
10 Demise and disintegration: The economic consequences of the Great War in Central Europe

Tamás Vonyó
Bocconi University

Nowhere did World War I have more consequence than in Central Europe, where the dissolution of the Habsburg Empire left behind a heavy legacy of ethnic strife, political instability, and social conflict. Austria-Hungary started the Great War, even though it was the least prepared to fight it. The Habsburg economy was capable of waging war, even on unprecedented scale, but not for long. Four years of total war exhausted the productive capacities of the Habsburg lands and brought the empire to collapse. Jászi (1929) famously called the customs union of Austria-Hungary “one of the most outstanding centripetal forces” that had kept the Habsburg lands together. Historians have recurrently highlighted the economic penalties of political disintegration after 1918 (Berend 1998, Feinstein et al. 2008). More recent empirical findings advise caution on these claims (Wolf et al. 2011) and suggest that economic nationalism had already caused economic fragmentation within the still unified empire before the Great War (Schulze and Wolf 2012). Yet, public opinion and national narratives, for a century, have continued to blame the social and economic troubles of Central Europe on the disintegration of what Heiderich and Schilder (1912) had termed a unified economic space.

While the economic consequences of the peace have been subject to extensive study, the economic impact of the war received less attention. Economic histories of the Habsburg Empire in the Great War focused mainly on the mechanics of economic mobilisation (Wegs 1979), on food and raw material supplies, and on war finances (Rauchensteiner 1994, Jindra 1996, Schmied-Kowarzik 2016), which many saw as precursor to the hyperinflations that rocked the successor states after 1918 (Bachinger and Matis 1986).

The deeper consequences of the war for economic development eluded researchers. Posterity took the advice of John Maynard Keynes that in the former Habsburg lands “the miseries of life and the disintegration of society are too notorious to require analysis ...” (Keynes 1919: 249). Trusted accounts of the Austro-Hungarian war economy are antique (Popovics 1925, Gratz and Schüller 1930, Winkler 1930, 1940, Riedl 1932, Teleszki 1927, Szterényi and Ladányi 1933), even though the discipline of war economics was born in the Great War with seminal contributions from Austria (Landesberger 1914, Eulenburg 1917). “The economic history of World War I came out of style” (Ziegler 2015: 313).

There is no doubt that among the great powers of Europe, the Habsburg Empire was the least prepared for war. Between 1900 and 1913, Austria-Hungary spent 2.6% of its GDP on national defence. This compared very modestly to the expenditures of Britain, France, and Germany, or Russia, which spent 5.7% of national income on the military (Schulze 2005: 78). Besides Italy, the Habsburg Empire mobilised far smaller resources than the other major combatants did. The share of war spending in GDP reached 30% in the first year of the conflict, but thereafter declined, sinking to 17% in 1917/18 (Schulze 2005: 84). This lack of preparedness was blatantly obvious from the outset as Habsburg forces suffered humiliation in their campaign against Serbia and heavy defeat by the Russian army on the Galician front in the autumn of 1914. The greatest part of the more than one million Habsburg casualties of war died in the first year of the conflict (Winkler 1919). From 1915, Austria-Hungary could only wage war with significant support from German forces on all fronts.

Even this comparatively limited mobilisation of resources had a devastating economic impact. When the guns went silent, GDP had fallen by almost 40% from pre-war levels, consumer prices had increased more than tenfold, and western cities of the Empire – Vienna in particular – were starving (Schmied-Kowarzik 2016). At the end of the war, the central administration fell apart so swiftly that there was no legitimate government to broker an international armistice agreement. The empire disintegrated before Austria-Hungary officially conceded defeat. The Czechoslovak Republic was proclaimed on 28 October 1918; the Yugoslav National Council declared independence on the following day. The German-Austrian Republic came into being on 12 November, the People’s Republic of Hungary four days later. Contemporary claims that the peace treaties of St Germain (1919) and Trianon (1920) had decreed the successor states were utterly false.

“Austria-Hungary fell by her own weight. It is not true that the Allies broke her up; she broke down” (Seton-Watson 1934: 18).

However, a closer examination of wartime statistics supports a more complex interpretation. The development of the Habsburg war economy had three distinct phases (Schmied-Kowarzik 2016, 485). In the first two months of the war, mass mobilisation caused severe labour shortages in both industry and agriculture and almost all railway capacity was diverted to military purposes. Essential inputs could not reach manufacturing firms and, therefore, the general lack of manpower coincided with a temporary spike in unemployment. GDP fell by one tenth. The armaments boom that followed lasted until late 1916. The bureaucratic reorganisation of the economy prioritising the metal producing and processing industries, significant imports of essential inputs from Germany, and the intensified use of scarce labour including prisoners of war facilitated a sharp increase in munitions output. This did not require significant expansion of capacities, for Austria-Hungary commanded one of the largest machinery industries in Europe prior to 1914 and could rely on a sizeable iron and steel industry, which consumed domestic reserves of anthracite and iron ore (Schulze 2005, Klein et al. 2017). Moreover, these industries were clustered in relatively small regions around Vienna and Budapest as well as in Moravia and Silesia, so that their input-output networks could operate with limited transport capacity.

Table 1 GDP in Austria and Hungary (1913 = 100)

	Austria	Hungary	Habsburg Empire
1914	88.5	92.2	89.8
1915	85.0	96.4	89.2
1916	77.7	84.6	80.2
1917	66.9	74.2	69.6
1918	59.4	65.1	61.5

Source: Schulze (2005: 83).

It was only after the summer of 1916 that the Habsburg economy began to run out of steam and gradually came to a state of paralysis. The enormous casualties suffered during the Brusilov Offensive, worsening shortages of coal and other materials due to lacking transport capacity and insufficient imports, and the inadequate supply of

food on the home front reduced productivity even in industries vital for the war effort (Gratz and Schüller 1930, Wegs 1979). Viennese munitions manufacturers reported long strikes in June 1917 and in July the entire workforce of Skoda in Plzen walked out. It took five days and a military intervention to restart production (Jindra 1996, 35). Financing the war proved increasingly challenging as well. Inflation, although already galloping, was kept under control until 1916 with additional taxation and the issuing of war bonds. Prices skyrocketed thereafter as the Austro-Hungarian Bank was required to provide progressively larger advances to the government and as military procurement crowded out civilian consumption.

Table 2 Wartime inflation: The money supply and the cost of living in December (July 1914=100)

	Money supply (M1)	Cost of living (excl. rent)	
		Vienna	Budapest
1914	191	129	...
1915	217	179	201
1916	330	382	288
1917	596	616	351
1918	1,016	1,560	486

Note: for Budapest, two indexes based on alternative baskets of household consumption are averaged.

Source: Schulze (2005: 100) and Schmied-Kowarzik (2016: 534).

Feeding the urban population in the western half of the empire became more and more difficult. In 1916, Hungary agreed to take responsibility for the supply of the joint armed forces but was less and less willing to export grain to the Austrian provinces, effectively violating earlier accords between the two governments. Food riots in Vienna broke out as early as 1915, but the situation became most critical over the last winter of the war. Greater agricultural capacity explains, in large part, why the Hungarian economy managed to avoid a major recession until the end of 1915 and runaway inflation even thereafter, and why it continued to perform better than Austria. Economically, the Habsburg Empire was capable of waging war, even a war that required mass mobilisation, but not a long one. It was the length of the war, much more than the scale of it, which exhausted the economic potential of Austria-Hungary and caused the empire to disintegrate.

While the macroeconomic picture is bleak, the economic consequences of the war were different across regions and industries. Total war imposed harsh conditions on private industry but created new opportunities for the largest manufacturers of important war material. Industry leaders in metallurgy, engineering, chemicals, and food processing could exploit their scale, their supplier networks, their leading position in cartels and wartime procurement agencies, and their political influence to grab the lion's share of war contracts. The armaments boom resulted in strong industrial concentration both in favour of the most industrialised regions and generally at the expense of small and medium-sized firms (Scheer 2016: 457-8). The confidential inventory of war contractors compiled for the Joint Imperial War Ministry at the beginning of 1918 indicates that companies operating in the regions of Vienna and Budapest were hugely overrepresented in army contracts. In Hungary, the top three private contractors – including Manfred Weiss, the largest contractor of the empire – supplied war material in nearly as much value as the next 400 firms combined. With the generous funding of the European Research Council (ERC H2020, No 803644, *Spoils of War*), I will be able to exploit this vast but scarcely known database to study the impact of war spending on (1) industry location in Central Europe and the industrial structure of the former Habsburg lands, and on (2) the formation and development of business networks and industry strategies of big business in the former Habsburg Empire.

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About the author

Tamás Vonyó is Assistant Professor of Economic History at the Department of Social and Political Sciences at Bocconi University and research fellow at the Dondena Centre for Research in Social Dynamics and Public Policy in Milan. A Hungarian economic historian, he defended his thesis at the University of Oxford and was awarded the dissertation prize of the International Economic History Association. He has published in the *Economic History Review* and the *European Review of Economic History*, and his monograph, *The Economic Consequences of the War: West Germany’s Growth Miracle after 1945*, appeared in the Cambridge Studies in Economic History. He received a Starting Grant from the European Research Council to investigate the economic consequences of World War I in the Habsburg successor states.