

# I. ARTICLES

## THE STRATEGIES OF A TRANSYLVANIAN CORPORATION FOR MITIGATING THE EFFECTS OF THE GREAT DEPRESSION. LESSONS FOR THE PRESENT\*

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### Abstract

*In the following study, we analyse the business history of a major regional company based in what is today Cluj-Napoca, Romania, the Renner Brothers & Co Leather Factory JSC, later renamed Dermata-Works Leather and Shoe Factories JSC. Our analysis combines archival sources, press reports, and legislation to provide an overview of the business and its legal and social surroundings. Our analysis concentrates on the period between 1920 and 1934, including the Great Depression. We find that the company, under the influence of its majority shareholder and co-founder, has adopted various coping strategies to address the*

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*economic challenges of the 1920s and 1930s. Among these, the company made use of market concentrations. It also alleviated social tensions with workers by providing above-minimum wage provisions and other services. Finally, the company founder intended for the creation of a social company.*

**Keywords:** *company history; legal history; Dermata; Great Depression; Cluj-Napoca; Farkas Mózes*

### Résumé

*Dans l'étude suivante, nous analysons l'histoire commerciale d'une importante entreprise régionale située dans ce qui est aujourd'hui Cluj-Napoca, en Roumanie, la Renner Brothers & Co Leather Factory JSC, rebaptisée plus tard Dermata-Works Leather and Shoe Factories JSC. Notre analyse combine sources archivistiques, articles de presse et législation afin de fournir une vue d'ensemble de l'entreprise et de son environnement juridique et social. Notre analyse se concentre sur la période comprise entre 1920 et 1934, y compris la Grande Dépression. Nous constatons que l'entreprise, sous l'influence de son actionnaire majoritaire et co-fondateur, a adopté diverses stratégies d'adaptation pour relever les défis économiques des années 1920 et 1930. Parmi ceux-ci, l'entreprise a eu recours à des concentrations de marché. Il a également choisi d'atténuer les tensions sociales avec les travailleurs en proposant des salaires supérieurs au minimum et d'autres services. Enfin, le fondateur de l'entreprise envisageait la création d'une entreprise sociale.*

**Mots-clés:** *histoire de l'entreprise; histoire juridique; Dermata; Grande Dépression; Cluj-Napoca; Farkas Mózes*

## 1. Introductory Remarks

In the following, we endeavour to briefly present and analyse, with a view to the legal, political, and economic circumstances in which it unfolded, the history of the Renner Brothers & Co Leather Factory JSC (named Renner Testvérek és Társai Bőrgyár Rt. in Hungarian, and Brüder Renner et Compagnie Lederfabrik Aktiengesellschaft in German), later renamed as the Dermata-Works Leather and Shoe Factories JSC (Dermata-művek Bőr- és Cipőgyárak Részvénytársaság), sometimes referred to as the Dermata-Works JSC. The company was founded in Cluj (currently Cluj-Napoca),

Transylvania, which was at the time part of the Austro-Hungarian Monarchy. After the union of Transylvania with Romania following the First World War, the company continued to function on Romania's territory. We aim to explore and present the strategies by which this company not only survived the challenges posed by compounded crises but managed to hold on to its workforce and maintain productivity, even achieving growth in times of economic downturn despite adverse historical factors. Our work focuses on the company's activity between 1920 and 1934.

The sample selection of our study was not random. We aimed to analyse a large East-Central-European enterprise that emerged as an industrial concern, and Renner Brothers & Co Leather Factory JSC (from 1930 Dermata-Works JSC) fully conforms to this aim.<sup>1</sup> This company survived the change of sovereignty that took place in Transylvania in 1919-1920, during which the rule of the Austrian-Hungarian Monarchy, and in particular of the Kingdom of Hungary, was supplanted by the sovereignty of the Kingdom of Romania. Later on, during the 1920s, the company's assets, productivity, and economic influence started to grow, and it soon became a leader and coordinator within the Transylvanian and Romanian leather and footwear industry. Although the enterprise was affected by the Great Depression, its workforce decreased only a little for a short time, after which it started on a path of rapid growth despite simultaneously decreasing profitability.

The solutions chosen by the company leadership in order to mitigate crises have always been to escape forward by making use of the normative environment of the time that was permissive with economic

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<sup>1</sup> The company changed its name to 'Uzinele Dermata Fabrica de Pielărie și Încălțăminte S.A.' [Dermata-Works Leather and Shoe Factories JSC] in April 1930. Simultaneously with this name change, the company increased its capital by issuing new shares; the general meeting of shareholders acknowledged that the 'Fabrica de Piele – Frații Renner & Co S. A.' [Renner Brothers & Co Leather Factory JSC] group (after the name change, Dermata-Works Leather and Shoe Factories JSC) took over the majority of shares in the Turul Shoe Factory JSC from Timișoara. The headquarters of the Turul Shoe Factory were relocated to Cluj, but the factory remained a separate legal entity. Press reports related to the merger of the two companies at that time were mistaken. The two companies never merged, but the shoe factory from Cluj became the majority shareholder in Turul JSC, thereby acquiring the right of control over one of its biggest competitors.

concentrations, monopolies, and cartels, sometimes even encouraging such behaviour, and striving to also improve employees' quality of life, besides rationalising its economic activity, successfully strengthening its employees' ties to the company.

The company's endeavour to improve the working and living conditions of its employees (albeit encouraged by the occasional strike), or the contents of a draft will by the company's managing director, Dr. Farkas Mózes, aimed at establishing a social enterprise along lines that would be exemplary even today, may only be understood in this context. Our paper consists of three parts. In the first part, we present the company's short legal, corporate, and economic history, describing its activity's more or less quantifiable parameters and their evolution during the 1920s and, later on, during the Great Depression. In this part, we analyse specific characteristics of the economic and regulatory environment which sometimes had a favourable influence and at other times an unfavourable one on the company. The second part presents the evolution of employees' rights and the emergence of individual and collective legal instruments. In this context, in the third part of our study, the draft of Dr Farkas Mózes's last will, which aimed at transforming the company, is examined. We highlight the characteristics of the social enterprise he desired to establish in this way, with a corporate governance structure that was aimed, unusually at the time, at achieving labour participation in company management, thereby remaking the workforce members into stakeholders, now directly interested in company efficiency.

The data used for our study was obtained from documents of the 'Clujana' fund ('Clujana' being the final name of the company) preserved in the National Archives of Romania and available for research in Cluj-Napoca. We also used newspaper reports, as well as other sources from the period, which are interpreted in the light of current understanding.<sup>2</sup> Unfortunately, the funds available for research are fragmented. Therefore, we could not achieve (and nor was it our aim to produce) an exhaustive analysis of all the questions, thereby leaving room for further research.

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<sup>2</sup> 'Clujana' is the name given after 1945 when the Soviet-type dictatorship nationalized the company. This fund also contains the documents from the preceding period.

## 2. A Short History of the Renner – Later Dermata – Company and its Economic Context

### A. A Short History of the Company

Renner Brothers & Co Leather Factory JSC was established on 23 July 1911.<sup>3</sup> The company started its activity in May 1912.<sup>4</sup> Its founders were the Polgári Takarékpénztár Rt. (Civil Savings Bank JSC), Dr. Farkas Mózes, an attorney from Cluj, and his brother, Farkas József, as well as Hecht Richárd, Hecht Dezső, Renner Frigyes, and Renner Emil.<sup>5</sup> The know-how of this new company was based on the extensive experience in the manufacturing of leather products gained by the latter two shareholders within the company of their father, Renner János,<sup>6</sup> while Dr Farkas Mózes provided the necessary capital and administrative background.<sup>7</sup>

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<sup>3</sup> The company Memorandum of Association is located at the National Archives of Romania, Clujana fund, file n° 1/1915, vol. I, sheets 1-9. In this paper, to adhere to Romanian archival practice and permit the identification of documentary resources by other researchers, we shall reference archival materials using their respective sheet numbers. In this system, a page's front side (*recto*) and the reverse side (*verso*) have the same number.

<sup>4</sup> Clujana fund, file n° 1/1915, vol. I, sheet 23.

<sup>5</sup> Clujana fund, file n° 1/1915, vol. I, sheet 3. Later, the list of shareholders underwent frequent changes. Other investors had also joined the founders listed. For their list, see Clujana fund, file n° 59/1947, sheet 42. About these changes and the history of the company, see Emőd Veress, *Megjegyzések Dr. Farkas Mózesről és a Dermata Művekről, jogtörténeti kontextusban* [Notes on Dr. Farkas Mózes and Dermata Works in a Legal-Historical Context], in R. Schwartz (ed.), *Adalékok a kolozsvári zsidóság múltjához VI* [Addenda to the Past of Jews from Cluj VI] (Cluj-Napoca: Editura Mega, 2019), pp. 108-120; Emőd Veress, *Renner, Dermata, Herbák, Clujana – Different Iterations of a XX<sup>th</sup> Century Company in Transylvania (1911–1948)*, in (2022) 2:2 *Romanian Journal of Legal History*, pp. 109-123. The company was nationalised based on Act N° 119 of 1948. Regarding the nationalisation of Romanian industry see Emőd Veress, *From Capitalism to Utopia – Communist Nationalization of Companies in Central and Eastern Europe*, in (2015) 4:1 *Acta Universitatis Sapientiae, Legal Studies*, pp. 125-137.

<sup>6</sup> See Veress (2019), *op. cit.*, *supra*, note 5, pp. 109-111; Veress (2022), *op. cit.*, *supra*, note 5, pp. 109-123. Renner János was so significant to the history of the company that at his death on November 2nd, 1920, the press of the time cited him as the founder of Renner Brothers & Co Leather Factory JSC, although they were his sons, the 'Renner brothers' who were the founders. Halálkozások [Obituaries], *Új Kelet* (Cluj: November 4<sup>th</sup>, 1920), p. 6.

<sup>7</sup> Veress, (2019), *op. cit.*, *supra*, note 5, pp. 109-111; Veress (2022), *op. cit.*, *supra*, note 5, pp. 109-123.

The leather factory was first established on a 6-acre plot received as a gift from the city of Cluj.<sup>8</sup> Then, further plots were either purchased<sup>9</sup> or long-term leased for preferential rent to access railway lines.<sup>10</sup> The company benefited from other advantages during its establishment, especially tax incentives.<sup>11</sup>

There was a significant increase in the company's activity during the First World War (as seen in Table 1 of the Appendix), not least because it had become a military supplier.

This company not only survived the war and the ensuing political and economic changes, thus also the change of sovereignty brought about by the Treaty of Versailles, but it also started to grow between the two world wars. By 1920, it was already considered the only company capable of manufacturing good quality footwear in its narrower region.<sup>12</sup> During the 1920s, it expanded, obtaining a significant share in several companies with similar activity.<sup>13</sup> Later, starting on 25 April 1930, the Renner Brothers & Co Leather Factory JSC changed its name to 'Dermata-Works' Leather and Shoe Factories JSC, following its cooperation for better coordination of

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<sup>8</sup> See the donation agreement of July 19<sup>th</sup>, 1911, and its codicil from April 2<sup>nd</sup>, 1912, which set the value of the investment to be carried out at a minimum of 200.000 Austrian-Hungarian Korona, *Clujana* fund, file n° 260/1942, sheets 3-4.

<sup>9</sup> *Clujana* fund, file n° 260/1942, sheets 6–16 and 21–22.

<sup>10</sup> *Mit akar a Renner bőrgyár?* [What Does the Renner Leather Factory Want?] *Kolozsvári Tükör* (Cluj: February 22<sup>nd</sup>, 1916), pp. 9-10; Szerkesztői üzenetek [Messages from the Editor] *Kolozsvári Tükör* (Cluj: February 29<sup>th</sup>, 1916), p. 14; *Clujana* fund, file n° 5/1924, sheets 59–61 (industrial railway line deployment permit dated June 10<sup>th</sup>, 1919). The state aid received by the company referred to in the press articles raised some resentment, partly attributable to the competition it created for the local small-scale shoemaking industry. (Some assertions of the *Kolozsvári Tükör* periodical, which displayed relentless hostility towards the company, were subject to libel suits and were later retracted. See *Nyilatkozat* [Statement], *Kolozsvári Tükör* (Cluj: February 29<sup>th</sup>, 1916), p. 14; *Nyilatkozat* [Statement], *Kolozsvári Tükör* (Cluj: October 17<sup>th</sup>, 1918), p. 7.

<sup>11</sup> Veress (2019), *op. cit.*, *supra*, note 5, pp. 109-110; Veress (2022), *op. cit.*, *supra*, note 5, pp. 109-123.

<sup>12</sup> Camera de Comerț și Industrie Cluj, *Raportul Camerei de Comerț și Industrie Cluj despre relațiile economice ale circumscripției sale pe anii 1920-1921* [Report of the Cluj Chamber of Commerce and Industry on Economic Relationships Within Its Constituency for 1920-1921] (Cluj: Tiparul Institutului de Arte Grafice 'Lapkiadó' S.A., 1922), p. 70.

<sup>13</sup> The significant acquisition of shares in the Leather Factory from Turda in 1923 was an essential element of this acquisition. *Știri diverse* [Miscellaneous News] (1923) *Curierul Pielei* (Cluj: June 15<sup>th</sup>, 1923), p. 13.

market behaviours, with the Turul Leather Factory in Timisoara. Within the framework of this involvement, Renner Brothers & Co Leather Factory JSC had become the majority shareholder in the Turul Leather Factory.<sup>14</sup> The press at that time called this operation a merger. However, there was no merger in the legal sense of the word, as the company in Timisoara retained its separate legal entity. There was only a transfer of control to the company in Cluj.<sup>15</sup> In contrast, the Anglo-International Bank was simultaneously a major shareholder in and the creditor of both companies.<sup>16</sup>

According to economic indicators reflected in archival data and other published information (shown in Table 1), the Renner Brothers & Co Leather Factory has been a successful enterprise since its establishment. Depending on the economic context (at the beginning also because of the significance of its activity to the military), from 1913 to 1934,<sup>17</sup> its revenues grew significantly. The company's profitability was particularly high during the First World War: its profit before tax, compared to its annual turnover, was above 20%, sometimes exceeding even 40%, except for the business years 1913, 1916, and 1928-1932.<sup>18</sup>

### *B. Protectionism and its Effects on the Company*

The period between the two world wars was characterised by economic protectionism in Romania, which was applied by successive governments with more or less commitment.<sup>19</sup> Mihail Manoilescu, – a Romanian

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<sup>14</sup> *Céget változtatott a Renner Testvérek és Társai Bőrgyára Rt.* [The Renner Brothers & Co Leather Factory JSC Has Changed Its Name], *Keleti Újság* (Cluj: April 28<sup>th</sup>, 1930), p. 10. As for the origins of the name 'Dermata', it is worth noting that this had already appeared in the 1920s as a code word for telegrams addressed to the Renner Brothers & Co Leather Factory JSC as attested by the advertisements of Renner Brothers & Co Leather Factory JSC. *Telegramme: DERMATA* [Telegram: DERMATA], *Curierul Pielei* (Cluj: October 15<sup>th</sup>, 1923), p. 2.

<sup>15</sup> *Turul Cipőgyár rt.* [Turul Shoe Factory JSC], in (1930) 54:2 *Nagy Magyar Compass*, p. 116.

<sup>16</sup> *Dermata-Turul fúzió után bűnvádi feljelentés* [Criminal Complaints After the Dermata-Turul Merger] (1931) *Ellenőr* (Cluj: January 17<sup>th</sup>, 1931), pp. 42-44.

<sup>17</sup> In the *Clujana* fund (especially in file n° 1/1919, vol. I), there are precise summaries regarding the period analysed, which are unavailable for the subsequent period.

<sup>18</sup> For further observations regarding the years listed, see *infra* Figure 4, and Table 1.

<sup>19</sup> With the emergence of two significant trends, state intervention ('dirijism' in Romanian, from the French *dirigisme*) and corporatism, these policies were concentrated around the economic model of this ideology. See Roxana Bobulescu, *The Great Depression in Romania: Dirijism Versus Corporatism*, in M. Psalidopoulos (ed.), *The Great Depression in Europe:*

politician, economist, and journalist whose nationalist economic views (which laid the theoretical basis for protectionist thinking worldwide) exerted a significant influence on Romanian regulation during the 1920s and 1930s, – was the most influential advocate of protecting the economy from external competition and thereby promoting internal industrialisation.<sup>20</sup>

The strengthening of Romanian economic protectionism by introducing customs duties was already among the economic recovery measures of the Titulescu government in 1921, a policy also continued by subsequent Brătianu governments (1924, 1926).<sup>21</sup> According to media reports at that time,<sup>22</sup> the General Union of Romanian Industrialists (U.G.I.R.) – which lobbied in the interest of the Romanian manufacturing industry – was also active in strengthening customs protection. The managing director of Renner Brothers & Co Leather Factory JSC, Dr. Farkas Mózes, had a leading role within this organisation. Initially, he advocated for strengthening protectionism, then later on, for relaxing it.<sup>23</sup> As reflected in contemporary archival sources, the increasingly complex system of

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Economic Thought and Policy in a National Context (Bucharest: Alpha Bank Historical Archives, 2012), pp. 305–330.

<sup>20</sup> The global economic order was generally characterised by protectionism after WWI. See Ronald Findlay, Kevin H. O'Rourke, *Trade, War, and the World Economy in the Second Millennium* (Princeton NJ, USA: Princeton University Press, 2009), pp. 429–472. Specifically, see pages 444–445 of the work cited. For the evolution of protectionism in Romania and the views of *Mihail Manoilescu* (in the Western European literature sometimes referred to as 'Manoilescu'), which later had a significant impact on South American economic development, see Mihail Manoilescu, *The Theory of Protection and International Trade* (London: P. S. King & Son, 1931). For a brief presentation of these views, see Bertrand Blancheton, Nikolay Nenovsky, *Protectionism and Protectionists Theories in the Balkans in the Interwar Period*, in (2013) 2 *Cahiers du GREThA*, <<https://ideas.repec.org/p/grt/wpegrt/2013-02.html>>, last time accessed: December 4<sup>th</sup>, 2023. Romanian economic protectionism may not be treated separately from the views of the time, according to which (and also in Manoilescu's theory) it primarily appears as a tool for increasing national participation in the economy. In this regard, see Ștefan Cristian Ionescu, *Theorists of Economic Nationalism in 1930s–1940s Romania*, in (2019) 47 *Nationalities Papers*, p. 264.

<sup>21</sup> Blancheton, Nenovsky, *op. cit.*, *supra*, note 20, p. 6.

<sup>22</sup> *A kormány elleni támadás után véres fejjel vonul vissza a gyárpar* [The Manufacturing Industry Retreats With a Bloodied Head After the Attack Against the Cabinet], *Brassói Lapok* (Brașov: November 20<sup>th</sup>, 1929), p. 10.

<sup>23</sup> *Takarodót fújt a gyárpar a túlzott védővámok leszállításának ügyében* [The Manufacturing Industry Beat a Retreat on the Issue of Reducing Excessive Protective Tariffs], *Brassói Lapok* (Brașov: September 20<sup>th</sup>, 1931), p. 11.

customs duties entailed increased bureaucracy,<sup>24</sup> but these duties improved the internal market position of the company. The profits have always been influenced by the evolution of the economic and political environment, the introduction of protective customs duties, and their temporary modification, relaxation, or tightening. For example, the press at that time<sup>25</sup> explained the company's profits for 1928, which were lower than earlier and lower than forecast, to a decrease in protectionism.

Therefore, these economic protection measures exerted a double influence on the company: while increasing customs duties and strengthening protectionism implied a stabilisation of profitability, the decrease in demand had a converse effect. At the same time, transactions settled in foreign currency fell under stricter state control,<sup>26</sup> rendering import-dependent activities within the leather industry<sup>27</sup> more difficult. In the company's activity, this control was visible, for example, in relation to dividends paid to shareholders.<sup>28</sup> There were many natural persons and legal entities among shareholders. This pool of shareholders has changed over time and given that some shares were made out to the bearer, the register of shareholders is not highly reliable. However, in 1924, for example, of the 400.000 company shares, 135.211 (33.8%) were foreign-owned (supposedly all of them issued as bearer shares).<sup>29</sup> Later, this

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<sup>24</sup> See stock market data concerning the *Turul Shoe Factory JSC for 1925-1931*, submitted at the Ministry of Industries's order for levying customs duties, *Clujana* fund, file n° 81/1940, sheets 7-30.

<sup>25</sup> *A Renner Testvérek és Társai Bőrgyár R.-T. mérlege* [The Balance Sheet of the Renner Brothers & Co Leather Factory JSC], *Ellenőr* (Cluj: April 30<sup>th</sup>, 1929), pp. 36-37.

<sup>26</sup> For this general phenomenon during the Great Depression, see Barry Eichengreen, Douglas A. Irwin, *The Slide to Protectionism in the Great Depression: Who Succumbed and Why*, in (2010) 70 *The Journal of Economic History*, p. 871. As for Romania, *ibid.*, p. 880.

<sup>27</sup> Archival sources related to the company's activity show an extensive dependence on imports, as much as machines used during manufacturing, but consumables and raw materials are also concerned. Therefore, several documents are related to procuring machines and consumables from abroad. See, for example, *Clujana* fund, unnumbered *Juridic* [Legal] file from 1920, sheets 12-17 and 42-73.

<sup>28</sup> *Clujana* fund, file n° 7/1926, sheet 23. According to this document, the dividends payable to foreign shareholders in Romanian Lei could only be transferred with the approval of the Office for Currency Control in Cluj. For similar documents dating from 1924 and for the list of foreign shareholders, see *Clujana* fund, file n° 5/1924, sheets 2-4. For example, in the document from 1924 cited here, the Office for Currency Control was informed that dividends payable to foreign shareholders would not be paid in cash but through offsetting; therefore, their redemption would not entail payments in Lei abroad.

<sup>29</sup> *Clujana* fund, file n° 5/1924, sheet 54. Cf. *Clujana* fund, file n° 5/1924, sheet 4.

quantity of shares slightly decreased: for example, requests for the payment of dividends to foreign entities were submitted for 121.804 shares in 1925 and 108.561 shares in 1926.<sup>30</sup> Of a total of 140.245 shares represented at the general meeting of shareholders on 27 April 1933, 46.072 (32.8%) were foreign-owned.<sup>31</sup> Even in 1945, the proportion of foreign shareholders represented 40.85% of the total nominal value of shares.<sup>32</sup>

### C. Production Indicators of the Company During the Great Depression

Romania was severely affected by the Great Depression.<sup>33</sup> There was a drop in the gross domestic product in 1928 and 1932 compared to the previous year, as shown in Table 4 in the Appendix and Figure 1.

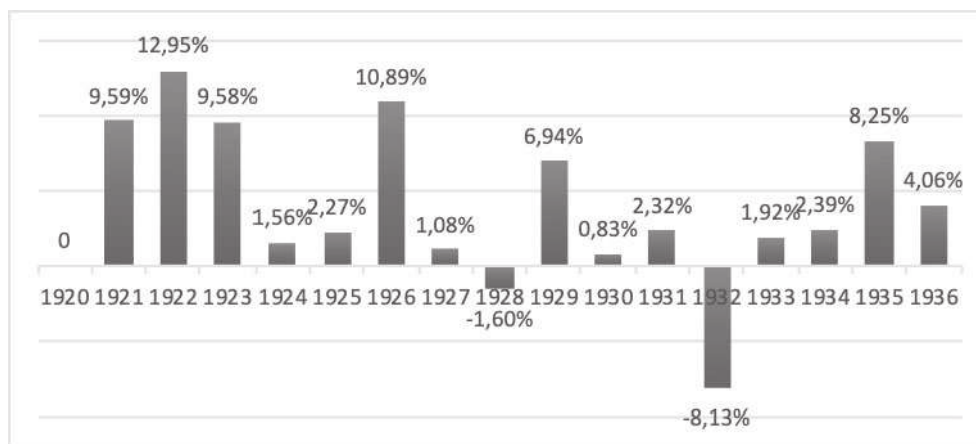


Figure 1. The variation of Romanian GDP compared to the previous year (1920-1936). Source of data: Table 4.

Production data (shown in Table 2 in the Appendix, and on Figures 2-4) show that, following a favourable previous context, the activity of the company had slightly decreased in the first part of the great economic crisis (in fact during 1929, therefore preponderantly before the beginning of the crisis), especially inasmuch as footwear was concerned, and then it started to increase significantly. Moreover, during the critical 1929-1931 period, there was spectacular growth in the level of production. There was

<sup>30</sup> Clujana fund, file n° 5/1924, sheets 72-73.

<sup>31</sup> Clujana fund, file n° 1/1933, sheet 203.

<sup>32</sup> Clujana fund, file n° 59/1947, sheets 65-66.

<sup>33</sup> Keith Hitchins, *A Concise History of Romania* (Cambridge UK: Cambridge University Press 2014), pp. 181-182.

a similar increase in fine leather production, while there was hardly any change in shoe sole manufacturing during the 1929-1931 period.

Following a fluctuating pattern, a drop in production indicators is mainly visible after 1931. Unfortunately, no archival sources related to economic data could be found for most of this period, except for those published in Table 2 in the Appendix. What is clear based on these data is that, during the Great Depression in the traditional sense, the production of the company was still increasing at the beginning of the period, and it started to show signs of visible decrease only starting in 1931.

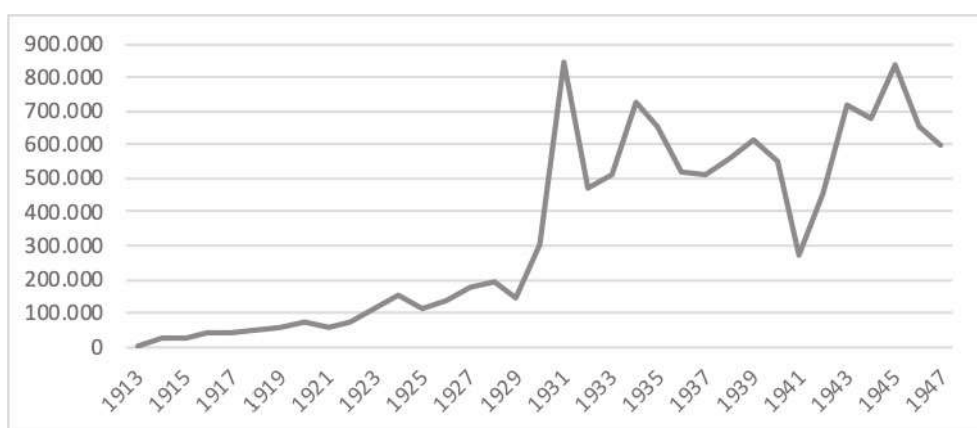


Figure 2. Number of shoes manufactured per year (pairs). Source of data: Table 2.

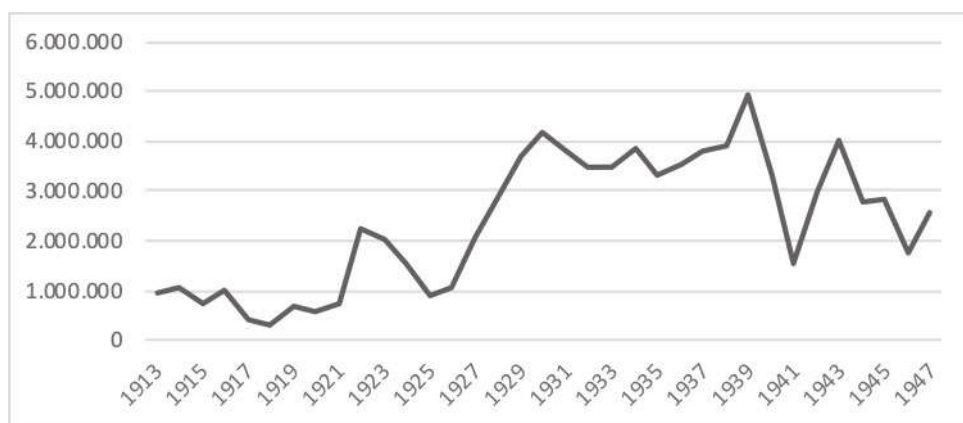


Figure 3. Amount of fine leather used per year between 1913 and 1947 (in square feet). Source of data: Table 2.