

# POLITICAL REGIMES, ECONOMIC CRISES, CONTINUITY AND DISCONTINUITY IN THE ECONOMIC MODERNISATION OF THE PERIPHERAL REGIONS OF THE HABSBURG MONARCHY IN THE SECOND HALF OF THE NINETEENTH CENTURY. THE CASE OF TRANSYLVANIA\*

**Abstract:** The second half of the 19<sup>th</sup> Century marks a clear evolution for the Habsburg Monarchy to modern economic growth, including its eastern provinces that were in a situation of obvious gap to the western ones. The neoabsolutist regime established in 1850 aimed a series of reforms at the economic level in order to achieve a narrowing of regional disparities in its eastern provinces. Assuming of the modernization process, both from the center and locally, altered the economic physiognomy of Transylvanian province, but also have preserved several handicaps, some resulted from historical heritage, others because of inconsistencies in economic policies.

In 1850 the province of Transylvania show a deplorable economic map in which only a few urban areas enjoyed some impoverished beginnings of modern economic life; in a few decades later, these "islands of economic modernity" were expanding as a result of capital investment, initially especially Austrian and German, later from other sources too. There were added beneficial effects of improved transport infrastructure although the start of railway construction was delayed, with adverse consequences that basically, could not be recovered until the First World War. This created a paradoxical situation in which the intention of the State, the contribution of foreign capital and modern trend of creating an internal market were not sufficiently synchronized in order to achieve a stronger integration of Transylvania in the Habsburg Monarchy's economic complex. Transylvania's economy was characterized by its extreme diversity and inevitable lack of synchronization between its different economic sectors, while political and consequently deepened divergences between the Romanian elite and those of other nations in Transylvania.

Starting from these summary considerations, our study aims to examine how important was the impact of the change of political regimes on economic modernization in Transylvania in the period 1850-1914, taking into account the three types of political regime: neoabsolutist (1850-1859), semi-liberal (1860-1866), dualistic (1867-1914). Similarly, we analyze the impact of the economic crisis of 1873 in economic and social life, from the same point of view.

**Keywords:** Transylvania, economic history, modernisation, crisis, crash of 1873, continuities and discontinuities.

In the mid-nineteenth century, during the Vormärz, and especially after the 1848 revolution, the Habsburg state devised a strategy of economic development, at both the internal and the external levels. If internally, the objectives focused on administrative-bureaucratic and economic integration and the homogenisation of various regions, at the foreign level the objectives were much more complex, increasingly associated to foreign policy and military objectives, so their implementation and effects were conditioned by both political (military) and economic factors. At the same time, one must not forget the fact that, especially after 1850, the European destiny of the Empire was massively influenced by geopolitical changes: the unification process of Germany, Russia's

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increased influence in the Balkans, Great Britain's policy of free trade and control of commercial markets.

In this context, the state played a specific role in developing economies: on the one hand, it regulated and implemented significant infrastructure investment programs<sup>1</sup>; on the other hand, it devised preferential policies regarding certain regions and groups of interests in order to avoid internal competition, which is a feature of the Habsburg Monarchy in the nineteenth century. Regional economic integration reached the Vienna authorities' agenda ever since the beginning of the 1850s but it was determined and conditioned by the availability of necessary resources, especially of financial ones.<sup>2</sup>

Limiting budgetary resources to what might be called "bare necessities," the state limited the possibility of creating an internal capital market in the modern sense of the word. By distributing and redistributing budgetary resources, the state created a closed circuit of capital with few opportunities of expansion. One should not forget that these resources were generated by indirect and consumption taxes and not by the development of productive sectors, likely to generate more money. This tendency negatively affected the tax burden which, in real terms, recorded an increase that tax payers found difficult to bear in an economy where capital flows were quite low. Under the circumstances of great budget deficits and state economic measures that only worked as palliatives, the Austrian state could not get actively involved in economic growth at the level of all regions. From a political standpoint, in the 1850-1914 period, we deal with at least three different types of political regime and with the transfer of the power centre from Vienna to Budapest in 1867.

In order to understand the economic evolution of Transylvania, profoundly marked by the above-mentioned factors as it was, we need to acknowledge the level of development of the province in 1850 - an extremely low one. In 1850, Transylvania was, in terms of industrialisation, one of the most backward provinces of the Monarchy. The few industrial establishments, equipped with rudimentary technology, were mostly meant to cater to modest local needs. They were viable as long as the limited demands of the market and isolation protected them from competition. Their situation was precarious not only in terms of technology, but also as regards the lack of modern transportation facilities and of capitals necessary to put the rich natural resources of the province to good use. Therefore, the economic discourse of the epoch was dominated by the image of the discrepancy between the richness of natural resources and the poverty of inhabitants, of the lack of money and entrepreneurial spirit.<sup>3</sup>

For Transylvania, the Neoabsolutist regime of 1849-1859 represented a period when administration became much more effective and economic policies attempted to

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<sup>1</sup> Barry Supple, "The State and the Industrial Revolution," in *The Fontana Economic History of Europe*, ed. Carlo M. Cipolla, London, Collins Fontana Books, 1973, p. 303 sqq. See an extensive analysis in: Iván Berend, György Ránki, *The European Periphery and Industrialization 1870-1914*, Budapest Akadémiai Kiadó, 1982, p. 59 sqq.

<sup>2</sup> Iván Berend, György Ránki, *Economic Development in East-Central Europe in the 19th and 20th Centuries*, New York, Columbia University Press, 1974, p. 81; Brandt Harm Hinrich, *Der Österreichische Neoabsolutismus: Staatsfinanzen und Politik 1848-1860*, (Schriftenreihe der Historischen Kommission bei der Bayerischen Akademie der Wissenschaften, 15), Göttingen, 1978, vol. 1-2.

<sup>3</sup> Iosif Marin Balog, "Die Rolle der Publizistik im Verlauf der herausbildung eines Diskurses betreffend die Modernisierung in Siebenbürgen um die mitte des 19. Jahrhunderts," in *Forschungen zur Volks- und Landeskunde*, Sibiu, 52, 2009, pp. 95-117.

get in line with the European free trade policy.<sup>4</sup> Under these circumstances, the economic life of the province entered a new stage that was obviously conditioned by state intervention, by capital flows, by the effort of creating and expanding the internal market and, last but not least, by the attempt to maintain foreign markets, and we are referring here above all to the Danube Principalities.

Begun in a liberal economic atmosphere, the industrial development of the sixth decade and of the following years was achieved mostly through the export of Austrian capital to Transylvania.<sup>5</sup> The economic sectors preferentially targeted by this capital were mining and the steel industry, as they benefited from the availability of raw material resources and the extremely competitive price of steel products on local and neighbouring markets. The 1854 Mines' Law<sup>6</sup> created a framework favourable to the expansion of mining; that can be seen, at a statistical level, in the unprecedented growth of the number of explorations.

In this favourable environment, there were two forms of investment and capital placement: joint stock companies and individual activities and investments of investors or groups of investors. The 1854 Mines' Law created a favourable framework where entrepreneurs could get together in joint stock mining companies and the repeal of the customs barriers in 1850 offered, at least theoretically, the possibility of bringing advanced technology to Transylvanian mining and the steel industry. Just like in the western regions of the Empire, the industrial businesses supported by the banks were, at the time, joint stock companies created through the merging of smaller mining and steel firms.<sup>7</sup> The tendencies towards economic growth were nonetheless decreased in the 1851-1860 decade by a series of factors, among which the financial difficulties of the state. The latter, confronted with serious budget deficits and a chronic lack of capital, was forced to cut its ambitious investment program in Transylvanian industry and infrastructure. Moreover, one should also add conjunctural economic crises such as the ones in 1857 and 1861, which significantly reduced the volume of investment as well as the policies of extreme budgetary austerity that diminished capital flow.<sup>8</sup> Capital became almost inaccessible to peripheral, under-industrialised areas.

Between 1860-1867, state investment in railroad construction in the eastern provinces was extremely low so that Transylvania's peripheral position in terms of transportation infrastructure was a reality, as was the psychological distance that Transylvanians perceived between themselves and the Capital or the other provinces. From an economic standpoint, disadvantages were great at a crucial time for the creation of the internal market and especially for the preservation of neighbouring eastern and southern markets that were essential for Transylvania. As the State could only bring a

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<sup>4</sup> L. P. Kindlberger, "The Rise of Free Trade in Western Europe 1820-1875," in *Journal of Economic History*, 35, 1, 1975, pp. 42-44.

<sup>5</sup> Iosif Marin Balog, "The Exports of Austrian Capital in Transylvania in the 19th Century and its Effects on the Industrialization. The case of the Anonymus Society of Mines and Furnances from Brasov (1856-1894)," in *Transylvanian Review*, XVIII, Supplement, no. 1, 2009, pp. 19-38.

<sup>6</sup> Mines' Law from 24 May 1854, published in: *Buletinul guberniului provincial pentru Marele Principat al Transilvaniei 1854*, II, p. 652 sqq.

<sup>7</sup> Richard Rudolph, *Banking and Industrialization in Austria-Hungary 1841-1914*, Cambridge Univ. Press, 1976, pp. 1-26; 91-102.

<sup>8</sup> Hans Rosenberg, *Die Weltwirtschaftskrise 1857-1859*, 2. Auflage, Göttingen, 1974.

modest contribution in this respect, the province had to wait for a long time for a railway connection to the Empire and to Europe. Those wasted years took it off the track of a natural tendency of infrastructure modernisation, so that despite all post-1867 efforts, the state of backwardness was partially removed only in the 1900s.

The effects of the 1867 agreement stipulating the passage of Transylvania under the authority of the Budapest government and Parliament were important from an economic point of view. In terms of law-making, one sees a continuation of a liberal economic policy, with the observation that the state gets involved more actively in economic life. Through the act of 17 February 1867, the idea of political and economic stability was also being conveyed and French, German and British capital regained interest in the Central European space. Vienna and Budapest became the main gates for the penetration and absorption of this capital. On the other hand, from an economic standpoint, the claimed equality among the Austrian-Hungarian territories was doomed to failure. Hungary and the eastern territories, Transylvania included, were mainly agrarian, and their economic evolution, though significant, did not lead to a reduction of disparities between themselves and the western provinces and the hereditary lands of the Habsburg Empire.

*The common trade and customs space* established in 1850 and maintained after 1867 under the name of a *customs and commercial union*, profoundly influenced the economic life of the Empire and of the provinces or the “Monarchy lands.” Law no. XVI of 1867 regarding the customs and commercial union attempted to increase economic interdependence among territories and populations, to consolidate the market in Austria-Hungary as a counterweight to competition pressures from great European powers. The failure of an Austrian-German or German-Austrian commercial space, as a counterweight to British economic supremacy, as imagined by Friedrich List in the 1840s and 1850s,<sup>9</sup> showed Austria that the opportunity of competition with the great powers of the time was lost and that its economic power must come from the consolidation of economic structures existing within the borders of the constituting provinces of its own empire.<sup>10</sup> Through the customs and commercial union, a market was built that included over 40 million inhabitants, but also numerous regional economic disparities as there were poorer regions such as Galicia, Slovakia, Transylvania and Bukowina and more prosperous ones such as Bohemia, Silesia, Moravia and those around Vienna and Budapest. Transylvania was mainly agrarian, with industrial, commercial and banking activities that focused on local and inter-local markets as well as markets in the territories south and east of the Carpathians. Railroad construction was a priority for the Budapest governments, a necessity and, at the same time, an engine of economic development of the Monarchy, under the circumstances of a growing population and a higher volume of goods. It took place in parallel with the process of establishing new banks and credit institutions.<sup>11</sup> Railroads significantly altered regions

<sup>9</sup> Friedrich List, *Sistemul național de economie politică*, ed. Ivanciu Nicolae-Văleanu, Victor Vasileoiu, Dan Răducanu, Bucharest, 1973, pp. 293-299.

<sup>10</sup> See among others, Wolf. D. Gruner, *Deutschland in Europa 1750 bis 2007: Vom deutschen Mitteleuropa zum europäischen Deutschland*, Presa Universitară Clujeană, 2009, pp. 187-200.

<sup>11</sup> Eduard März, *Österreichische Industrie- und Bankpolitik in der Zeit Franz Josephs I. Am Beispiel der k. priv. österreichischen Credit-Anstalt für Handel und Gewerbe*, Wien, 1968, pp. 120-121.

and localities, contributed to the development of heavy and light industry sectors and sub-sectors, shortened the distance between producers, traders and consumers, brought people and territories closer, changed mentalities and human behaviours. *The customs and commercial union* stimulated the flow of capital and multifarious investments in agriculture and silviculture, industry, mining and steel industry, transportation and railroad construction, banking and commercial systems and activities. The keeping in force of the modern Mines' Law of 1854 favoured, after 1867, investments and the development of mining and the steel industry. Until the 1873 crisis, foreign capital was directed mainly to railroad investment, mining and steel exploitations, to the commercial, banking and stock exchange sector.<sup>12</sup> Fictive and speculative capital also moved mainly towards Austria-Hungary and Transylvanian markets, eventually generating the 1873 stock exchange crash, and the connections with European markets led to the continental and world expansion of the crisis between 1873-1895.

The 1867-1873 period can be related to the *Gründerzeit* in Transylvania, too. One can notice here, especially in its western parts, a true business fever, in all economic sectors, in large scale industries, which belonged to international capital, as well as in other industries that were born against the background of general modernisation. As is known, most economic units were established under the form of joint stock companies, irrespective of the origin of the capital.<sup>13</sup> According to available data, in the period 1867-1873, a number of about 37 joint stock industrial companies were established in Transylvania (understood in its large geographical sense, therefore including the Banat), with an initial subscribed capital in excess of 9.756.000 fl.

Most of the new joint stock companies took over already existing small enterprises, their owners joining the ranks of great shareholders. Besides the milling industry, the main sectors that attracted investments were alcohol distillation, beer production, construction materials and the chemical industry. In all respective production facilities one can notice a sustained process of technological acquisition, most of them using steam power and adopting the latest innovations in the field.

Financial resources necessary to that investment came from local or older credit institutions or ones that were established during the *Gründerzeit* period, but most of them were capitalised through the great banks in Budapest and Vienna. In the 1867-1872 period alone, 11 new banks were established in Transylvania.<sup>14</sup> Obviously, these investments generated here, too, an unprecedented business and speculation fever. They were stimulated by short-term credits which facilitated not only actual investment actions but particularly speculative ones, regarding share transactions, the fever of raw materials, and especially those dealing with the real estate boom in towns. Especially in the sector of food industry things worked out well as long as investments brought the necessary sources of money but the profile and specificity of these investments depended very much on the situation of crops and therefore on the cereal trade. In 1869, for instance, the situation deteriorated because of the very poor crop in the Banat, which

<sup>12</sup> Robert Nagy, *Capitalul – forță a transformării. Rolul capitalului german în industrializarea Transilvaniei*, Cluj Napoca, PUC, 2011.

<sup>13</sup> See A. Egyed, "Industria mare din Transilvania între 1867-1873," in *Anuarul Institutului de Istorie și Arheologie Cluj*, Cluj Napoca, V, 1962, p. 153 ff.

<sup>14</sup> *Magyar Stasisztikai Évkönyv, 1873*, Budapest, 1874, p. 336 ff.

made the investors unable to pay back short-term credits and their corresponding interest. And as the policies offered were high, banks raised interest rates and therefore credit encountered serious restrictions. Repercussions on businesses appeared quickly.

The stock exchange and then economic catastrophe of the year 1873 was quickly perceived in the economy of Transylvania.<sup>15</sup> The collective perception of the entrepreneurs was dominated, after the initial panic, by lack of trust, uncertainty, all these being amplified by the reduction of the monetary mass with the immediate consequence of price drops almost to the level of deflation. The attempts of the National Austrian Bank to intervene met with little success. Its credits, which were actually quite modest, could not stop the panic wave. Lacking the necessary cash, certain Transylvanian banks went bankrupt, the first cases being recorded in Timișoara, the city with the greatest development of this sector. Here, the following banks went bankrupt: the Industrial and Commercial Bank, the Commercial and Mortgage Bank, and the Industrial Bank.<sup>16</sup>

Both large and small production facilities suffered as a consequence of the crisis, to a different extent, from case to case and for different reasons that cannot be generalised. It is obvious that the great joint stock societies did suffer too but they had more room for manoeuvre both financially and technologically or in terms of markets. On the other hand, small production facilities, often equipped with old, completely inefficient technology, or those that lacked the right management, suffered serious losses, some even paying the price of bankruptcy and disappearance from the market. This was the case of many such small mining companies of extraction and production which, with a low productivity and a market that had been stable but under the new circumstances became volatile, saw themselves forced to maintain production only at the cost of an obvious deficit.

Recession and pessimism were dominant in the years 1873-1879, the initiative and courage necessary to resume business lacking everywhere; this situation was aggravated by the lack of capital and the contraction of markets. In addition, a cholera epidemic struck in 1873 (the last large scale epidemic in the region), profoundly affecting economic life and demographical balance. The recovery from recession occurred gradually only after 1879-1880, especially in the southern regions of Transylvania, where a stimulating effect was produced by the market south of the Carpathians, access there being facilitated by the Austrian-Hungarian-Romanian customs convention and by the internal laws encouraging the economy that were being adopted.

It is beyond doubt that this crisis, with its components, the first crisis at trans-continental scale, affected both Transylvanian economy and society, at a time when the latter was engaged in a process of modernisation and integration into capitalist circuits, with all the advantages and difficulties inherent to this process. In many respects, the 1873-1880 recession represented, for this peripheral region of the Danube Monarchy, a new obstacle in its attempt to overcome the discrepancies separating it from the western regions, adding to the already existing discrepancies and impinging upon the process of regional homogenisation that economic evolution was expected to foster.

<sup>15</sup> About the economic crisis of 1873 in Transylvania, see: Iosif Marin Balog, "Criza economică din 1873. Manifestarea și percepția ei în economia și societatea transilvană," in *Anuarul Institutului de Istorie "George Barițiu" din Cluj-Napoca, series, Historica*, 50, 2011, pp. 51-75.

<sup>16</sup> *Magyar Compass, Pénzügyi és közgazdászati évkönyv, 1874*, Budapest 1875, pp. 54-55.

The 1873 crisis marked a failure of economic liberalism in its classical sense of *laissez-faire* which was under attack not only from its opponents but also from those who noticed that leaving the invisible hand of the market to follow its course meant taking too much risk, under the new circumstances. Firstly, social costs were too high for almost any of the political regimes of the time. Therefore, in the Monarchy or at least in its Austrian part, where the bourgeoisie had managed to briefly acquire an important position, it found itself losing to the conservatives who, at an economic level, supported the landed gentry and customs and commercial protectionist interests.

In Hungary, economic crisis contributed to widening the gap between authentic capitalist bourgeoisie, mostly of German or Jewish extraction and the middle class formed by the petty nobility engaged in industrial activities of a capitalist nature; the latter was, however, from a political point of view, the champion of a nationalism which, at its best, displayed limited liberal-reformist tendencies but continued to be obsessed with the Hungarisation of the other nations in Hungary. As far as governance and economic policies are concerned, these realities resulted in the protection of the interests of the landed gentry and in the frequent frustration with the Austrians who, allegedly, were to blame for keeping Hungary as an agrarian country, forced to consume industrial products made beyond the Leitha. And the consequences of such an attitude were extremely damaging for the entire period to come.

Undoubtedly, beyond local differences, the dynamics of the process of modernisation throughout the Monarchy was slowed down by this economic crisis. As a consequence of the economic crisis and political disputes, tensions appeared under the form of hidden protectionism and the “price scissors” and generated a discrepancy between the prices of industrial and agricultural products, discriminatory tariffs for the circulation of goods by railway from one province to another, from one region of the Empire to another. It was no accident that the Budapest government and the Hungarian political class at times suggested giving up the common commercial space and the reintroduction of the customs system.

Disputes also appeared following legislative measures adopted by Budapest in the years 1880, 1890, 1899 and 1907, and meant to promote protectionist measures and stimulate Hungarian industry by granting subventions, tax reductions and placing state orders that generated discontent and convulsions among public and private partners in Austria. Of course, Vienna was interested in a protectionist policy to shield itself from the competition of other European countries but it was embarrassed when such policy came from Budapest. As a consequence, economic competition grew and became manifest at both the micro- and the macroeconomic levels, in terms of economic sectors and sub-sectors and also territorial profile. Among the economic elites of Cisleithania and Transleithania, there appeared social and economic asperities called at the time, *the agrarian-mercantile-antagonism*, liberal economic options took a significant step back and state interventionism and customs protectionism started to be promoted by the governments in both Vienna and Budapest. Reverberations and effects of crises disadvantaged, as was common under such circumstances, eastern, less developed and mainly agrarian territories and generated asperities that questioned not only market mechanisms but also the dualist political system. It is little wonder that after the Vienna

crash of 1873 one can detect anticapitalist attitudes, amplified by the social-economic and national inequalities in the dualist monarchy.<sup>17</sup>

Structural crises at the end of the nineteenth century and the beginning of the twentieth century conjugated with agrarian ones.<sup>18</sup> Before dualism, but also in the following years, eastern provinces were the main cereal providers for the Empire markets. The milling, bakery and agro-food industries took significant steps on the background of these realities. Agrarian reforms and the merging of agricultural properties, conjugated with agro-technical and protectionist measures meant to stimulate agriculture contributed to increased productions. Between the years 1873-1895 and 1903-1904, the agricultural sector of the eastern territories was greatly affected by the *dumping* prices generated by the invasion of American wheat on European markets.<sup>19</sup>

The Austro-Hungarian economic organism was conceived and worked in a unity in diversity based on *integration* and *complementarity* but also on economic *rivalry*, *competition*, *asperities*, and *disparities*. If *integration* and *complementarity* were provided by the existence of Imperial authority and of bureaucratic, administrative systems, *rivalry* and *competition* were generated by the capitalist market economy but also by the discrepancies in the territorial development of the Empire. Last but not least, economic *asperities* and *disparities* have a long history, being present, in various forms and degrees, throughout the existence of the Habsburg and Austro-Hungarian Empire. The territorial, economic, social, political, national-ethnic and denominational diversity was so great and accompanied by so many problems that it generated from the beginning economic *asperities* and *disparities* that manifested themselves latently and actively both before and after the conclusion of the Austro-Hungarian dualism.

As far as Transylvania is concerned, basically all successive political regimes in the second half of the nineteenth century had the intention of extricating the province from its peripheral economic condition and placing it in a network of modern economic growth similar to that of other provinces. The limited effect of these intentions marked the destiny of the region's economic development for decades. Economic conditions of the 1850s and 1860s, in a framework characterised by free trade policies, would have provided the premises necessary to the later so-called take-off in the direction of modern industrialisation, as it happened in the years 1880-1890 in Hungary, for instance. But periods of prosperity and economic growth were always short-lived. The economic crisis in the 1860s and then the one in 1873-1878 fatally postponed this opportunity. Until the new economic policy of Budapest governments produced palpable results in the modernisation of Transylvania, the province accumulated new discrepancies that could not be surmounted before First World War.

<sup>17</sup> Marin Iosif Balog, *Dilemele modernizării. Economie și societate în Transilvania 1850-1875*, Cluj Napoca, International Book Access, 2007, p. 10.

<sup>18</sup> See, referring to the structure of economy, the various indicators such as industrial output, industry growth rate, the position of Austria-Hungary in world economy (it ranked however among the first 6-7 states on all indicators) Herbert Matis, *Österreichs Wirtschaft 1848-1913. Konjunkturelle Dynamik und gesellschaftlicher Wandel im Zeitalter Franz Josefs I*, Berlin, p. 188.

<sup>19</sup> Iosif Marin Balog, "Prices, wages and consumption in Transylvania between 1850-1914. Trends and developments in rural and urban areas," in *Romanian Journal of Population Studies. Supplement*, V, 2011, pp. 49-85.