund (charged to the fund 240/1926), with a further 38 % paid for from "Special loan" money, and only the remaining sum comprising separate expenditure within the National Defence Ministry's budget. The most expensive part of the order (78.1 % of costs) was the 104 8 kW petrol generators which were to be supplied by Českomoravská Kolben-Daněk, with the remaining less powerful 54 petrol generators provided by Josef Sousedlík, alongside 16 electrical charging units for 163 thousand CSK.⁶¹ A further 16 petrol electrical units designed for welding were contracted to Českomoravská Kolben-Daněk, with one electric arc welding unit to be supplied by ČKD and another by company Svě. The costs came to 1.16 million CSK with payment mainly coming from the National Defence Material Needs Fund (fund 127/1934) and the "Special loan". Only a minimal amount was paid by the National Defence Ministry from its budget.⁶²

In order to satisfy the demand of arms workshops, offensive division workshops, automotive divisions and other divisions for machine tools, the National Defence Ministry ordered such machine tools to a total value of 1.71

⁵⁶ Ibid., pp. 19-26.

⁵⁷ Ibid., p. 74.

⁵⁸ Ibid., pp. 80-83.

⁵⁹ Ibid., p. 18.

⁶⁰ Ibid., p. 17.

⁶¹ Ibid., pp. 14-15.

⁶² Ibid., p. 16.

million CSK. The largest proportion of the order at 76 % in terms of cost was taken on by Čelákovice company, Josef Volman. Funds for this order came from a number of sources, with the most important of these being the National Defence Material Needs Fund (charged under the fund according to Act no. 127/1934), which contributed 1.52 million CSK to funding, i.e. 89.29 % of total costs. The remainder of the sum came from the National Defence Ministry budget.⁶³ Also worth noting is the fact that the National Defence Material Needs Fund also paid loans to towns and villages for the construction of barracks. Archive material notes, for example, payment of a loan on 1 January 1938 for Spišská Nová Ves for construction of barracks at a total cost of 250 thousand CSK. Similarly, Turčiansky Svätý Martin (today's Martin) received a loan of 900 thousand CSK from the fund to purchase land for the construction of military barracks.⁶⁴

Also purchased for the military were 114 new track-laying tractors for a total sum of 19.15 million CSK, 83.54 % of which came from the "Special loan". The machines were to be produced and supplied by Českomoravská Kolben-Daněk over time on three dates - January 1938, May 1938 and the end of 1938. In the event of late delivery, the contract obliged the company to pay 6 % interest on payments made by the National Defence Ministry. This in fact occurred when the first supply was not delivered on time.⁶⁵

Another source of funds for the increased state expenditure at the end of 1937 was the national defence contribution legislated for at the end of 1937. The national defence contribution was taken by the employer out of wages beginning on the first pay day of 1938. The contribution was calculated as 60 % of income tax or 1.5 % of the income from which income tax was deducted. This was a progressive tax, with net income over 200 thousand CSK being charged a contribution of 5 %. An exceptional tax on profits was also charged progressively on the tax base. The lowest, 2.5 %, tax was paid by companies with a tax base of up to 100 thousand CSK, while companies with a tax base of over half a million CSK were subject to an 8 % tax.⁶⁶ It was originally estimated in 1937 that this would bring in 600 million CSK,⁶⁷ although the budget anticipated a somewhat more modest income from the tax of a total 440 million CSK. As the table below shows, the actual tax income was a further 38.70 million CSK lower, i.e. these

⁶³ Ibid., p. 13.

⁶⁴ NA. Fond NÚKÚ, box 487, inv. no. 239, Ministerstvo národní obrany ref. no. 10349 Taj. pres./19. odděl./1938. *Dobřídka NÚKÚ u MNO v r. 1937, dodatek z 19. dubna 1938*, p. 6.

⁶⁵ Ibid., pp. 9-10.

⁶⁶ Coll., section 67, Act no. 247/1937, on a national defence contribution, and on an exception tax on profits, from 21 December 1937, pp. 1174-1177.

⁶⁷ PSP ČR. Chamber of Deputies N. S. R. Č. 1937. 4th electoral period. 6th meeting. *Zpráva výboru rozpočtového o vládním návrhu zákona (tisk 1112) o příspěvku na obranu státu a o dani z mimořádných zisků ze dne 10. prosince 1937*. [cit 2018-08-01]. Available online at: http://www.psp.cz/eknih/1935ns/ps/tisky/t1174_00.htm

national defence contributions managed to bring in 401.30 million CSK, although it should be borne in mind that one reason for the failure to reach the anticipated income may have been the territorial loss following the Munich Agreement.

Table 9: Gross income from the national defence contribution by region, and a comparison of anticipated and actual collection in 1938 (data in millions of CSK)⁶⁸

Region	1938
Bohemia	258.17
Moravia	81.13
Silesia	15.34
Slovakia	46.66
Carpathian Ruthenia	0
Czechoslovakia	401.3
State budget	440
Final accounts and state budget (difference)	-38.7

Another source of funding at this time was donations collected for the Jubilee Fund for National Defence. Mentions of contributions to this fund can be found, e.g. in various municipal chronicles, with companies and individuals from workers and shop assistants to MPs and various interest groups also contributing. A number of contributions were also made to the National Air Force Collection.⁶⁹

The partial mobilisation in May 1938 caused significant strain on public finances, as did the subsequent general mobilisation declared by Government Decree no. 183/1938 Coll.⁷⁰ The Czechoslovak State Bank attempted to deal with growing demands on the state budget through an expansionary monetary policy involving increasing the circulation of “minor currency” within the economy by 375 %, and later one-hundred crown banknotes were also declared “minor currency”.⁷¹

The Importance of Defence Expenditure within the Economy

In terms of the impact of arms expenditure on the economy, it is important to note that the increasing military expenditure was reflected in the size of the public debt, which rose by almost 14 billion CSK between 1929 and 1937. This gradual debt increase was caused by other expenditure to military expenditure in the first half of the 1930s, with military expenditure reducing at the time. From 1934 or 1935, however, there was a growth in expenditure on defence, and as the graph shows there was also a steeper growth in the debt. From 1934 when direct

⁶⁸ *Hospodářský rok 1937 v Československé republice*, p. 101. NA. Fond NÚKÚ, box 2244, inv. no. 427, *Skontro přímých daní, daně z obrátu a daně z přepychu, rok 1938*. Own work and calculations.

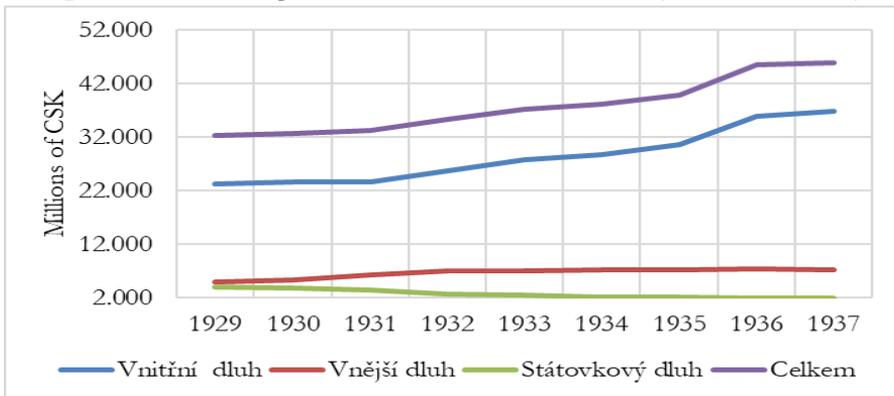
⁶⁹ “Dary na obranu republiky”, *Legie: Orgán nezávislé jednoty československých legionářů*, 13/25, (1938), p. 5.

⁷⁰ Coll., section 63, vládní vyhláška 183/1938, o vstupu státu do branné pohotovosti, ze dne 23. září 1938, p. 863.

⁷¹ Otakar Franěk, *Dějiny koncernu brněnské Zbrojovky. Díl 1. 1918-1939*, Brno 1969, p. 219.

expenditure on the army came to 1.84 billion CSK, these costs had increased almost three-fold by 1937 (coming to 5.15 billion CSK). In 1937, military expenditure made up 37.3 % of the state budget and 8.6 % of national income. In 1938, military expenditure was planned to reach 54.2 % of the state budget and 11.4 % of national income.⁷² Statistical yearbook data shows, however, that the most important creditors of the state were domestic economic entities. In 1937, 80 % of the public debt was in the hands of domestic creditors, with just 16 % of the total sum owed to foreign creditors and 4 % of the debt arising from the issue of fiat money. It should be noted, however, that relative and absolute amount of this debt gradually fell over time. Despite the increasing volume of debt, the state managed to keep public debt administration costs at a fair level. It is interesting that these public debt costs rose from 2.44 billion CSK in 1929 to 2.79 billion CSK in 1933. In 1934, this cost fell to 1.74 billion CSK, as a result of lowered expenditure on paying internal debt redemption. By 1936, the cost of administering the debt remained at a level of around 2.10 billion CSK.⁷³ By 1937, debt servicing now came to 2.60 billion CSK.⁷⁴ It is hard to assess what path the Czechoslovak economy would have taken if the Czechoslovak border territory had not been occupied by its neighbours and the rest of Czechoslovakia had not been taken over by Germany later. The German occupying administration implemented a wartime economy, marked by high underlying inflation and supply crises.⁷⁵

Graph 1: Czechoslovak public debt between 1929 and 1937 (state balance sheet)⁷⁶



⁷² Pavel, *Velikost a struktura výdajů*, p. 35.

⁷³ *Statistická ročenka republiky Československé 1936*, p. 280. *Statistická ročenka republiky Československé 1938*, p. 306.

⁷⁴ Vladimír Klimecký, "Finanční hospodářství státu v letech 1937-38", *Obzor národohospodářský*, XLIII, (1938), p. 696.

⁷⁵ Vladimír Nálevka, "Každodenní život v protektorátu Čechy a Morava," *Nacistická okupace: sedmdesát let poté - sborník textů*, Praha 2009, p. 18.

⁷⁶ *Statistická ročenka republiky Československé 1934*, p. 280, *Statistická ročenka republiky Československé 1936*, p. 280, *Statistická ročenka republiky Československé 1938*, p. 305, Klimecký, "Finanční hospodářství státu", pp. 696-697 (data for 1937).

Increased arms expenditure and the intensification of arms manufacture had a positive impact on economic output and unemployment. J Pavel has noted that most companies involved in arms production were located outside the border areas where Germans lived which were plagued by unemployment.⁷⁷ This claim is proven by “hard” data; in districts with 80 % German residents the unemployment rate in February 1938 was 18.4 %, whereas in districts where the German population was less than 20 % mainly located away from the border, unemployment was just 8 % of the economically active population.⁷⁸

Conclusion

The economic crisis afflicted Czechoslovakia in the first half of the 1930s. The state endeavoured to secure the maximum savings it could, and this led to marked restrictions in government expenditure, including in national defence. The situation began to transform in 1934 when there was an extension to the military service period and with the introduction of a defence contribution. In 1934, the National Air Force Collection was also set up. Over subsequent years, in particular from 1936, state expenditure increased both on purchasing arms production products for military purposes, and on constructing border fortifications, investment in constructing strategically important railways and support for the transferral of the arms industry to other places less reachable for any invaders. Although the increased arms expenditure undoubtedly had a positive impact on economic output, it was also a great burden on public finances and the accumulated deficits fed into the ever-growing public debt. In this regard, it was mainly domestic economic subjects who were the state’s creditors, e.g. through purchasing bonds in the national defence loan, with foreigners comprising a much smaller proportion of all creditors. Despite the marked increase in the public debt, the cost of administering the public debt remained at a relatively fair level. In terms of economic importance, one can also say that alongside the growth of the economy during the period of this arms boom, unemployment also fell as a result of the operations of the arms industry, although not to the same extent everywhere. The arms industry was mainly located deeper inside the country, and thus logically the multiplication effect of arms production and arms expenditure did not reach the mainly German-speaking border region - here the unemployment rate persisted at a level of 18.4 % of the economically active population.

⁷⁷ Pavel, *Velikost a struktura výdajů*, p. 55.

⁷⁸ This data only related to the Czech lands; i.e. it does not relate to Slovakia and Carpathian Ruthenia. For more information, see: Jaromír Nečas, *Nezaměstnanost a podpůrná péče v Československu*, Praha 1938, p. 28.

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