

CHAPTER IX

THE TRAGEDY OF FREE TRADE

It has already been emphasized that one of the most outstanding centripetal forces of the monarchy consisted in its free-trade policy which made so many peoples and territories a complete economic unity. There can be no doubt that, if all the possibilities of the free-trade policy had been utilized in the right way, the centrifugal and particularistic tendencies could have been checked by the growing economic solidarity of the various nations and countries. Even under the shortcomings of the actual policy, which we shall consider in detail, its advantages were always emphasized by the supporters of the customs union. They employed the classical arguments of Cobden and Bright, saying: "Behold the Habsburg monarchy gives the privilege and opportunity to many peoples and countries different from each other in natural conditions, in language, in culture, in economic development to trade with each other without the obstacle of custom barriers and, therefore, to complete each other in the most harmonious way. Bohemia, for instance, can freely communicate with Transylvania, Styria with Galicia, Silesia with Dalmatia. How advantageous and progressive this free trade is!"

Recent political developments seem to corroborate this argument. In 1919 the Austro-Hungarian customs union was broken into seven parts and each of these seven parts is today much poorer economically, and much less efficient than in the flourishing period of the old connection. Besides, there can be no doubt that the present economic distresses of Czecho-Slovakia, Jugo-Slavia, Poland, and Rumania were caused to a large extent by those economic changes which were a consequence of the new custom barriers, not to mention the Austrian Republic and Hungary mutilated almost into a torso. It is now the general opinion both in Europe and America, expressed by the International Manifesto of the leading bankers, that the dismemberment of the Austro-Hungarian customs union was a great disadvantage to all the peoples concerned. That is also the chief argument for all those efforts which endeavor to use propaganda for the re-establishment of the Habsburg empire under an economic disguise.

Under such circumstances it is worth while to study whether the advantages of the customs union were really so overwhelming for the interests of the peoples who constituted it, and whether its dismemberment is really so detrimental to the future development of the various national economies. It is a firmly established fact that, since 1919, the succession states of the monarchy suffer more under the

general economic depression which followed the World War throughout Europe, than the Western countries of Europe. But this fact alone does not decide the problem. The peoples who lived in the Austro-Hungarian monarchy were economically less developed and more feeble than the Western nations, and a weaker economic organism has more difficulty in restoring itself than a stronger one. If we speak with the bankers of the newly established states, we find that they are not pessimistic at all: "Should we once pass the evils caused by the *Umstellung* ["transposition"] then we shall reach greater results than possible in the territory of the old customs union. . . ." This argument sounds somewhat strange because we are accustomed to accept the truth of free trade and its beneficial results without any qualification.

The careful investigation of this process is the more important because the free-trade argument regains vigor in Europe, and also the Pan-European movement emphasizes the importance of economic unity. All these movements try to reconstitute something which was already a living reality in the old Dual monarchy. Therefore, the discussion cannot be carried on as in the times of Cobden and List, some eighty or ninety years ago, exclusively on the basis of the general arguments for free trade or protection, but we must put our questions in a more concrete way: What are the real conditions of free trade? What are the conditions under which free trade can be really operative and advantageous for all the peoples and territories concerned?

A. THE NATURAL AND OTHER CONDITIONS OF ECONOMIC CO-OPERATION IN THE HABSBURG MONARCHY

The Austro-Hungarian customs union was established in 1850 by an imperial decree of victorious absolutism. In the previous period there were customs barriers between Hungary and the Austrian provinces. These customs barriers were an instrument in the hand of the imperial policy for the colonial exploitation of Hungary in the interest of the imperial treasury and of the more industrialized regions of Austria. (As was previously mentioned, the chief cause of this measure was the fact that the nobility of Hungary, the only prosperous class of the country on the basis of its feudal privileges, was unwilling to pay taxes and, therefore, the indirect way of customs duties was the only expedient to break their resistance.) In those times it was the constant claim of the feudal estates that trade should become free and that exports and imports should be regulated on a basis of strict parity. Later in the two decades before 1848, a customs union was the chief demand of the Liberal Hungarian opposition. "This idea had also its supporters at Vienna," says the noted Hungarian historian, Acsády, already quoted, "but only for the reason that they realized that the economic separation was the chief obstacle for the assimilation of Hungary." But immediately before 1848 the most advanced

group of Hungarian opposition—under the leadership of Louis Kossuth—had already abandoned the claim for the customs union (especially under the sway of the doctrine of Frederick List, the great German economist), and on the eve of the revolution the demand for a complete economic independence of Hungary became loud. This growing tendency for the economic and national independence of Hungary was the chief cause which induced the Habsburgs, after the defeat of the Hungarian revolution, to establish in 1850 the customs union as the most efficacious means to oust all particularistic tendencies. The compromise of 1867 only confirmed and sanctioned the previous situation.

It is evident from these historical antecedents that the Austro-Hungarian customs union was already in its origin a great historical experiment, the experiment of a conquering army and of a victorious emperor to unite economically by force the various national territories of the whole realm. Against this experiment more and more vehement reaction became manifest. The most important group of those reactions was, as we have already emphasized, of a sentimental nature. The nations fought bitterly against all endeavors in which they supposed there was a purpose in the unifying absolutism.

In order to see the situation more clearly we must, therefore, investigate all those conditions which determined the success or the failure of the free-trade policy in the frames of the Habsburg monarchy. Let us begin with the natural conditions.

The more two or several economic territories can offer to each other, the more they complete each other, the more advantages free trade promises to them, the more disadvantage if tariff walls separate them. For instance, a mountainous country, rich in forest and pastures and producing wood and cattle, is the natural complement to a plain region abundant in grains. A region of moderate climate and of cold winters, exporting milk, beet sugar, and potatoes, is a complement to a southern district abounding in southern fruits, cotton, and oils.

Regarding the separated parts of the monarchy from this point of view, we come to the conclusion that the natural completion of the various regions was not so conspicuous as to render their economic union particularly advantageous or their severance particularly detrimental.

In mineral resources the Habsburg monarchy was not rich. The raw materials produced by the mining industries in the year 1907 amounted in value to 1,845 million marks in the German empire, 274 million marks in Austria, and 85 million marks in Hungary.¹ These

¹ For this and other points of the argument the reader will find reliable information and a wholesome criticism in the book of Friedrich Otto Hertz, *Die Schwierigkeiten der industriellen Produktion in Österreich* (Wien u. Leipzig, 1910).

figures make it manifest that the Austro-Hungarian monarchy, compared with the German Empire, was poor in minerals. And what made the situation even more difficult was the fact that the places where these relatively small mineral resources were found, as well as the other natural treasures and motive powers important for the industry, were not concentrated in certain regions of the monarchy but were divided, so to speak, among all the countries and provinces.

One of the chief conditions of modern industry consists in the motive powers: coal, crude oil, natural gas, water-power, and wood (partly as sources of energy, partly as raw materials). Among its modest mineral resources the monarchy was relatively rich in coal and petroleum, in water-power and in wood. But from the point of view of a natural division of labor, it must be noted that in water-power the Alpine provinces are most abundant, but there is water-power also in the Carpathians, in the Bohemian mountains, and in the Jugo-Slav territories. Similarly, the forests were distributed over many parts of the monarchy. The chief deposits of petroleum are in Galicia, of coal in Bohemia and Moravia, but coal could be found also in many regions of the monarchy, and in Transylvania are important resources in natural gas. That is partly the reason why the succession states of the dismembered monarchy are not lacking in those energy powers which are essential for industrial exploitation.

But still more important from the point of view of division of labor between the various territories of the former monarchy is the situation of agriculture. A region of warm climate where the olive and southern fruits were growing was only a very restricted territory, the littoral of the Adriatic, Istria, the Croatian littoral, and Dalmatia. The preponderant part of the monarchy furnished the articles generally produced in the temperate zone, and in this respect the differences in the monarchy were not great or decisive.

From the point of view of the foodstuffs, the interdependence of the cattle-breeding mountainous districts and of the grain-producing plains and hills had the greatest significance, but mountains, plains, and hills were so distributed throughout the monarchy that two or three of these terrains could generally be found within the limits of any one country. When the Habsburg monarchy was dismembered Czecho-Slovakia, Poland, Jugo-Slavia, and Rumania got both mountainous and plain regions from its ancient territory.

But let us now return to the mineral resources. How far they can serve as the basis for industrial development depends not only on their quantity but also on the cost of mining coal and ore per cubic yard, and further on the cost of transportation from the mining-place to the place of manufacture. For instance in England, where coal and iron-ore are mined often in close neighborhood or in the vicinity of waterways, an iron industry could easily establish itself. Just the op-

posite was the situation in this respect in the territory of the former Austro-Hungarian monarchy where the deposits of minerals were generally far removed from each other and from the waterways. For instance, the smelting furnaces of the *Alpine-Montangesellschaft*, which stand in the neighborhood of the Styrian iron-ore mines, were obliged to transport coal from the region of Mährisch-Ostrau at enormous expense.

The consequences of this geographical situation were that only a comparatively small industrial development took place and even this was concentrated in various parts of the monarchy, namely in north Bohemia, in the neighborhood of Vienna and in Styria, around Graz-Leoben. This comparatively weak and dispersed industrial development could not create such an interdependence between the manufacturing and the agricultural regions as would have been sufficiently strong to counterbalance the centrifugal tendencies that had arisen within the territory of the customs union.

The industrial development was further weakened by the difficulties of transportation. It was comparatively costly to ship commodities from certain parts of the monarchy into other parts. This situation was intimately connected with the very origin of the Habsburg empire. We must remember that the monarchy was not the outcome of a natural economic evolution which united territories on the basis of economic advantage, but the artificial creation of the Habsburg dynasty. The frontiers of the monarchy cut here and there the ties of natural interdependence. For instance, Bohemia was connected with Vienna by political boundaries whereas its natural outlet would have been the valley of the Elbe, leading toward the northwest, toward Germany and the North Sea. Or, to take another example, Galicia sloped toward the Baltic, partly toward Poland, and was separated from the bulk of the monarchy by the mountainous chains of the Carpathians. These natural obstacles made the building of railways and their operation very costly. At the same time the various regions were not sufficiently connected by navigable waterways. Generally speaking, there were few navigable waterways in the monarchy.

Not only from the point of view of internal waterways but also from the point of view of connection with the sea, the former monarchy was in a disadvantageous position. The basin of the Danube is separated from the Adriatic by the arid mountainous chain of the Karst, whereas the Danube empties itself into an isolated and economically abandoned bay of the Black Sea. It was characteristic of transportation conditions of the monarchy that a Viennese plant was occasionally able to ship its products from Vienna to Argentina by way of the Elbe and through Hamburg cheaper than from Vienna to Bukovina.

These disadvantageous conditions of transportation were further

aggravated by the lack of unity in the economic administration. The Austrian, the Hungarian, and the Bosnian railways stood under separate, independent control, and each government could establish a railway tariff system according to its own taste. For instance, in 1880, it was stated in the Hungarian Parliament that the comparatively expensive railway rates of the Austrian administration impeded more the export of Hungarian grain into Germany than the German agrarian custom duties then in operation. This possibility of influencing in a certain sense the traffic between the various regions of the monarchy by an artificial system of railway rates, was largely utilized equally by the Austrian, the Hungarian, and the Bosnian governments. The transportation policy of the Austrian government tried to exploit the Hungarian producer in the interest of Austrian industry. For instance, there were higher railway rates on Hungarian grain than on Rumanian or that originating from other Balkan countries.

This policy of influencing Hungarian economic life by the way of transportation rates was easier for the Austrian government because its control also extended over Hungarian internal navigation. Namely, the Austrian government had the complete direction of the Austrian societies of Danube navigation, and the Austrian concerns compelled the only greater Hungarian navigation company to ally itself with them. On the other hand the Hungarian government which controlled directly almost the whole railway system of Hungary, was capable of securing very important rate privileges for the Hungarian industry. Similarly the Bosnian government employed the same measure on its own territory.

National and state jealousies heightened even more the difficulties of transportation. A startling example of this was the case of the Dalmatian railways. Dalmatia was an Austrian province, but Hungary made a legal claim upon it based on the historical right of the Crown of St. Stephen. Dalmatia was separated from the other Austrian provinces by the wedge of Croatian territory belonging to the Hungarian kingdom. Therefore, a railway which would have connected Dalmatia with the other Austrian provinces could only be effectuated through Hungarian territory, but the building of such a railway was always opposed by the Hungarian parliament lest it should make the possession of Dalmatia easier for Austria. In consequence of this conflict the goods from Austria to Dalmatia were transported by railway to Trieste and from there they were transferred to ships and perhaps again loaded on a train from a Dalmatian seaport.

As revenge for this policy the Austrian government refused the claim of Hungary for a direct transportation of its goods toward Prussian Silesia and Berlin. The Austrian government could molest the business traffic between Hungary and Germany on many pre-

texts. This quite artificial obstacle of transportation, for which bitter diplomatic struggles were fought for years between the two countries under the name "the Junction of Annaberg," was sometimes detrimental to the economic interests of Hungary.²

The traffic in goods had other obstacles also in the territory of the customs union. On the basis of old historical rights Tyrol collected customs duties and Dalmatia the so-called *Dazio consumo* on their borders upon grain or flour imported from the other parts of the monarchy. At the same time economic boycott movements were arranged by the rival nations of the monarchy against each other. Already Louis Kossuth initiated such a movement, the so-called "Protective Association" which had interesting analogies with the recent movement of Gandhi against the English manufactured products. In the nineties of the last century a similar movement was inaugurated in Bohemia in nationalistic circles against the consumption of Hungarian flour. Similar to this was a Magyar nationalistic movement, the so-called "Tulip Movement"³ in 1906 which made it a duty for the consumers to buy exclusively Hungarian manufactured products.

From all that has been said it is manifest that the principle of free trade was considerably hampered on the territory of the custom union. At the same time we realized that the natural conditions of the monarchy were not very favorable for the mutual interdependence of the various territories. In spite of these facts a sufficiently considerable traffic in goods was established between 1850 and 1914 on the territory of the Austro-Hungarian custom union. The reason was that the process of industrialization went on in various times and in various measures in the different parts of the monarchy.

Speaking generally, Galicia-Bukowina, Hungary-Transylvania, and the Jugo-Slav parts of the monarchy were no less fit for the development of big industry than Bohemia-Moravia or the Alpine provinces. Nevertheless in 1850 when the custom union was decreed, the latter regions were already manufacturing to some extent whereas the former were exclusively agrarian. Approximately until 1890 the industrial development did not even start in the eastern and southern parts of the monarchy, whereas until the same time Bohemia-Moravia, Silesia, Lower and Upper Austria, and Styria made a great advance in industrialization. About 1890, therefore, the difference between the industrial and the non-industrial regions became even more conspicuous. The causes, however, which created this interdependence were of a transitory nature. As a matter of fact the difference and interdependence between the industrial and the agrarian regions lessens in

² This and other grievances of the Hungarian economic life were enumerated in detail by Joseph Vágó in his *Memorandum concerning the Renewal of the Austrian-Hungarian Customs and Commercial Treaty* (Budapest, 1916). In Hungarian.

³ The promoters of this movement wore tulips in their buttonholes.

the long run in the same measure in which the latter advances in industrialization. Therefore, the dependence of the eastern and southern agrarian parts of the monarchy on the industrialized west must have lessened, in a certain measure, when the agrarian territories began to establish their own industries. That was really the case: there was a tendency toward a diminished interdependency in the last twenty-five years of the existence of the Austro-Hungarian customs union.

For instance, if space would permit me, I could demonstrate by statistical figures that coincidentally with the strong absolute growth of foreign trade—both in the foreign trade of Hungary and of Austria—their trade with each other had a comparatively smaller significance and their trade with foreign countries, a comparatively greater, in 1910 than in 1890. That is to say, the tendency of economic evolution was toward the emancipation of the two countries. A similar tendency was also operative among various territories of Austria, the Alpine, the Sudet, and the Karst provinces.

But there is also another factor which we must take into consideration. It is evident that the more primitive means of production the population of a given territory employs, the less productive its work is and the poorer the standard of living of their working-masses, the more insignificant is the rôle which the exchange of their products plays in their economic life. The primitive peasant communities of the Middle Ages produced the largest part of the commodities which they needed; whereas the part which they were compelled to exchange on the market was reduced to a minimum. In those times, Europe was divided into an immense number of petty sovereignties, under greater or smaller feudal lords who were at constant war with each other. In spite of this situation, economic life went on in these small, isolated territories because life was very crude, mostly independent of any economic exchange. In the course of the European historical evolution, roughly speaking from 1000 to 1871, the small feudal territories of the Middle Ages were integrated into principalities, and later into vast patrimonial, then into national states. The driving force of this integration was the growing productivity of labor which lessened the poverty of the broad masses of population. This comparatively growing welfare of population augmented economic needs and made them more varied: it heightened the division of labor and the necessity of co-operation.

Now regarding the Austro-Hungarian customs union, we are impressed by the fact that it was constituted of human masses employing very primitive instruments of production and the great majority were living in very great poverty. Therefore they needed comparatively little exchange of their products. The barter economy (the *Naturalwirtschaft* in the German terminology), which accompanies the primitive methods of production, plays even now a far more pre-

ponderant rôle in the villages of the former Austro-Hungarian monarchy than those who regard and judge the degree of the culture of the former empire by the façades of the palaces of Vienna, Budapest, and Prague would imagine. According to the report of the inspectors of industry, in 1901, in Styria, Salzburg, Tyrol, and the northern parts of Lower and Upper Austria, the flax, hemp, and wool produced in the villages were spun into yarn and woven into cloth by each family or by the help of traveling weavers.⁴ Now, if in the villages of the most advanced western parts of the monarchy the old family economy still existed in such a measure, we can imagine how conditions were in the backward eastern and southern parts—in the Ruthenian, Rumanian, Serbo-Croat, and eastern Slovak regions or even in the intermediary Polish, western Slovak, Hungarian, or Slovenian territories, which are less advanced in economics and culture than the Austrian-German and Czech parts of the west and north. Generally speaking, in the eastern and southern parts of the monarchy, the rôle of the traffic of goods was relatively so small that we met there certain survivals of the age-old tribal communism. For instance, the pastoral communities of the Rumanian mountains and the so-called Zadruga settlements of the Jugo-Slavs, uniting some dozens, not seldom sixty to eighty people in a semi-communistic life, restricted modern trade to an insignificant place.

This situation had also another important aspect. A higher productivity of labor means an extension in the traffic of goods not only because it creates well-being and in connection with it many new needs, but also because a higher productivity is dependent on a growing differentiation of the whole process of production. There is a demand for an immense variety in raw materials and technical implements in order to maintain a higher productivity and a more developed type of production. A high productivity of labor, therefore, can only be the result of co-operation between numerous millions of men and many different geographical areas.

But the greater the rôle of the exchange of products in the life of a people, the more important for it is the system of free trade. That is the reason why peoples on a higher cultural and economic level aspire, if not for free trade, at least for the creation of big customs unions. That is the reason why countries with a small population, if their economic life is developed, cannot suffer at their frontiers high custom tariffs, but are under the necessity of accepting, if not the policy of free trade, at least low protective duties. The truth of this proposition is demonstrated by the examples of Switzerland, Belgium, the Netherlands, and Denmark. On the contrary, the succession states of the former Habsburg monarchy—Czecho-Slovakia, Hungary, Ruma-

⁴ Friedrich Otto Hertz, *Die Schwierigkeiten der industriellen Produktion in Österreich*, pp. 33-36.

nia, and Jugo-Slavia—though they are small states, can endure the system of high protective tariffs because their economic life is comparatively undeveloped.

Briefly speaking *the Austro-Hungarian customs union satisfied an economic need which was not yet sufficiently developed in the peoples living in its territory.* Therefore when in 1850 the imperial power, anxious for the unification of its empire, dictated to the peoples of the monarchy the system of free trade, they did not yet have a serious economic motive for it. They could have existed in nearly as good a condition with customs barriers between their national territories. For instance, in Hungary, before 1850, many people got their livelihood from small artisanship which satisfied tolerably the primitive needs of the country in that period. This small industry was destroyed after 1850 by the competition of the big Austrian-German and Czech industrial plants, so that the introduction of the customs union led to the bankruptcy of a not unimportant strata of the small bourgeoisie. That is the reason why the propaganda of Louis Kosuth and his followers for political and economic independence found its most ardent supporters among the smaller bourgeoisie of the Hungarian towns, large and small. Only a constant economic growth of all the peoples of the monarchy could have been the real unifying force of the customs union and which could have filled, with a real content, the economic framework created by the despotic will of the Emperor.

But at the same time there was the danger already alluded to that the economic development through the work of industrialization would have lessened the economic interdependence among the various parts of the empire not held together by the ties of a natural international division of labor. That is to say that economic progress has produced simultaneously two antagonistic tendencies on the Austro-Hungarian customs union: one connecting, the other dissolving. We shall see their work now in detail.

B. THE DISSOLVING FORCES

a) THE AGRICULTURAL POLICY OF THE FEUDAL CLASSES

We saw that the most important condition for making the customs union indispensable for all the peoples of the dual monarchy would have been to raise them to a high level of development. It is therefore manifest that the chief effort of all those who aspired for the consolidation and maintenance of the empire should have been the propagation of culture, productivity, and economic welfare among all the people in the shortest possible time. This idea was not entirely absent in the historical evolution of the monarchy. Few of the more clear-sighted emperors, as was emphasized in our historical part,

clearly understood that only a general economic and cultural progress could have been a real tie among such various territories and variegated populations. This policy was energetically advocated by the socialist adherents of "Greater Austria" in emphasizing the necessity for economic and cultural progress on the basis of national emancipation in order to maintain the monarchy. But this very conception of an economic progress and thoroughgoing democratization was, since the times of Maria Theresa and Joseph II, always opposed by the big feudal aristocracy of the monarchy which knew very well that such a policy would ultimately undermine its social and political privileges. Against this overwhelming force the imperial power could not adequately represent the interests of the great masses of the population. It is the very essence of autocratic power that it cannot adopt seriously and consequentially a policy of alliance with the lower

TABLE I

	Total Population in Thousands	Total Engaged in Agriculture in Thousands	Agricultural Percentage
Austrian provinces	28,572	13,842	48.5
Countries of Hungarian crown	20,886	13,470	64.5
Bosnia and Herzegovina	1,932	1,674	86.6
Total	51,390	28,986	56.4

classes of the population. There is a limit where it must check inevitably the growing trend of democratic and constitutional progress.

This truth is distinctly shown by the very history of the Austro-Hungarian monarchy. Disregarding short episodes, the harmony was complete between the dynasty and the feudal aristocracy of its empire. The government appointed by the emperors represented in all serious issues the aspirations and interests of the leading feudal classes. Therefore, the government served the cause of economic progress only so far as it was not opposed by the interests of the great landed proprietors.

Now under the given conditions, economic progress could only start from the progress of agriculture. The reason is (besides the causes which we shall discuss later) that the greater half of the population was occupied in agricultural work. Table I indicates the numbers engaged in agriculture in 1910.

On an average, therefore, the agricultural population constituted the majority of the monarchy, but naturally the agricultural or industrial character varied largely in the different parts.

Generally speaking the western and northwestern industrialized parts were confronted by the other territories consisting chiefly of a

small, backward peasantry and by a wretched agrarian proletariat. The industrialized and more progressive areas did not amount to a three-tenths part of the whole territory of the monarchy, whereas the other seven-tenths were populated by poor peasant masses, almost on the level of slow starvation, as we shall see in the chapter devoted to the *morbis latifundii*. In consequence of these circumstances, on the large territories mentioned above, no other real economic progress was imaginable than the heightening of the standard of life of the agricultural population.

The next method for this purpose would have been the raising of the productivity of agricultural labor and the growth of the crops. It would be unfair to say that nothing happened in this direction. On the contrary, between 1850 and 1895, the agricultural production of the monarchy made very considerable progress. Especially in Hungary, the agriculture of which was very primitive before 1848 and where the pastoral system was predominant, great improvements were made in the technique of agriculture and consequently in the productivity of labor. The rudimentary wooden plow was supplanted by the iron plow, and the pastures shrank to a small amount of the agricultural territory.⁵

An agricultural advance in the same direction—though in a far smaller degree—went on between 1850 and 1890 in Croatia and in the Austrian provinces. Generally speaking, the Austro-Hungarian monarchy as a whole made a considerable advance in economic wealth until the end of the nineteenth century. The chief driving force of this economic progress, starting in 1850, was the great landed property. In all the improvements of agricultural technique the great landowners took the lead whereas the smaller and bigger peasantry only imitated the new methods introduced by them.

An eminent agrarian expert, Arnold Dániel, was able to demonstrate that the landlords of Hungary, in the period from 1850 to 1890, were deeply interested in the increase of their agricultural production,⁶ partly because in 1850 the customs barriers which formerly impeded the exports to Austria ceased to exist, partly and chiefly because the world-prices of wheat stood at that time on a very high level. In this progress the customs union was manifestly a factor, but the chief cause was the price situation of the world-market. Austria and Hungary together produced more grain than they consumed, they sold part of their crops to foreign countries, and the price situation of these countries (for instance, in southern Germany or in the states

⁵ A careful discussion of the agrarian situation was given by Arnold Dániel in his important essay, "Towards the Economic Revolution of Hungary," *Huszadik Század* (1909), Vol. I. In Hungarian.

⁶ For this and other connected data see his remarkable book, *Soil and Society* (Budapest, 1911). In Hungarian.

around the Channel) determined the price of the grains inside of the customs union as well. Therefore, as before 1885 the high prices of the world-market were an incentive for the Austrian and Hungarian big and middle landed interests to increase their production: the falling of prices in the later period was answered by them by ceasing to increase their outputs. Instead of trying to intensify their agricultural production by the introduction of the new methods of agrarian technique, and especially by the adoption of processes of irrigation, the big landowner class of the monarchy did not choose the road of progress but took quite the opposite course.

I must emphasize at this juncture that the Hungarian feudal aristocracy had a prominent, almost decisive rôle in the direction of the agrarian policy of the whole monarchy. The only solidly organized part of the population was the big landed interest, that is to say, that part of the agriculturists that lived on their rents and the leading element of which was constituted by the old feudal aristocracy. Among this aristocracy there were several groups: an Austro-German, a Czech, a Polish, a Hungarian, and a Croat. These last two had a more intimate cohesion and formed almost a unitary group, exercising a kind of hegemony over the other groups. Though the various groups of the feudal aristocracy were rivals of each other for the most outstanding offices of the state (in which competition generally the German and the Czech aristocracy were victorious, being the most intimately connected with the Court), they formed a united front in all cases when the economic interests of the big estates were questioned. Therefore, if the leading Hungarian aristocracy tried to carry on some measures in the agrarian policy, it could be perfectly sure of the solidarity of the other national groups.

This was the situation in the nineties of the last century when there occurred a considerable change in the agrarian policy of the big landed interest in Hungary. This agrarian policy was previously in favor of protective tariffs, but at the same time it tried to develop agricultural production. But around the year 1895 the chief effort in the agrarian policy of the Hungarian landlords became the tendency to increase as much as possible the agrarian customs duties on the frontiers of the monarchy, and at the same time to check agricultural production within the boundaries of the customs union. The cause of this change was a simple result of the factors already mentioned. It became manifest that, if the population of the Habsburg empire should continue to increase and therefore the internal need for food-stuffs of the customs union should constantly grow, a day would inevitably come when the monarchy would no longer export grains but, rather, would be compelled to import them.

Now if in a customs union there is grown substantially more grain than the population consumes, it is useless for the state to limit im-

portation through high customs duties. These duties will not raise the price of the grain a single cent. On the contrary if there is, within a customs union, a substantial lack of grain, the customs duties will raise the price of grain to the full extent of the duties above the world-market level.

This situation was perfectly well understood by the large landed interests of the monarchy. Count Stephen Tisza, the most class-conscious representative of the feudal aristocracy, wrote a book in 1897 under the title of *Hungarian Agrarian Policy* in which he anticipated with great vigor this effect of the customs duties. "The greater the export of the crop is," so wrote the agrarian leader, "the less we can hope from the protective tariff; the smaller this export is, the more we shall enjoy the full realization of the custom duties." On the basis of statistics, Count Tisza demonstrated that "unfortunately it is not true that the customs union needs imports in grain but it is quite true that our exports in the last four years have, on the average, fallen to quite an insignificant amount." Considering this fact and, the one that the population of the monarchy was growing year by year approximately by 400,000 souls, "which increases the internal consumption exactly in the same ratio," he gave the following cheerful message to his class: "Therefore we can reasonably hope that the customs union will, in a few years, enter into the class of those countries which have a deficit in wheat and that tariff protection will be realized completely by our farmers."⁷

This meant that, at the end of the nineties of the last century, a new chance appeared for the agrarian aristocracy to raise their rents by increasing the price of the grains through the help of tariff protection. This policy was highly desirable for all the national groups of the big landed interests as it offered an opportunity to sell their grains for sixty or eighty crowns higher per ton than the world-market price. It is natural, however, that in the customs union which in 1897 still exported grains in a small measure, a lack of grains could occur only, if, on the one side, the internal need should increase and on the other, the development of production would cease or at least lag behind the inner demand. Therefore, all those who in consequence of the new situation, arisen since 1895, were desirous of seeing the prices of the grains raised by the customs duties, were impelled by the very logic of their efforts to take measures which would impede any considerable augmentation of agricultural production within the boundaries of the customs union.

This consequence was really drawn by the leading landlords of the monarchy. Since 1890, an agrarian policy was followed, which was unsympathetic toward the progress of agricultural production.

⁷ The book was written in Hungarian, and later a German translation was published.

And it was in the power of the leading elements of the big landed interests to check, if not entirely at least to a large extent, the development of production. They dominated the agricultural societies and dictated to the ministers of agriculture the kind of agrarian policy that should be adopted. It was highly characteristic of the agricultural administration of both states of the monarchy that agricultural instruction of the many millions of peasant population was entirely neglected, with the exception of some sham measures intended only to placate democratic public opinion. In former times the new improvements of the agricultural technique were formally initiated by the big landed interests, and the masses of peasantry followed their example slowly. Now as the leading landlords abandoned the course of agricultural progress, the small peasantry remained without any guidance and incentive toward useful and necessary reforms. This tendency was further strengthened by the fact that a rather conspicuous part of the monarchy was occupied, as we shall see later in detail, by *fidei commissa* and by ecclesiastical and state properties excluded from free circulation.⁸

Generally speaking, that was also the tendency of the agrarian policy in Austria. Here, too, the conservative forces—though perhaps less intentionally—did not favor any serious progress in the agricultural system. However, not only the selfish interests of protection, but also the whole feudal and backward atmosphere of the country and the anachronistic distribution of landed property was highly detrimental to economic progress. Under the pressure of all these circumstances the agriculture of the monarchy had a definitely stagnant tendency since 1895.

What Count Stephen Tisza, and with him the whole big landed interest, was anxious to obtain, even before 1897, was the transformation of the monarchy into a territory needing the import of grains, in which custom duties have a price-raising tendency. This situation arrived step by step. In 1907 the point was reached from the beginning of which protective tariffs had a constant effect. It is, therefore, quite natural that the big landed property owners were extremely anxious not to increase their production. Especially in Hungary where the power of the big landlords was uncontested, their leaders dared to express publicly their antipathy against the increase of the agricultural output. When in 1911 a new minister of agriculture, Count Béla Serényi, emphasized the necessity of augmenting agricultural production on the basis of the financial interest of the state, the agricultural societies openly fought his point of view and compelled the government to

⁸ This conspiracy against the raising of the agricultural output of the country was unveiled in all its details by Arnold Dániel in his essay: "Custom-union, Agriculture and Industry," in the review *Huszadik Század* (1915), Vol. II. In Hungarian.

adopt their conception, sabotaging agricultural progress. Even more significant is another episode: In 1910 Gideon Rohonczy, a great land-owning nobleman, playing a prominent rôle in parliament, fostered publicly the plan that the Hungarian state should lessen by coercive measures the production of grains, and so make the import of grains necessary, lest the grain duties should lose their price-raising effect. His plan was manifestly too shameless to be accepted openly by the government, but it illuminated with the light of a caricature the agrarian conception of the big landed interests of the monarchy.⁹

Never was the system of protective tariffs reduced so much ad absurdum as in the former Dual Monarchy. Frederick List, the father of the protective tariff, said that protection is necessary in order to develop and raise the inner production. In this conception protective tariffs were only a means, the aim was the augmentation of production. This principle was applied in a diametrically reverse direction in the agrarian policy of the former monarchy. Here protection, that is to say, its effect in raising the price, that is the rents, was the aim, and to this aim they sacrificed the increase of the production.

This policy was not only clearly emphasized by the leading landed interests, but the more the date approached when the monarchy was changed from an agrarian export territory into an import territory, the more aggressive became the land barony, and the more ruthlessly it abused its influence on the customs policy of the country. Already in 1901 it forced a very narrow-minded measure, the suppression of the so-called "milling regulations." Previously the mills were authorized to import grains without duty if they exported a quantity of flour equivalent to the imported grains. As the mills exported the finer and more expensive types of flour, while the cruder varieties remained in the country, the milling regulations had a tendency to increase the price of the finer varieties but to lower that of the coarser types consumed by the poor population. Therefore, the elimination of the milling regulations made the bread of the poor man more expensive without being seriously useful to the big landed proprietors.

Far more disastrous in its consequences was the policy of the landed oligarchy directed against the import of animals from the

⁹ How exclusively considerations regarding their agricultural profits determined the general policy of the Magyar feudal aristocracy (even in its so-called "patriotic field") recently found an almost comical a posteriori verification in a speech of Count Joseph Károlyi, the leader of the Magyar legitimists. The Count attacked the propaganda of Lord Rothermere for the revision of the Trianon Treaty on the ground that a correction of the frontiers suggested by the English lord and his Hungarian adherents "would add only 2,000,000 consumers but so much agricultural terrain that to maintain the price of grain Hungary would be driven to enter the customs union with Austria and Czechoslovakia." This exposed him to the retort from the Hungarian Socialists that the slogan of the Legitimist aristocrats is "Long live dear grain and King Otto!" (See for details *The New York Times*, March 17, 1929.) But that is not a joke, it is simply the continuation of the traditional agrarian policy of the big landowners initiated by Count Stephen Tisza.

Balkan states which, beginning with 1906, made the customs quarrel permanent between the monarchy and Rumania and even to a greater extent Serbia. The customs war following this policy was highly detrimental to Serbia for which the market of the monarchy was almost a condition of existence and became a chief cause of the Jugo-Slav upheaval as we shall see in detail in a following chapter. At the same time this usurious policy made the alimentation of the monarchy more expensive and therefore checked further economic progress.

The chief result of our inquiries concerning the agrarian policy of the monarchy is this: progress in agricultural production would have been the chief condition for raising the economic and cultural interdependence of its various nations and territories. By checking agricultural progress, the landed oligarchy weakened the centripetal forces of the monarchy and at the same time increased the dissolving tendencies.

b) THE DEVELOPMENT OF INDUSTRY AND USURIOUS CAPITALISM

When the feudal aristocracy of the monarchy, by its agrarian policy above described, limited the growth of agricultural production in the Austro-Hungarian customs union, it restricted by this measure not only the social progress of the working agrarian masses but at the same time it damaged to a large extent the development of industry. A significant industrialization on a Western pattern could not arise in the Austro-Hungarian customs union and generally speaking had a rather east-European than west-European character. This comparatively small productivity of the agricultural system was a serious check to the development of industry. As the agrarian population had a small production, on the one hand, it furnished few raw materials to industry; on the other, it consumed restricted quantities of industrial goods.

It was only a corollary of the relative poverty of the agricultural population that there was a lack in the accumulation of capital which could have served as a basis for the development of big industrial plants. This connection is demonstrated by the fact that, in many parts of the monarchy, great natural resources remained unexploited partly because there was not a sufficient amount of working capital. Frederick Hertz complains concerning the wood industry:

The industrial utilization of wood is absolutely disproportionate to our riches in forests. Colossal forest territories cannot be utilized at all because of the absence of the most necessary means of communication, so that valuable supplies of wood are entirely rotting.¹⁰

Generally speaking, in consequence of the existing relations between powers, an inconsistent and irregular economic policy has been

¹⁰ *Op. cit.*, p. 18.

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followed: On the one hand, the governments pursued a conservative agrarian policy and refused to broaden the agricultural basis of industry; on the other hand they tried to develop an industry by customs tariffs, subventions, railway, and other privileges on the existing narrow agricultural basis. Even this half-hearted policy had certain results because in the Alpine and the Sudet provinces a comparatively more developed agriculture and other natural conditions gave a broader basis for the development of industry. Not only here, but in the other parts of the monarchy, especially in Hungary, in Croatia, in Galicia, and in the Austrian Karst provinces, certain beginnings of industry were established.

Though the chief places of industry remained in the Alpine and Sudet countries, there arose also in the eastern and southern agrarian regions of the monarchy an industry and commerce sufficiently developed to give existence to millions and millions of peoples. On these agrarian territories—in Galicia, in Bukovina, in the Austrian Karst regions, and in the countries of the Hungarian crown—in 1910 there lived 7,161,000 peoples on industry, commerce, and transportation. At the same time in the Sudet and Alpine provinces the same occupations were represented by a population of 8,869,000. That means that in 1910 these two latter regions contained only 55 per cent of the whole industrial and commercial population, whereas 45 per cent were already located on the agrarian territories just mentioned.

At the beginning of the twentieth century there was already in each national territory of the monarchy a population engaged in industry and commerce which, concentrated in smaller and larger cities, was inclined and able to defend their particular interest. And now all these industrial workers and merchants living in the Hungarian, the Polish, the Czech, and the Jugo-Slav territories had their own interests which brought them into antagonism with the chief economic powers of the monarchy.

Of what nature were these particularist interests? In order to clearly understand the situation, we must see the main traits of the industrial organization of the Habsburg empire. The most developed economic territory of the Austro-Hungarian monarchy was the settlement of the ten millions of Austrian Germans, that is to say, the Alpine provinces and the Czecho-Moravian-Silesian German regions. Now it belongs to the natural economic order that the region more developed utilizes the less developed with which it constitutes a customs union as a colony. And so it was from the beginning in the Austro-Hungarian monarchy. Hungary, Galicia, the southern Slav territories—and at the beginning the Czecho-Moravian Slav territories too—were nothing else than colonies of an agrarian character which bought industrial products of the Austro-German regions. Later, when in the Hungarian, Slav, and Rumanian territories condi-

tions arose which permitted the establishment of a manufacturing industry to a greater or smaller extent, the Austro-German banks furnished in a large measure the capital necessary for those industrial plants. The Austro-German capitalists founded these factories in the non-German territories, partly because their investments there were more lucrative, finding cheaper raw materials or labor, partly because when in the Slav-Hungarian-Rumanian regions the development of industry became more advanced, Austro-German capital participated in these enterprises in order to secure for itself a considerable part of the profits.

Almost every plant, factory, or mine in Galicia, Bukovina, or in the Austrian southern Slav territories was the property of the Austro-German capitalists or at least controlled by them. The situation, though not the same, was nearly akin in Hungary, in Transylvania, and in Croatia, though the political government of these territories utilized the Hungarian state power as far as possible to make industry independent of Austria. In spite of this, the Hungarian, the Transylvanian, and the Croatian industry were to a large degree dependent on the Austrian capital as a result of the "bank rule" which characterized the whole industrial and commercial life of the Habsburg empire.

In general the Austrian industrial enterprises were poor in capital and to a large degree subservient to credit. Therefore the industrial plants were compelled to depend upon the credit of the banks. If the plant had the form of a joint stock company, the majority of its shares was owned—directly or indirectly—by a bank.¹¹ And as the smaller banks were dependent on the large ones, in the Austrian provinces the few great banks controlled the whole industry. The situation was even more acute in the Hungarian countries. In many cases big Austrian and, in still more, big Hungarian banks were the masters of the Hungarian industrial plants. For instance, a single big Hungarian bank, the Hungarian Commercial Bank of Pest, had in 1910 the major part of the shares of seventy-five important mines and smelting-furnaces, textile and machine plants, mills, transportation companies, and similar undertakings. The invested capital of all these enterprises amounted to 500 million crowns and their reserve funds to 109 million crowns, a sum relatively colossal under Hungarian conditions, though in this sum there are not included other smaller plants or those directly controlled by this bank.¹²

It was said above that the Hungarian industrial and mining enterprises were mostly under the control of the large Hungarian banks.

¹¹ The financial situation of the industry was keenly analyzed by F. Hertz in his book already quoted.

¹² For this and other reliable information on this subject see the book of Eugene Varga, *The Hungarian Cartels* (Budapest, 1913). In Hungarian.

But this does not signify that they were independent of Austrian capital. On the contrary, the leading Hungarian banks (popularly called "big banks") utilized chiefly Austrian capital; in most cases they were nothing else than the Budapest exponents of leading Austrian banks. For instance the Viennese Rothschild group or the *Wiener Bankverein* controlled several of the most influential Budapest banks.

Wilhelm Offergeld who wrote an excellent study in 1914¹³ of the development of Hungarian industry, made manifest that this industry, though not a sheer puppet of foreign countries, was largely dependent on foreign capital, that is, on Austrian capital. I remember in 1909 that a friend of mine, a high official in a Hungarian state department, stopping on the middle of the suspension bridge at Budapest and pointing out the many factory chimneys to the north and south, told me: "All the factories you see from here are the property of foreign and chiefly of Austrian capital. If, in Hungary, the state would socialize the factories, this would mean a national policy conducting Austrian property into Hungarian hands." Similar words in the same sense could have been uttered in Zagreb, in Laibach, in Lemberg, in Cracow, and even with a certain right in Prague too, though the Czecho-Moravian Slav region succeeded since the end of the nineteenth century in emancipating itself to a considerable extent from the domination of Viennese capital.

Broadly speaking, the industrial organization of the former Habsburg monarchy was the following: the industrial enterprises were ruled to a far larger extent than anywhere else by this type of capital which R. Hilferding, the able Socialist economist, called "finance capital," which lends the money but does not participate actively in the production. And the Viennese financial capital was the center to which ran all the ties of the industrial organization of the monarchy. Beside, there were two smaller foci, the finance capital of Budapest and Prague. But these smaller centers were not independent being, one might say, vassals of the Viennese. This predominant position of Viennese capital was due not only to economic causes and to the circumstance that Vienna was the oldest and richest center of the accumulation of capital, but also to its many intimate connections with the government, the armed force, and the whole administrative machinery of the monarchy. The long hand of Viennese capital reached all points of the empire: through Budapest and Prague, even the Hungarian and Czech territories. It could foster or impede the building of railways according to its own interest. It could influence the officials of the empire from the ministers to the last local authority. Let this be illustrated by a very characteristic and not at all exceptional case: in the southeastern Carpathians, in the county of Krassó-Szörény (belong-

¹³ *Grundlagen und Ursachen der industriellen Entwicklung in Ungarn* (Jena, 1914).

ing now to Rumania), the Austro-Hungarian State Railway Company with headquarters at Vienna had important coal mines at Anina and Resica, and large surrounding territories under "closure," which made further exploitation of coal impossible. But later, not far away from it, another important coal basin was discovered. Here a smaller Hungarian group of capitalists tried to buy the right of exploitation from peasant owners. This action, however, was unsuccessful because the sheriff of the district intervened by simply arresting the attorney of the Hungarian capitalists and expelling him from the district. The victorious railway company then bought the right of exploitation for a ridiculous price.¹⁴

It was quite easy to monopolize the industrial and mining production by means of trust-like organizations called "cartels." It was characteristic of these conditions that no less than fifty-six special Austro-Hungarian cartels were functioning in the customs union, not taking into account the international cartels and many local similar concerns of Austrians or Hungarians alone. The cause of this phenomenon was that on the one hand, the finance capital enforced high protective duties, and on the other, it formed cartels in order to monopolize the advantages of protection.

This monopolistic system of industry concentrated around the Viennese finance capital had two great detrimental effects—two results which contributed to the undermining of a veritable free-trade policy. The one damaging result was the checking influence of the cartel system upon industrial development. In the evolution of capitalism we can well discriminate between a lower and a higher stage. The lower, the primitive type of capitalism, is characterized by the effort of the capitalists to get high profits without productive investments by usurious loans. Or, if they are compelled to make productive investments, they try to gain big returns not so much by increasing production as by raising the prices and lowering wages. The other, the more evolved type of capitalism obtained its highest expression in the American Fordism, the basic principle of which is high wages, expansion of production through the cheapness of the products, and a very high efficiency of labor. The capitalism of the former Austro-Hungarian monarchy belonged to the lower primitive type of capitalism. This usurious tendency of Austro-Hungarian capitalism was partly a result of the shortage of capital and of the high rate of interest. But it was still more accentuated by the system of protection, and the cartel monopolies.

At the same time the cartel system impeded the development of industry in another direction. When the ruling "big banks" estab-

¹⁴ This and many similar cases were narrated by V. Aradi, "Notes on the Pathology of the Hungarian Industry," *Huszdik Század*, July-August, 1912. In Hungarian.

lished their cartels, they took care that inside of the customs union no new enterprise should be created which could rival their plants. And as their more important industries were originally located in the Alpine and Sudet territories, their cartel policy damaged in the first place the eastern, middle, and southern parts of the monarchy, the agrarian population of which was yet unable to develop a national industry. In this manner many natural resources of these territories remained undeveloped.

This narrow-minded monopolistic cartel policy of the Austro-German finance capital and of certain Hungarian groups connected with it controlled almost all branches of industry. It was an economic tyranny which hindered progress in the Hungarian, Slav, and Rumanian territories of the monarchy and which thereby obstructed the well-being of the population. It is, therefore, quite natural that the working-people and certain parts of the intelligentsia who suffered most under the economic depression, should regard with growing dissatisfaction, even with hatred, the leading Austrian financial powers. These financial powers were even capable of oppressing the political manifestation of this dissatisfaction. The corrupt electoral system and especially the open ballot in the Hungarian countries permitted them to exercise an economic pressure, through the smaller banks dependent on them, on the great masses of the indebted peasantry and small bourgeoisie. This pressure was so keenly felt that the intelligentsia of the various nationalities regarded as their chief aim the obtainment of financial independence by the creation of national banks under their own control. The Czechs were entirely successful in this endeavor, and the greatest Czech national bank, the *Živnostenská Banka* became, even before 1914, the leading financial institution in the Czech territories. The Hungarian efforts for financial independence were less successful because the more backward state of Hungarian agriculture made Hungarian economic life far more dependent on Austria. The Hungarian party of independence put in its program the establishment of a distinct Hungarian bank of issue, though the Austro-Hungarian bank of issue was a model institution. The national claim, however, was not a purely sentimental one, because the Austro-Hungarian bank was largely controlled by Austro-German capital and served the monopolistic interests of the big cartels. A Hungarian enterprise troubling the interests of the Rothschild group could scarcely obtain a loan.

Now this whole monopolistic industrial, and financial system injured the Hungarian, the Slav, and the Rumanian territories not only by hindering their economic progress but also in another direction. Austrian capital with the help of its cartel policy extracted enormous sums from the Hungarian, Slav, and Rumanian regions of the monarchy, and surrendered these sums mostly to the Austro-German regions and later to a smaller extent to the Bohemian-Slav territory.

As a result of the comparatively high cartel prices and comparatively low wages, the majority of industrial enterprises gained big returns and the lion's share of these returns went into the treasuries of the Austro-German capitalists. This situation damaged with a kind of absenteeism the bourgeoisie and the working-classes of those territories.

In the eighteenth century when there was scarcely any capitalism in the Habsburg empire and when the landed aristocracy was the only ruling class, the proprietors of the big latifundia in the Hungarian, Slav, and Rumanian regions did not generally live on their estates but in Vienna. They spent the revenue from their estates in the splendor of the Viennese court. The consequence of this situation was that the regions named, covered with large estates, became even poorer and had no chance for industrial progress, whereas in Vienna and in its surroundings, there arose a comparatively significant fancy industry which gave a livelihood to several hundred thousands of working-men. That is to say the absenteeism of the great landlords tending toward better living conditions for the Austro-German population in Vienna diminished at the same time the sphere of existence of the population living on the regions of the feudal estates. This effect was almost symbolized by the grain ships and the cattle herds which were furnished from the regions of the latifundia to Vienna. This feudal absenteeism was analogous in its consequences with the new one which carried the profit of the manufacturing plants in the Hungarian, Slav, and Rumanian territories into the safes of the Austro-German "big banks." The share-holders of these leading financial institutions (not to mention their officials and directors) lived for the most part in the Austro-German regions where they spent their incomes, the source of which lay in the Hungarian, Slav, and Rumanian territories, and their expenditures created a market in the German territories for many greater and smaller entrepreneurs and for the work of a considerable number of working-people.

These advantages give us the reason why the Austro-German labor movement favored, as a whole, the maintenance of the Habsburg monarchy, and why the ideology of a Greater Austria expounded by Karl Renner has emanated from these circles. But on the other hand that new urban population, which has evolved in the last decades of the nineteenth century and at the beginning of the twentieth in the Hungarian, Slav, and Rumanian regions of the monarchy, observed with growing dissatisfaction that the Austro-German urban population was progressing far better than itself. And though it did not know the real economic connection delineated above, or knew only a small and rather superficial part of it, the smaller bourgeoisie and the working-classes of those regions became ardent supporters of the nationalistic movements and of the separatistic tendencies from Vienna.

It is quite sure, as we shall see in detail, that purely idealistic mo-

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tives had a preponderant rôle in the national movements. But it is equally sure that very real economic interests were unconsciously fostering them: the aspiration to liberate the industrial development from the pressure of the cartel policy and to put an end to the absenteeism of the capital.

C. THE ENTRANCE OF THE AUSTRO-HUNGARIAN CUSTOMS UNION INTO THE DANGER ZONE

We saw in the foregoing considerations that the economic development strengthened, in some respects, the forces of separatism and secession in the Austro-Hungarian customs union. But at the same time this same economic evolution produced forces tending toward cohesion and integration. Under propitious circumstances these unifying forces could have become sufficiently strong to counterbalance and paralyze the dissolving tendencies. Among these integrating forces was the very important fact that a market counting fifty million peoples gives a far greater possibility for the specialization of production than a market of only ten millions. This advantage, however, under the given conditions, was not so conspicuous as it might have been.

The Austro-Hungarian monarchy consisted of some ten or eleven distinct ethnographical territories. The populations of all these territories stood on different cultural levels and produced and consumed according to different habits and traditions. As a result the market was very much disintegrated. For instance, in the field of the cloth industry the Austrian manufacturer was compelled to produce a great variety of hats, bonnets, cloths, aprons, and handkerchiefs, because, in every national region, the people dressed according to a different style. Not only the objects of consumption, but also the instruments of production were different to a large extent in the various regions: the tools, the plows, the carriages, etc. Besides, the manufacturers were obliged to advertise and carry on business propaganda in ten different languages. These and other difficulties compelled many firms, especially those engaged in mass production, to decentralize their establishments among the various territories. Frederick Hertz has shown how this procedure made production more expensive and specialization more difficult.

This splitting-up of the market could have only one remedy: growing well-being and culture. Between the standards of life, clothes, tools, and consumption of an average Englishman, an average Frenchman, or an average north German, there is an incomparably smaller difference than between the standards of life and consumption of an average Pole, an average Serb, or Rumanian. Therefore, only a higher popular culture and welfare could have made uniform the consumption of the various nationalities of the monarchy. In this case

the geographical and national differentiation of the various regions of the monarchy would not have been a disadvantage but a real advantage from the point of view of industrial specialization.

But such a propitious development had no place in the monarchy under the injuries and hindrances of its agricultural policy, its customs policy, and monopolistic cartel policy. In consequence of the low standard of life of the masses, the division of labor, and the interdependence of markets, local specialization remained very incomplete in most parts of the customs union. The result was that the forces of dissolution were more powerful than the forces of unification.

This dissolving tendency became particularly evident after 1907, when the feudal aristocracy attained the aim of its policy by checking agricultural production and the raising of prices of foodstuffs. The growing importation of grains and other foodstuffs and raw materials, under the heavy protective tariffs, made the life of the working-classes more expensive and had another dangerous consequence. For the imported grains and other raw materials the monarchy was obliged to pay with something. Being not a creditor but a debtor country, the monarchy as a whole could not pay for the raw materials otherwise than by the export of industrial commodities. The agrarian policy of the feudal aristocracy, therefore, compelled the peoples of the monarchy to enhance the export of industrial commodities after 1907.

The time when this happened was very unfortunate. For, just at the end of the first decade of the new century, as a result of the growth of population in Europe and in the northern parts of America, the food supply of these continents became less abundant than they had been between 1885 and 1905. This resulted in rising prices in foodstuffs and in a diminishing demand for industrial commodities. Since 1907 industrial competition had become very keen in the world-market.¹⁵ England and the small free-trade countries (Belgium, Holland, Switzerland, and Denmark) had an advantage in this competition due to the free import of grains; their industrial system was aided by comparatively lower costs of production. The German Empire had protective tariffs for its foodstuffs but in spite of this competed successfully because, with its very efficient agricultural system, it was able to create a powerful and from the standpoint of technique extraordinarily developed industrial system. Austria-Hungary, however, in the customs union of which the price of the foodstuffs, and, therefore, the costs of industrial production, became very high and which in consequence of its backward state of agriculture could not develop a sufficiently efficient industry, became unsuccessful in the keen industrial competition. Its industry lost a comparatively large number of markets, not only

¹⁵ An interesting analysis of this situation will be found in the book of Arthur Feiler, editor of the *Frankfurter Zeitung*, *Die Konjunkturperiode 1907-1913* (Frankfurt am Main, 1914).

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outside the customs union but also inside. The German, the Belgian, and the English plants, in some of their branches, were able, in spite of protective tariffs, to offer their products on the Viennese market cheaper than the Austrian plants. Therefore, the increase in the imports of foodstuffs and the imports in industrial commodities rose simultaneously, and these imports could not be counterbalanced by an increase in exports. As a result of this situation, the commercial balance became very unfavorable. Table II clearly shows that this unfavorable balance coincided with the rising prices in foodstuffs.

In this situation the Austro-Hungarian monarchy, as a debtor country, could only pay for the excess of imports by contracting new

TABLE II

Years	Price of Wheat per Ton in Budapest in Crowns	Positive (+), Negative (-) Trade Balance in Million Crowns
1886-90*	161	+319
1891-95*	163	+209
1896-1900*	184	+127
1901-5*	170	+164
1906	157	+ 39
1907	201	- 45
1908	240	-143
1909	289	-427
1910	234	-434
1911	238	-787
1912	232	-823
1913	222	-627

* Average.

debts or loans in foreign countries. Such an economic system, however, must sooner or later encounter serious difficulties, if not economic catastrophes. A debtor country incapable of producing an active balance cannot maintain its position. Therefore, in 1913, the Austro-Hungarian monarchy was already a defeated empire from the economic point of view, and as such it went into the World War in 1914.¹⁶

¹⁶ In his remarkable essay, already quoted, on the financial system of the former Austro-Hungarian monarchy, Paul Szende has drawn the following important conclusions which supplement the picture given here: "The financial story of Austria is the true reflection of the fatal development of the Habsburg Monarchy, a function of the dynastical imperialism. . . . The Habsburg Monarchy differed from the great national states in this: that with every grave conflict in the international policy she stood before the question of be, or not to be. Her wars served dynastic interests exclusively. . . . In no other state did the army so decidedly influence the evolution of finances as in Austria. One who writes the history of her army-organization gives at the same time the outlines of her financial history. . . . Nothing demonstrates more conclusively that the Monarchy was doomed to collapse than the military budget between 1902-1914. One really has a ghostly feeling when one sees how the monarchy was approaching her end, and how she executed her own death sentence. From the overstraining of her military expenses, from this vicious circle there were only two ways out: *Bankruptcy or War*" (*op. cit.*, pp. 191-92, 200).

Of this growing indebtedness there were many symptoms within the frontiers of the empire. Among others were many new loans on the lands and buildings the bonds of which were sold in foreign countries. After 1907, the annual amount in loans contracted on immovable properties rose conspicuously. This indebtedness is shown in Table III, which covers the whole monarchy. (The sums paid on the earlier loans are subtracted.)¹⁷

Taking the situation as a whole, and excepting brief periods of improvement, the economic life of the monarchy was characterized after 1907, by the symptoms of decay: high cost of living, bad market conditions, and growing indebtedness. That this situation was chiefly caused by the agrarian protective duties was clearly understood by a large strata of the people who had become enlightened through propaganda of the industrial associations, chambers of commerce, and other organizations. But whether or not they recognized

TABLE III

Years	Million Crowns
1891-1900	435
1901-5	602
1906	752
1907	945
1908	1,013
1909	1,244
1910	1,721
1911	1,684

all the factors in their true relation to cause and effect, the pressure of circumstances was deeply felt by everyone, not only by the industrial population but also by the small peasantry and the landless proletariat. Therefore, the intense dissatisfaction of the great masses was constantly growing. Under these circumstances it was quite natural, in consequence of the national structure of the monarchy, that this dissatisfaction under the sway of the particularist propaganda was directed not against the economic and tariff policy, carried on in the customs union, but against the customs union itself. Joseph Grunzel, in an important book on the commercial policy of the monarchy,¹⁸ published in 1912, characterized the dissatisfaction with the customs union as general in all parts of the monarchy. The consumers fought the customs union from economic motives, and the particularists, especially the independent party of Hungary, from political motives. The hatred of the masses against their oppressors was directed simultaneously against the customs union. For they saw that the big

¹⁷ Calculation based on the official data of the *Österreichisches Statistisches Handbuch* and the *Hungarian Statistical Yearbook*. The Austrian figures for the years 1912 and 1913 were not published.

¹⁸ *Handelspolitik und Ausgleich in Österreich-Ungarn* (Wien, 1912).

landed aristocrats, who raised the prices of their bread and other foodstuffs, and the usurious "big banks," which by their cartels artificially raised the prices of their fuel, petroleum, dwelling-places, and necessities, were the chief defenders and pillars of the Austro-Hungarian customs union.

And, if we think over the situation, we must acknowledge that the customs union against which these general dissatisfactions were directed could scarcely be regarded any longer as a free-trade organization. For we should not forget that, on the basis of the free-trade ideal, there was the fundamental postulate of cheap bread. This postulate is organically connected with the essence of free trade. The ultimate aim of the free-trade policy is the increase in the productivity of labor. But to make bread artificially more expensive is an attempt against the very principle of a higher productivity. From 1850 until 1900, the Austro-Hungarian customs union was a free-trade organization, at least in the sense that it did not make the bread of the masses more expensive. After 1900 and especially after 1907 this feature of free trade ceased to exist. *The Austro-Hungarian customs union became more and more a pseudo free-trade organization, an instrument for economic exploitation, for checking economic progress, and was injurious from the point of view of the laboring classes.* The economic dissatisfaction of the masses became one of the chief driving-forces of national separatism and of the growing trend of irredentism.

D. WHY FREE TRADE FAILED

If we review again this negative experiment in free trade we come to the conclusion that such a policy could only be durable on the basis of a spontaneous co-operation among peoples; and then only when the allied peoples are of equal strength or when there is at least sufficient guaranty that the stronger nation will not exploit, by a system of monopolies and political supremacy, the weaker nations. Besides, only nations economically highly developed which have a strong need for the mutual exchange of their products, that is to say, nations with strongly differentiated production and consumption, will have a durable interest in the maintaining of a free-trade policy.

This strong differentiation in production and consumption can be only the result of a great productivity of labor and of an abundant supply in food materials. If a free-trade community does not promote these basic conditions, free trade must inevitably collapse. That was exactly the case in the Austro-Hungarian Monarchy. In this way the most powerful of the centripetal forces which could have built up a real cohesion of the Empire developed more and more distinctly centrifugal tendencies.

PART IV
THE CENTRIFUGAL FORCES: THE DRAMA OF
THE GROWING NATIONAL DISINTEGRATION