

Hungary's Economy, 1849-1867: A Critique of a Recent Hungarian Assessment

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György Szabad, "Az önkényuralom kora (1849-1867)," /The Age of Neoabsolutism, 1849-1867/ *Magyarország Története* /History of Hungary/ (Budapest: Akadémiai Kiadó, 1979) VI, part I: 525-608.

Reviewing part of a volume of a larger series is an unusual undertaking for a scholar. Szabad's essay is merely part of a book; the book itself is, in turn, part of a multivolume history of Hungary. It is incumbent on historians to review at least parts of this work. Since it is difficult for one person to review the entire volume, I have decided to review the section which deals with economic history, my field of expertise.

In the past, Hungarian historians have often referred to pre-1867 Austria as Hungary's oppressor. Since the mid-1960s, they have gradually revised this view and have evinced much more intellectual maturity about the relationship between Hungary and Austria under the Habsburg scepter. Although a negative tone can still be found in the analysis of that relationship, only in the recounting of the history of the 1850s does the old vocabulary of exploitation still dominate the narrative.

During the years of Absolutism that span the period from the end of the Hungarian War of Independence in 1849 to the Compromise of 1867, Hungary was an integral part of the Habsburg Monarchy, and hence was administered as any of the Empire's other political units: not even a modicum of representative government existed. This authoritarian arrangement need not have had an adverse effect, however, on Hungary's economic development. The issue of the economic consequences of the Absolutist government's policies is likely to be a controversial one for some time. The study under review does

not contribute to the resolution of the crucial questions confronting the student of the period.

Professor Szabad argues, for instance, that the Austrian government decided to spur capitalist development in Hungary, but at the same time subordinated this development to its own needs. The major problem with this assertion is that several elements of it remain unexplored. How did Austria coerce Hungary into serving its needs? What were those needs? What kind of distortions did this coercion cause in the Hungarian economic fabric?

The implication of his suggestion is that, freed from the shackles imposed by Austria, Hungary could have fared much better economically on her own. It seems, however, that a relatively backward country, such as Hungary during the mid-nineteenth century, would have been without the financial and the real infrastructure necessary for an effective economic mobilization and would have probably had great difficulties relying exclusively on its own pool of skilled labor and accumulated domestic capital.

Szabad also implies that the Austrian government consciously decided on the path of capitalist development for Hungary, actively directing her on this path. Once again, however, no examples are cited to support this claim. As far as can be discerned, the government in power in Vienna at this time was not a more activist regime than its pre-March predecessor; instead a continuity in development was apparent. The economic development that did occur in the 1850s was primarily an outgrowth of market forces at work rather than some manifestation of government omnipotence, as implied by the author.

Austrian capitalists were supposed to have monopolized the Hungarian market. It is true that Austrian entrepreneurs dominated certain branches of the economy, and that they played a significant role in others. They did not collude, however, nor did they act as a monolith. There was no means available for them, either legally sanctioned or illicit, to exact exorbitant prices and thereby, hurt the Hungarians. The Austrian entrepreneurs acted in an atomistic fashion; by competing among themselves, they prevented any monopoly from being formed.

Nor is there any evidence that these capitalists sought to control certain branches of the economy for ulterior motives,

that is, to be able to command key positions of the economy in order to wield power over it. Austrian investments in Hungary were heavily concentrated in transport, the extractive sector, and in the financial sector. Yet were not these industries precisely those that were expanding quickly and hence, provide a lucrative return on investment? In other words, there seems to be no reason to impute sinister motives to Austrian investors.

According to the author, the Hungarians refused, "at times with apparent unanimity," to pay taxes.¹ Their refusal to do so, it is asserted, continually threatened to upset the government budget. This alleged statement is used to indicate unified Hungarian resistance to Austrian oppression. Again the data point to a different conclusion. It is true the Hungarians were the worst taxpayers in the Monarchy. Out of 12.5 million gulden total arrears to the central government, 7.0 million gulden were due from Hungary.² This was not a substantial change, however, from the 1840s. In 1846, for instance, out of 15.9 million gulden total arrears, Hungary had owed 8.9 million gulden.³ In other words, when compared with the figures for 1846, Hungary's tax debt had, by 1857, actually decreased, although it was to increase in the 1860s.

Szabad's assertions about tax delinquency in Hungary may be interpreted in a completely different way from that which he intends. The failure of many Hungarians to pay the taxes on land may indicate not widespread rebelliousness, but simply a shortage of money in Hungary due to the limitations of an underdeveloped market economy. Furthermore, the very fact that back taxes on land were tolerated without foreclosing on the properties in question, testifies to the limits of enforcement of government policies. If, as the author suggests, the Austrian authorities had been as oppressive and the Hungarians' failure to pay such taxes been as damaging to government revenues, why were not the properties of such delinquent taxpayers confiscated?

Although the problem of tax delinquency was indeed an irksome one, it was by no means debilitating to the Austrian government. In 1857, the Hungarian land tax was 18 million gulden, of which 91 per cent was actually paid that same year. In addition, enough of the back taxes were paid in that year to decrease the total outstanding arrears of Hungary from 8.3

to 7.0 million gulden. Incidentally, the total tax arrears in 1857 of 12.5 million gulden do not appear significant when compared with the government revenues of 420 million gulden. A slippage of 3 per cent is hardly likely to have threatened the Monarchy's stability.⁴ In sum, the whole problem of taxation is oversimplified in this essay.

The state finances are also misrepresented. The reader is told, for example, that the service on the peasant-emancipation bonds alone accounted for 1/4 to 1/2 of direct taxes. This statement is implausible. In fact, about 7.8 million gulden in interest and 6.8 million gulden in principal were redeemed in 1864. These amounts do not loom significantly large when compared with the 122.7 million gulden taxes collected directly. In any case, it is not reasonable to compare an expenditure item with direct taxes alone; instead, it should be compared with the total tax revenues, which were in the order of 450 million gulden.⁵ The author also asserts that revenues were "squandered" by the government, but, without some indication of what expenditures the author considers superfluous, such a statement cannot be given much credence.

The aforementioned is not to be construed to suggest that the Austrian government was on sound financial footing. Deficits were no doubt large, but they did not threaten the government with bankruptcy. The economy did not teeter on the verge of collapse, and there is no point in presenting the reader with that impression.

The entire discussion of taxation is misinformed and one can only conclude that it is a misrepresentation of reality. The fact that taxes were increasing in nominal terms does not, by itself, prove that they were also increasing in real terms, or that such taxes were either burdensome or exploitative. Was the price level constant? Did not incomes also increase? Should not one also be aware of the fact that the tax burden previously accruing to the Church and to the landlord had now been eliminated? Thus the existence of "taxploitation," a word coined by the author, does not follow from the mere fact of an increase in taxes.

Szabad would like to demonstrate the repressive nature of Austrian tax policy by pointing to the high proportion of taxes (26 per cent) collected from the sale of tobacco and salt. To put things in proper perspective, however, one must keep in

mind that the expenses incurred by the government in manufacturing and marketing both products were considerable: the net revenue from their sale as a share of the total revenues collected by the state, net of the expenses incurred in generating these revenues, was 17 per cent in 1857.⁶ Even this figure makes the tax seem more burdensome than it really was. Some of the tobacco products were sold to foreigners as an ordinary business transaction; in that case, the tax did not burden the domestic population. Furthermore, only the difference between the price that prevailed as a consequence of the monopoly position of the government and the price that would have prevailed had these products been deregulated can be considered a tax, and not the price itself.

Another erroneous argument is the author's claim that Hungary paid more taxes than the value of the services the Austrian government returned to Hungary. In support of this thesis, Szabad makes an accounting of actual income and expenditures of the Austrian government in Hungary, which indeed shows a deficit. He fails to mention, however, the fact that the same accounting shows a deficit for all the provinces of the Austrian Empire, for the simple reason that those expenditures of the central government that could not be allocated to any single province were left out of the calculations. The armed forces, the Court, and the diplomatic corps all absorbed revenues that could not be allocated to any one province. The author also fails to mention that this deficit was, for Hungary, among the smallest in the Monarchy, on both a per capita basis and a per square mile basis: only Tirol, Vorarlberg, Salzburg, Dalmatia, and Bukowina had a smaller deficit than Hungary.⁷ In fact, the Hungarian "deficit" was, on a per capita basis, less than half the deficit of the rest of the provinces, and less than one-third on an acreage basis.

The relative smallness of this deficit cannot be accounted for entirely by the income side of the ledger, but must be ascribed in large measure to the fact that certain government expenditures were disproportionately large in Hungary. On various water works, one million gulden were spent in Hungary in 1857, while only 300,000 gulden were spent in Bohemia, and only a half million in Lower Austria. In the same year (1857), 4.3 million gulden were spent on building roads in Hungary. The provinces with the nearest amount to that spent

on building roads were Galicia, with 1.4 million gulden, and Bohemia, with one million gulden. Another such expenditure, one not mentioned by the author, was a benevolent action of the Austrian government: the 14.5 million gulden welfare payment made in 1864 to help needy Hungarians who had been badly hurt by the harvest failure of the preceding year.⁸

It is also necessary to refute Szabad's assertion that Hungarians paid more than their fair share of taxes. In support of this contention, he states that "in the early 1860s, the per capita land tax was 4 per cent higher in Hungary than the average for the Empire." Is such a small difference really significant? In 1864 this tax, which no doubt fluctuated from year to year, was 1.77 gulden per capita in Hungary (excluding Transylvania and Croatia), while the Empire-wide average was 1.76 gulden.⁹ This is a negligible difference. The author likewise overlooks the fact that the tax was not evenly distributed within Hungary. In 1857, the land tax for Hungary proper, as well as for Croatia and Transylvania, was considerably less than the average for the Empire as a whole. The Bánát was the only region where the tax per capita was above the average.¹⁰

The example of the Bánát brings us to the main reason why the comparison of the land tax per capita across the various provinces is extremely misleading: the higher the productivity of the land, and the lower the population density, the higher this indicator will be, even if the tax burden is distributed equitably. That was precisely the situation in the Bánát: low population density was coupled with what was probably the best land in the Empire. The tax per acreage, therefore, is a better indicator of the burden of the land tax than the one used by the author. In 1864, Hungarians paid 5.06 gulden per Austrian square mile, the average for the Empire as a whole was 5.6 gulden per Austrian square mile.

The land tax by itself, however, is not a good measure of the distribution of the tax burden. In 1857, Hungarians paid only 60 per cent of the total taxes (direct and indirect) that were paid per capita by their Austrian counterparts; on an acreage basis, the balance was even more in Hungary's favor. Yet this measure is imprecise as well. Since Hungarians clearly had a lower per capita income, the incidence of the indirect taxes would not have fallen on them with as much force. The proper measure is the amount of taxes as a percentage of national

income. On this basis, the indication is that Hungary was paying, if anything, less than its fair share. Although slightly more than 30 per cent of the Monarchy's GNP originated in Hungary,¹¹ the sum of the direct taxes and the consumption tax paid by Hungary was less than 30 per cent.¹² Thus, there is no evidence that Austrian tax policy discriminated against Hungary.

The above analysis is, of course, not meant as a substitute for a systematic evaluation of Austrian tax policy during the years between 1849 and 1867. The main purpose of this critique is to point out the degree to which the issues involved have, up to now, been obfuscated.

Professor Szabad's essay contains yet another misconception: the notion that the 1850s in Hungary were characterized by an agricultural boom. He implies that the dynamics of this decade differed significantly from the preceding ones in both exports and production. The whole notion of a "boom," however, is contradicted by the data on internal transportation and foreign trade in the Monarchy. The growth rate in grain exports between 1833 and 1843 was 5.3 per cent; in succeeding decades, up to the eight year average centering on 1871, the average was only slightly higher, at 5.9 per cent.¹³ In fact, the first half of the 1850s was marked by adverse weather conditions and harvest failures. The temporary dislocation of the labour market caused by the peasant emancipation exacerbated conditions, and there were severe sporadic famines. As a consequence, the Monarchy's foreign balance in the grain trade was negative in the first half of the 1850s; only in the second half of the 1850s did production reach trend values.

The reader can see the lack of validity in the author's argument when one examines the reason he gives for increased production, namely the increased demand caused by the Crimean War, the Italian War, the American Civil War and Indian Mutiny of 1857. There is no evidence, however, that any of these conflicts increased the demand for Hungarian grain.

During the Crimean War, there was no adequate transportation system that would have enabled Hungarian producers to export grain to the Crimea. Furthermore, the shift of less than a hundred thousand men from Western Europe to the Balkans could have hardly had a significant effect on the trade of a Monarchy with an internal market of 30 million. Although

war was declared in September, 1853, the Russian government did not close the port of Odessa to grain exports immediately; it offered an inventory of 5.5 million hektoliter for sale as late as November of that year.¹⁴ When Russia did prohibit the export of grain,¹⁵ this was as much the result of the bad harvest as it was of the needs of the war effort.¹⁶ Although Wallachia also prohibited the export of grain for a while, it lifted this ban in the fall of 1854.¹⁷

Some trade diversion could have taken place because of the closing of the port of Odessa, but the Austrian Empire had no surplus grain to take advantage of this development in any event. Hence, even if the Monarchy had been in a position to respond, the trade diversion induced by the war would have been short-lived, and could not have significantly influenced production. The only effect of the Crimean War on Austria's grain trade was to cause her to import somewhat more grain than she would have otherwise. Troops were stationed in grain-deficit areas, where it was cheaper to import the grain from abroad than to procure it from the center of the Monarchy.

It is misleading to argue, as the author does, that the Indian Mutiny of 1857 hindered the export of grain from India. As the table below indicates, the data show quite the contrary, that exports were not affected by the mutiny.

EXPORTS OF GRAIN
from British India by sea to foreign countries
Thousand of Pound sterling (£)

	Wheat	Other grain	Rice
1855	-*	180	1,562
1856	174	124	2,598
1857	138	148	2,301
1858	143	198	3,449
1859	117	251	2,433

*included in other grain

Source: Statistical Abstract Relating to British India, 1840-1865.
Compiled from Official Records and Papers presented to Parliament.

It is suggested that the Second War of Italian Independence of 1859 also contributed to the "grain boom" of the period. Yet, would the Austrian soldiers and horses deployed on the

battlefield not have had to eat had they stayed at home? The *Creditanstalt* was able, in 1859, to purchase 2.5 million hektoliters of grain for the military, a transaction amounting to about 1.5 per cent of the Monarchy's output, without affecting the price of grain.¹⁸ This fact suggests that the army purchases for the Italian War did not increase the demand for grain within the Monarchy, and that they were insignificant compared with total grain consumption.

The author further suggests that the American Civil War brought prosperity to Hungarian grain producers, by causing a decrease in grain exports from the United States. This argument is also erroneous. While the Southern market for grain was cut off by the Northern blockade, the North diverted its exports to Europe, with a more than fourfold increase in quantities shipped abroad. Prior to the war, the average annual exports of grain from the United States had been about 5 million bushels. In 1861 exports increased to 31 million bushels, and stayed around that level throughout the conflict.¹⁹ In short, the political events which Szabad supposes to have contributed to the Hungarian export boom turn out to have had quite different implications.

Another difficulty with Szabad's thesis is the fact that, at the same time that the author emphasizes the severity of the exploitation of Hungary by Austria, he also argues that something just short of an economic miracle took place in the former country during the very years in which it was being exploited. This position is difficult to maintain, for the effects of the economic reforms that had taken place in the 1850s were not likely to have had an appreciable impact immediately on economic development. It is repeatedly suggested, however, that the economic regime of the 1850s differed fundamentally from that of the 1840s. The fact is that the 1850s did not witness an increase in economic well-being of unusual proportions, and that at the same time, the exploitation of Hungary by the Austrians was either non-existent or small. One cannot rule out, on the basis of evidence thus far presented, that a careful accounting might even show the balance to have been in Hungary's favour.

The author also advances the argument that the railroads, built in this period primarily with foreign capital, served the interests of foreigners. As evidence for this contention, he points

out that the railroad connections were not built to reach the iron-producing regions of the country. Szabad has misunderstood the motivations of these capitalist-entrepreneurs: their purpose was not to serve anyone's interests, but to make profits. For that end, they needed to extend the railroad lines to places that had bulky goods to send over long distances in large quantities. The logic of their endeavour was to connect the grain-producing and coal-producing centres with the Imperial capital of Vienna, and thus with the European rail network. The Austrians were not alone in benefiting from this endeavour; in this case, the Austrian and Hungarian spheres of interest merged. Did not the coal miners gain from the increased sales of coal? Did not the Hungarian agricultural interests benefit from the lower costs of transportation to Vienna?

In conclusion, Szabad's essay contains numerous assertions of dubious validity. I believe that this segment of the huge volume is not an effective aid for the serious student of this period.

NOTES

1. Szabad, *Az önkényuralom kora*, p. 543.
2. Direction der administrativen Statistik, *Tafeln zur Statistik der Österreichischen Monarchie*, New Series, III, 1855-1857, Part I, Section B/III, Table 7, pp. 16, 23-4.
3. *Tafeln*, 1845-1846, Part I/B, Table 9.
4. *Tafeln*, New Series, III, 1855-1857, Part I, Section B/IV, Table 24, p. 24.
5. Austria. Statistische Central-Commission, *Statistisches Jahrbuch der österreichischen Monarchie für das Jahr 1865*, pp. 407, 457, 459, 464.
6. *Tafeln* 1855-1857, Part I, Section B/IV, Table 24, p. 52.
7. *Ibid*, p. 48.
8. *Statistisches Jahrbuch*, 1865, p. 478.
9. *Ibid*, p. 406.
10. *Tafeln*, 1855-1857, Part I, Section B/III, Table 7, p. 24.
11. Péter Hanák, "Magyarország az Osztrák-Magyar Monarchiában, túlsúly vagy függőség," /Hungary in the Austro-Hungarian Monarchy, preponderancy or dependency/ Péter Hanák, ed., *Magyarország a Monarchiában* /Hungary in the Monarchy/ (Budapest: Gondolat, 1975): 300.
12. This was 50 million gulden out of 170.9. The incidence of indirect taxes, other than the consumption tax, is difficult to ascertain. *Statistisches Jahrbuch 1866*, pp. 343, 351.
13. *Ausweise über den Handel von Österreich, 1831-1847. Hivatalos Statisztikai Közlemények, 1867-1875* /Official Statistical Communications./ Both cited in John H. Komlos, "Austro-Hungarian Agricultural Development, 1827-1877," *The Journal of European Economic History* VIII (Spring 1979) 1, p. 49.
14. *Gazdasági Lapok* (Economic Journal) (November 20, 1853) p. 570.
15. *Ausweise über den Handel von Österreich* (1855) p. 570.
16. The harvest of 1855 yielded about two-thirds of the usual amount.
17. *Gazdasági Lapok* (Economic Journal) (November 23, 1854) pp. 583-4.
18. *Geschäftsbericht Creditanstalt* (1859) p. 3.
19. U.S. Department of Commerce, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: Bureau of the Census, 1975) Part 2, p. 899.