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Beggar-Thy-Neighbour vs. Danube Basin Strategy: Habsburg Economic Networks in Interwar Europe

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Abstract: After the dissolution of the Habsburg Empire, leaders in successor states were eager to become economically independent from the former capital Vienna. They therefore quickly implemented a set of neomercantilistic measures, especially nationalization programs. Nevertheless, the 1920s saw a reestablishment of the common market in the former territories of the Habsburg Empire in terms of interregional trade and interlocking directorates, mainly because of the business strategy of international financial syndicates that were based on the traditional Viennese commercial relations with the successor states. The international credit of Jewish bankers like Louis Rothschild, Rudolf Sieghart, and Max Feilchenfeld and others mattered. After the "Big Bang" at Wall Street in 1929, the industrial holdings of the Viennese banks and the maturity problem (short-term borrowing, long-term lending) in their relations to East European debtors and Western financiers caused the Creditanstalt-crisis of 1931 and put an end to Vienna's position as a financial hub in East Central Europe. However, even during the crisis of the 1930s, the share of the successor states in the bilateral balances of trade indicates path dependency on a smaller scale.

Keywords: Habsburg Monarchy; successor states; Vienna; Jews; business relations; interregional trade; interlocking directorates; path dependency

1. A Backward Economy?

The military defeat of Austria-Hungary in autumn of 1918 not only triggered the rapid collapse of the Monarchy but also caught by surprise politicians, economic experts, and entrepreneurs, most of whom could hardly envisage the emerging multinational market in East-Central Europe replacing the former domestic market.

The disintegration of the Habsburg Monarchy resulted in severe problems that left a strong imprint on the immediate postwar years and, to a certain extent, the entire interwar period. First, the economic structure of the Empire had been characterized by a strong regional division of labour, a high level of autarky, and therefore a weak integration in international trade. Consequently, in the period from 1860 to 1913, the rate of Austria-Hungary's share of the total of Europe's exports never exceeded six percent. The Kingdom of Hungary in particular was barely integrated in world trade. In the years before the outbreak of World War I, Austria's ("Cisleithania's") share of Hungarian exports and imports hovered at around 73–74 percent ([1], pp. 829, 838). Second, the war economy of Austria-Hungary was on the brink of collapse. Shortages of food, raw materials, and workers resulted in a substantial decline of the industrial and agrarian output. Compared with the level of the last pre-war year, during the war years the gross domestic product (GDP) per capita decreased by 63 percent, the agricultural output in Cisleithania had almost declined to one half, and Hungary's agricultural output was reduced by a third. The average consumption of bread grains (wheat and rye) per head and year decreased from 184 kg on average between 1909–1913 to 132 in 1917 and presumably 101 in 1918 ([2], pp. 82–83, 85–86, 94). Third, the devaluation of the currency, the Austrian crown, accelerated month by month, and later on even day by day [3]. The situation became even more complicated as the political leaders in the successor states were eager to become independent from the former capital Vienna, even at a high price. Nevertheless, it is important to stress that neither the post war inflation nor the politics of neomercantilism ([4]; [5], pp. 252–77) were the only problems of Central and East Central European countries. From a historical perspective, two main questions are thus of particular interest:

- Despite the decision of the successor states' governments "to get divorced," did interlinking relationships continue to exist in the former heavily integrated market and how long did historical ties survive?
- How did big business handle this new situation? Did its actors pursue their political leaders' strategies, and if not, were their own strategies different?

In order to be able to understand the actions taken by politicians and economically influential individuals, it is necessary to take a look at the distribution of the Habsburg Monarchy's economic heritage. The majority of contemporary experts were of the opinion that Austria-Hungary had been one of Europe's backward economies in the years before the outbreak of World War I; still strong enough to survive in a protected common market, but too weak in terms of global competitiveness. This assessment was adopted by economic historians in the 1920s and went unchallanged for several decades, as Alexander Gerschenkron´s influential studies on economic backwardness that were published in the 1960s and 1970s reveal [6,7]. However, the picture drawn by these authors was obviously biased. Czech, Polish, Hungarian, Romanian, Yugoslav, and Italian authors blamed with some resentment the "peoples' dungeon," the Habsburg monarchy, for the economic backwardness of their respective countries. In the case of Austria, the critique of the social democrats was due to their ideological distance to the old aristocratic and bourgeois regime, focused on politics instead of economics [8]. As Pieter Judson recently put it: "We have tended for many years to define and evaluate the continental empires of Central and Eastern Europe in terms dictated to us largely by the successor nation-states and their ideologies" ([9], p. 451).

In order to be able to understand the situation in autumn of 1918, one has to keep in mind the heterogeneity of the former empire's economy. If we take a closer look at the macroeconomic data, it becomes clear that backwardness cannot be attributed to the economic core of the monarchy, i.e., the Alpine lands, the Bohemian lands, the Littoral and some central parts of the kingdom of Hungary. According to the calculations of both the "pessimists" and "optimists," the GDP per capita in Lower Austria ranged between 3300 to 3800 international US dollars of 1990 in 1910, which means that its level was lower than in the Western economies like the United Kingdom and France, but still fairly close to the German average ([10], p. 26; [11], p. 154). The "optimists'" estimates even rank the whole Alpine region close to Germany's GDP per capita (borders of 1937) ([12], p. 4; [13], p. 27). According to the "pessimists'" estimates the level of the later Republic of Austria was close to the Swedish one, and the level of the Bohemian lands close to the Italian one. Yet, to sum up, the problem with the monarchy's economy was not its "core," but its periphery. Though there was some convergence in the last decades before World War I, the differences between core and periphery remained enormous. Lower Austria's GDP per capita was almost three times higher than that of Dalmatia, Galicia, and Bukovina [14] (see Table A1).

The economic rise of the Habsburg Empire in the last decades of its existence was recently contested by the economic historians Max-Stephan Schulze and Michael Pammer [15,16]. Still, it is undisputed that David F. Good was right in stressing the progress in manufacturing and the rising importance of universal banking and big business in this period. Even committed nationalists, such as Tomas Masaryk, were reluctant to support the total economic disintegration of the Monarchy in the years leading up to 1914, but changed their attitude soon after the outbreak of the First World War. Total disintegration was to become from then on the final solution to the "national question," despite the fact that all of the successor states consisted in reality of multiple national groups.

2. The "Easy Split" Decision

As far as the political support of the Allied powers is concerned, the conditions for such a quick solution strategy did not seem so bad in autumn of 1918. The economic dominance of the former core, then the Republic of Austria, could be easily overcome due to both its political weakness and its dependence on international aid, especially the need for food and coal. John Maynard Keynes offered a quite realistic assessment of the severe situation when in 1919 he wrote in paragraph six of his famous proposal for the reconstruction of Europe: "No attempt should be made to extract reparation payments from Austria" ([17], p. 17).

Whereas the Allied powers' policy of blockade was one of the causes of the crisis of the immediate postwar years, the real problem of Austria and Hungary lay in adapting to the new situation of being small countries surrounded by hostile neighbours ([18], p. 272). Many industrial branches suffered from the loss of the protected common market. However, not only the attempts of the newly established national states to gain independence from Vienna and Budapest, the former centres of the monarchy, caused conflicts: Hungary was occupied by Romanian troops because of the Hungarian government's refusal to accept the loss of Transylvania; military conflicts arose between Poland and Czechoslovakia over the duchy of Teschen (Czeczin), and between Austria and Hungary over the future of the Burgenland; and in Carinthia, local fighters clashed with Yugoslav forces attempting to seize the southern part of the province. Thus, the political situation was not likely to enhance rapid normalization of bilateral relations.

By stamping the banknotes of the former central bank of the empire, the Austrian-Hungarian Bank, in January 1919, the Yugoslav government introduced the first measures aimed at achieving economic independence. In March 1919, the Czechoslovak government followed suit, leading the governments of Austria and Hungary to do the same. However, the mere stamping of banknotes circulating in the territory did not solve the monetary problem caused by war inflation. Only the Czechoslovak government succeeded in avoiding hyperinflation, stabilizing the Czech crown within a short period of time, though at high costs ([19], pp. 400–5). Bilateral trade dominating the former market and therefore turned into mainly barter trade due to the chaos in currencies and hyperinflation. Furthermore, the master plans on the "nostrification," nationalization of the most important companies both in the financial sector and in industry, were put into action. The aim was to end Viennese dominance as fast as possible (for Czechoslovakia see [20]). At the end of World War I, 459 of the Empire's joint stock companies had their administrative centres in Vienna, of which 132 produced or made their main business in the successor states. The top twelve Viennese banks controlled two thirds of the total of the share capital of all of the banks of the Monarchy ([21], p. 94). This dominant position meant a threat to national independence and thus all links had to be cut as soon as possible.

The Czechoslovak government took especially aggressive steps toward becoming independent from the former capital. Within a few months, already in August 1919, 44 joint stock companies had transferred or were about to transfer their headquarters from Austria to Czechoslovak territory. Thus their sphere of interests in the heavy industries of Czechoslovakia, representing along with Austria the most advanced economy of the former Empire, faded. The same procedure was executed in the financial sector. In 1918 the ten largest Viennese banks were still running 143 branches in the future successor states, but by 1923 this number had been reduced to a mere nine. The efforts to continue business as usual were checked by the introduction of strict exchange controls in the successor states. Furthermore, due to depreciation of the Austrian currency, Viennese banks could provide their customers abroad with only a minimum of credit and their influence appears to have quickly vanished ([22], p. 187).

3. The Opposing Forces

Surprisingly enough, however, the political leaders of the successor states changed their attitudes rather quickly, at least on certain issues. They had to realize that none of the successor states were able to pursue a policy of complete autarky. In the financial markets, the East Central European economies needed long-term investment credits, but many western investors were only willing to provide short-term loans mainly for big Austrian banks and a few Czech banks, especially the Živnostenská banka. Business relations with these banks were firmly established. A large part of their foreign transactions continued to be carried out by Viennese banking and commercial channels. The economic isolation of Austria brought about by the Allied Powers and their Central European allies therefore did not last for a long time. This was recognized in 1921 by experts like Montagu Norman, Governor of the Bank of England. He took down the following note on 16 June 1921:

> "I cannot but think that although Austria has been dismembered as the result of the war she will remain the financial centre of Eastern Europe and the head for all economic purposes of the neighbouring countries." ([23], p. 309).

The starting position of the Viennese big banks after WWI was not as bad as one might expect. Inflation triggered Western capital groups to take up shares of the banks and enter the East Central European as well as the Southeastern European market, a step facilitated by the devaluation of the successor states' currency. Thus, the interests of the Austrian big banks coincided with their Western partners. The risk, however, was far greater for the Viennese banks ([24], p. 17).

The dismemberment of the Monarchy caused an enormous increase in transaction costs. Western investors and businessmen quickly realized this and made use of Austria's special position. A very typical example of this is offered by the Anglo-Austrian Bank. Although the Anglo-československá banka, which took over the branches of the Anglo-Austrian Bank in Czechoslovakia, was founded in 1922, the relations to the industrial companies of the Anglo-Austrian conglomerate could be maintained for some time. Members of the bank's board of directors, especially its president Hugo Schwarz, continued to be the heads of 18 out of the 20 stock-joint companies forming part of the bank's conglomerate in Czechoslovakia. Quite surprisingly, no representative of the Czech bank became a member of the boards of these enterprises ([25], pp. 40–42).

This is not to argue that no shifts in power took place in some of these companies. Nationalized enterprises were characterized by a mix of continuity and discontinuity. The Österreichische Berg- und Hüttenwerksgesellschaft, one of the biggest enterprises in the coal, iron, and steel industry in Austria-Hungary may serve as an example. Rudolf Sieghart, head of the Viennese Bodencreditanstalt (BCA), was president of its board of directors until 1918 and its chief executive was Georg Günther (1869–1945), a close confident of the BCA. Günther started his career as a metallurgist of Witkowitzer ironworks. From 1904 to 1909 he served as director general of Škoda works in Pilsen (Plzeň). He then reorganized the Ostrauer Hüttenwerke for the BCA. In the Austrian Republic, he became head of the Österreichische Waffenfabriksanstalt as well as head of the board of directors of the Austrian Federal Railways (1923–1930) ([26], p. 352; [27], p. 101). After the break-up of the Empire, the Frenchman Eugene Schneider from the Schneider Croissot group took over Sieghart's presidential position in the renamed Bánska a hutní společnost. However, only ten years later Güther, its chief executive, was replaced by a Czechoslovak citizen. This change in leadership does not mean, however, that Günther lost his influence. He stayed on as a technical adviser and as one of the leading members of the company's board of directors ([25], pp. 49–50).

Economic historians have for many years blamed the Viennese banks for pursuing a flawed strategy in the 1920s ([28], p. 563). After the end of World War I, these banks were confronted with the choice between multinationalization and Austrofication, which meant selling their shares and claims on enterprises located in the successor states of the Habsburg Monarchy and restricting their economic activities to the territory of the newly founded Republic of Austria ([22], pp. 185–86). It is well known that they chose "multinationalization," in practice, transnational banking. However, the question remains; did they really have an alternative? To limit their business more or less to the small economy of the Austrian Republic would have immediately lead to a drastic shrinking of their activities. To complicate the issue even further, the economy of the newly founded Republic of Austria was dominated by small and medium sized companies, not the kind of customers the Viennese banks used to deal with in the past. Austrofication would have meant the loss of the one great advantage that made them so attractive for their Western partners: their knowledge of big banking business in East Central and Southeast Europe ([29], p. 36). Another argument in favour of the multinationalization strategy originated from the hyperinflation of the post war years. In the period of hyperinflation, the banks floated the shares of newly founded joint stock companies in Austria as well as the successor states and retained the controlling majority. Thus, they hoarded "real assets," the only sensible strategy in times of depreciated currencies. These assets turned out to be heavy burdens in the financial crisis of the 1930s ([22], p. 190). However, it is important to stress that the big debtors of the Credit-Anstalt in the crisis of 1931 were companies from both Austria and other successor states ([30], p. 31; [29], p. 37). One could blame the banks' managements for their "eyes shut and go for it"-policy in the 1920s, but their strategy was backed by Western banks and enterprises. These Western players were entitled to be represented in the boards of directors in the Viennese banks. For example, Peter Bark and Michael Spencer-Smith, confidents of Montagu Norman, became members of the board of directors of the Anglo-Austrian Bank. Interestingly enough, these bankers were also members of the boards of directors of several banks in the successor states, but were not on the boards of industrial undertakings. In these joint stock companies, the Austrians remained key players as far as the influence of the banks was concerned. Even in the case of Czechoslovakia, the policy pursued was pragmatic. As early as in July 1919, the BCA came to an agreement on the coordination of financing its industrial companies on Czech territory with the biggest Czech bank, the Živnostenská banka ([25], pp. 40–42; [31], p. 544). It is quite remarkable that the number of interlocking directorships of the BCA did not decrease but in fact doubled in the years from 1917 to 1928. Almost 85 percent of these interlocking positions were held by Austrians ([32], pp. 262, 272–76).

Yet it would be wrong to perceive the economy of the monarchy and on the ones of the later successor states as being only dominated by the financial capital. "The banks assembled prominent industrialists on their boards to secure their influence but in the same way the industrialists have influenced the banks' policy towards their industries." Strong links between the Viennese banks and industry in the successor states therefore continued in the "nostrification" period, while the dominance of the financial capital decreased ([32], p. 290).

Considering the lack of capital in the successor states, the number of seats held by Viennese bankers, and later representatives of Western capital groups, in joint stock companies on their territory indicated their financial dependency, as well as their dependence on human capital and links with financial centres.

One of the reasons for the limited success of the neomercantilistic policy of the successor states—with regard to nationalization—was due to the networks of the big players, who developed a number of opposing strategies. One could be called the holding strategy. Viennese banking capital at first succeeded in preserving its previous influence by founding holding companies in neutral countries. By acquiring financial participations in companies in the successor states they were able to prevent the execution of nostrification laws. Some examples of holding firms in neutral countries were the Färbereien and Druckereien Trust AG in Chur, Switzerland, founded in 1921, which controlled all the branches of the former Vereinigte Färbereien AG Vienna in the successor states, or the Tarbouches Trust AG in Zurich, Switzerland, which held the whole capital stock of both the Aktiengesellschaft der Österreichischen Fezfabriken and its Hungarian counterpart in Köszeg ([33], pp. 79–80).

Another kind of continuity was preserved by cartels, of which more than 200 had existed before the war. They were hardly influenced by nostrification policy. In East-Central and Southeastern Europe, they kept their dominant position especially in the steel, electric, rubber, and paper industries ([33], p. 81).

One may argue that, despite these sometimes tricky business practices, the disintegration process was not to be stopped in the long run. So let us look at the macroeconomic data of trade. It is remarkable that the bilateral exchange of goods was re-established rather fast—within a few years ([18], p. 271). Relatively strong economic ties continued to exist between Austria and Czechoslovakia, rivals over trade with Hungary and the Balkans. "Austrian industry continued to obtain its coal from the north, particularly because Czechoslovakia and Poland could not sell all their production in the domestic market" ([33], p. 79). In addition, Vienna was still the core. In 1925, Viennese trading houses handled about one third of Polish and more than 40 percent of Czechoslovak textile exports ([18], p. 272).

Owing to the demand for interregional trading services brought about currency difficulties and rising consumer demand in the post-war years, Vienna, as well as to a more limited extent, Linz and Innsbruck, were able to maintain their positions as significant trading places. This was not only the marketplace of the old renowned trading houses, gaining profits from the inflation-driven trading boom, but also of the traffickers looking for fast profits which they sometimes were able to gain. After the end of this boom, the Austrian government was eager to support Viennese trade houses by establishing bonded warehouses, and thus counteracting the high tariff policies of the successor states. Some data of 1926 indicates that this meant a large boost for Austrian foreign trade ([34], pp. 112–15).

It is quite easy to show the macroeconomic consequences of the dismemberment of the Habsburg Empire through foreign trade statistics. Despite the "Anschluss"-fixation of Austrian elites, in 1929 one quarter of the Austrian exports and imports still went to or came from Czechoslovakia, Hungary, and Poland, while less than 20% went to or came from Germany (see Table A2). Another 22% of the exports went to Yugoslavia, Romania, Bulgaria, and Italy. If we look at the successor states in total, the picture was quite similar. Although the unweighted average of the trade between the successor states decreased, i.e., exports slipped from 46 to 38 percent and imports from 41 to 37 percent in the years from 1924 to 1929, foreign trading remained significant (see Table A3). As the example of Hungary shows, trade even increased by the amount of imports ([35], p. 145).

The fact that, following currency stabilization, real growth in the foreign trade of successor states (the indexes are calculated on foreign trade in stabilized German Reichsmark of 1925) used to be twice as high as the GDP further underpins the argument that the common market reintegrated after 1918 (see Table A4). An approximate comparison of the data on successor states' foreign trade leads to the conclusion that interregional trade, especially trade with Southern Europe, had reached its pre-war extension by the end of the 1920s, despite the lack of pre-war data for the whole region (my own calculations based on ([36], Vol. 1926, 1927, 1931/32; [37], pp. 50, 60–63, 88, 96, 98, 100). By then, the common market had been more or less re-established, the one exception being trade between Austria and Czechoslovakia.

Vienna on the one hand lost its previous importance as the administrative centre of a large Empire, but on the other hand retained its former function as the intermediary in the exchange of goods between the industrialized Bohemian and Moravian regions and the agrarian regions of the Danube Basin ([33], p. 86). As early as 1921, Joseph Schumpeter made the following remark: "The collapse did not bring about the complete change of the situation, as might be assumed; certain support due to the organisation of the administration, of course, has been lost. [. . .] The headquarters of the joint stock companies, the majority of the members of the boards of directors, the real functions of the leading managers can't be kept. But, neither custom borders nor the separations of currencies ruin the basis of the former position. The foreign investor still knows only the Viennese bank; the customer from the Balkans still turns to the Viennese trader. [. . .] The strength of such relations having grown for ages is tough. It might be destroyed eventually. [. . .] But, this will be difficult and will take its time" ([38], p. 355).

It was not only due to Prague's partial dependence on the old imperial capital for human capital that Vienna's position as a regional hub went unchallenged. In comparison to Austria's economy, the Czech economy had one great disadvantage: Southern Bohemia, Southern Moravia, and Slovakia supplied the home market with the sufficient amount of agrarian products. There hardly existed any need of such products from Hungary, Poland, Yugoslavia, and Romania. This is why the role of the successor states concerning exports was nearly as dominant as the role of Austria; concerning imports, however, things were different ([36], Vol. 1925, 1929/30; [39], p. 54). Being dependent on imports was thus of use for the Austrian Republic and the old kind of division of labour in former Austria-Hungary was to be an advantage for Vienna's position as a trading center.

The positive effects of the reintegration in the 1920s were obvious. If we look at the output of the industrial production in the whole region, the figures were roughly similar to those of interregional trade. From 1920 to 1929, the index of the industrial production increased by 146% in Austria and Czechoslovakia. The rate of increase of the real GDP per capita reached the same level as those of the successor states and Western economies, such as the UK and the US (see Table A5).

4. The Limits of Nationalization from the Perspective of Entrepreneurs

So why did neomercantilism fail? Was there a difference between nationalistic propaganda and economic reality? In order to find an answer to this question, one should take a look not only at political agendas but also at the role of entrepreneurs and directors, in other words: mind the Schumpeterian perspective (Ironically enough, Schumpeter had been the young Austrian Republic's Minister of Finance for a very short period in 1919). One of the great advantages of top Austrian businessmen was their international standing. The most important of them was Louis Nathaniel Rothschild, chairman of the Creditanstalt, Austria's biggest bank from 1919 onward. During the pre-war years, the Rothschild-consortium had consisted of the Creditanstalt, S.M. von Rothschild bank house, the Budapest "Rothschildbank", and the "Ungarische Allgemeine Kreditbank." International credits, which were rendered possible due to the CA's chairman Louis Rothschild's international contacts, helped the bank to continue business immediately after the dismemberment of the Empire. Close family ties made possible the foundation of the Dutch Amstelbank in 1920. The biggest lender of Amstelbank was the English branch of the house of Rothschild. For instance, the Creditanstalt, in cooperation with S.M. von Rothschild, granted credits to the Petroleum Refinery Budapest, which was part of the Photogen trust, the administrative centre of which was based in the Netherlands. In the spring of 1921, Zieleniewski, the largest Polish engineering company, was granted a big investment loan ([22], p. 191; [40], pp. 351–55).

Whereas Nathaniel Rothschild counted on his family network in the West, other leading businessmen, due to the change of political conditions, pursued individual strategies in order to remain successful. One of them was Ferdinand Bloch-Bauer (1864–1945), the son of the Prague sugar producer David Bloch, who married Adele Bauer, daughter of the director general of the Wiener Bankvereins and president of the Orientbahnen, Moriz Bauer, in 1899 in Vienna ([41], p. 203). In 1909, Bloch-Bauer bought the Panenské Břežany estate near Prague and was granted Czechoslovak citizenship in 1918 ([26], p. 316). Bloch-Bauer was head of several sugar industry factories in Austria and Czechoslovakia and was also a member of the board of directors of the Böhmische Escompte-Bank and the Credit-Anstalt ([42], p. 260). Apart from his foreign citizenship, Bloch-Bauer became one of the most important Austrian industrialists of the interwar period.

It was not only the directors of big Viennese banks who continued to make use of their networks when doing business in the former common market. In the mid-1920s, for instance, Ernst Schwarz, former director general of the medium-sized Viennese Mercurbank, was a member of the boards of directors of a total of 35 companies situated mainly in Austria, Hungary, Romania, Poland, and Czechoslovakia ([43], p. 1448). His importance might well have decreased, but he certainly continued to be an important networker.

The ultimate "multifunctionary" of the 1920s, Friedrich Ehrenfest, a member of the CA's board of directors, held this post in 44 industrial joint-stock companies throughout Central and East-Central Europe ([25], p. 53; [43], pp. 307–8). His networking demonstrates the disadvantages of the transnationalization in Central European business relations. He was able to untertake unsecured private business transactions on a large scale. In 1931, in the wake of the collapse of the CA, Ehrenfest was accused of embezzlement [44].

It is a striking fact that even after 1918, most "big linkers" were from Vienna, the former capital, whereas transnational links between banks and industrial companies and links between various industrial companies rarely existed outside Austria; when they did, these links were bilateral in nature.

It is not surprising that most of these "big linkers" were members of the Jewish upper-middle and upper classes. Because of family ties to Western countries and the successor states, mainly Czechoslovakia and Hungary, they had a specific kind of "social capital" (Pierre Bourdieu) at their disposal that helped them to overcome the turbulences of the dissolution and hyperinflation period. Of even greater importance was another fact: most of them preserved the idea of a central European supranational, transnational, and multinational common market and cultural space which they shared with many non-Jewish citizens of the Habsburg monarchy and to which they contributed and owed so much ([45], p. 14). Compared to the postwar nationalistic mainstream, they were willing to keep at least parts of this living space alive, by doing business, by collecting contemporary art, or by imitating the lifestyle of the old aristocracy [41].

5. The Economic Crisis of the 1930s and Its Consequences

The financial crisis of the 1930s brought this reintegration process to a sudden and dramatic halt. Apart from the general backslash of the Wall Street crash of 1929, the problem of the maturity of credits having been granted in the preceding decade (short-term borrowing from Western financiers, long-term lending to East European lenders) soon rendered Vienna's big banks financially unviable. The CA crisis of 1931 finally put an end to Vienna's position as a financial hub in East Central Europe.

But did this mean the end of foreign trade in the region? In 1937, 20 percent of Austrian imports and 11 percent of exports were still traded with Czechoslovakia. This was the same amount as in 1925. On the contrary, Czechoslovak exports to Austria decreased from 21 percent in 1924 to 7 percent in 1937, and imports from 8 to 4 percent. With respect to the figures concerning Austrian foreign trade with Hungary, Poland, the Czechoslovak Republic, Poland, and Yugoslavia, the reduction of foreign trade as a whole was not a dramatic one. In 1937, Austria's share in trading with Czechoslovakia, Poland, and Hungary still amounted to 21 percent for exports and 25 percent for imports ([46], p. 280).

The consequences on foreign trade in the whole region were more drastic (see Table A3). The share in foreign trade of the successor states dropped from 36 to 23 percent in the years from 1929 to 1937. These losses were only partly due to the increasing economic influence of Germany, whose share rose from 22 to 25 percent. They were the result of an incipient integration into the world market, though at a shrunken level of trade ([47], p. 195).

The main difference of the 1920s and 1930s was the fact that after the crisis, western capital gained an enormous influence in Austria's economy. For instance, S.M. von Rothschild and the Bankhaus Gebrüder Gutmann owned 50 percent of the Witkowitzer Eisenwerke before the crash, whereas the total share capital had been transferred by 1937 to the Alliance Insurance & Co., the London branch of the Rothschilds ([40], pp. 354–55).

6. Conclusions

Despite the hostilities among neighbours and other unfavourable conditions, path dependency mattered in Central, East Central, and Southeastern Europe after World War I. "The regional distribution of production and of markets which developed during the Habsburg Empire's industrialization did not [. . .] undergo such drastic changes after 1918 as have often been described by historians and economists, both at the time and subsequently" ([33], p. 81). Austria and the Czech lands still formed the core of East Central European economic networks. The heritage of the monarchy could not be ignored: on the one hand, 90% of the automobile industry, 83% of the production of locomotives, 75% of the rubber industry, 35% of the iron and steel production, 34% of the production of agricultural machinery, and 25% of the cotton-mills were located in Austria ([48], p. 255); on the other hand, despite ambitious industrialization programs introduced in Hungary, Yugoslavia, Romania, and Poland, most parts of the former Habsburg monarchy remained agrarian states throughout the interwar period. In most cases, the international financial syndicates tried to benefit from Vienna's traditional commercial relations with the successor states. Austrian financial capital in East Central Europe initially was not replaced by the successor states' own domestic sources, but rather by Anglo-American, French, Swiss, and Dutch investors. The financial gap was closed by ventures from the capitalist core. However, the integrated market was re-established in the 1920s and not totally damaged in the 1930s. Without a doubt, the story of the former Habsburg territories as an integrated economic market was ended by the "Anschluss" and the occupation of the Czech lands by Nazi-Germany in 1938 and 1939. However, if we take into consideration the barter trade between Austria and the communist bloc in the second half of the twentieth century and the re-establishing and strengthening of economic ties after 1989, even this statement could be partially challenged.

Conflicts of Interest: The author declares no conflict of interest.

Appendix A. Tables A1–5

Table A1. Estimates of Regional GDP per capita in the Habsburg Monarchy c. 1910 (in international $).

Country, Province	Schulze	Good/Ma	Kausel *
	in international $ 1990		
Lower Austria	3343	3781	
Bohemia	2647	2783	
Moravia	2333	2372	
Silesia	2360	2688	
Littoral	2126	2556	
Galicia	1205	1554	
Habsburg Empire	1922	2164	
Year	1913	1910	1913
Austria	2871	3016	2200
Czech Republic		2668	1455
Hungary		2194	1194
Poland			1168
Yugoslavia			630
UK	5032	4608	3190
Germany	3647	2819	2474
Italy	2507	2302	1730

Source: ([10], p. 26; [15], p. 324; [11], p. 154; [13], pp. 27, 75); * In international $ 1980.

Table A2. Share of Foreign trade in Austria and Cechoslovakia, 1924 and 1929.

Year, Country	Austria		Czechoslovakia	
	Exports	Imports	Exports	Imports
1924				
Germany	13.1	14.9	19.5	35.2
Successor states	46.7	48.7	40.3	23.7
1929				
Germany	15.9	21.0	19.4	25.0
Successor states	39.0	44.4	35.1	23.2

Source: ([36], Vol. 1925, 196; 1929/30; [39], p. 54).

Table A3. Share of Sucessor States in Foreign Trade, 1924–1937.

	1924		1929		1937	
Country	Exports	Imports	Exports	Imports	Exports	Imports
Austria	47	47	38	45	29	36
Czechoslovakia	41	25	35	23	22	16
Hungary	74	64	59	53	27	40
Poland (1)	26	20	24	15	11	9
Romania (1)	42	41	25	35	20	30
Yugoslavia (2)	42	45	41	42	26	26
Total (3)	46	41	38	37	24	28

(1) Excluding Yugoslavia; (2) Excluding Poland; (3) Unweighted average; Source: ([35], pp. 140, 142–44).

Table A4. Index of Foreign Trade and GDP in the sucessor states of the Habsburg Monarchy, 1923–1934.

Year	The Core (1)		Successor States Total	
	Trade	GDP	Trade	GDP
1923 (2)	100.0	100.0	100.0	100.0
1925 (2)	141.1	120.4	138.4	116.3
1929	160.8	134.5	157.2	126.6
1934	36.3	111.9	34.1	106.2

(1) Austria, Hungary, Czechoslovakia. (2) Including estimates for some countries based on 1924 and 1926. Source: ([36], Vol. 1926, 1927, 1931/32, 1936; [37], pp. 62, 100); own calculations.

Table A5. Index of GDP per capita in East Central Europe, UK, and the US, 1913–1937 (in 1990 international Geary-Khamis dollars).

Year	The Core (1)	"A–H"	UK	US	The Core (1)	UK	US
1913	100.0	100.0	100.0	100.0			
1920	81.6		92.4	104.7	100.0	100.0	100.0
1929	124.6	115.1	111.8	130.1	152.7	121.0	124.3
1937	117.0	106.2	126.4	121.3	143.4	136.7	115.8

(1) Austria, Hungary, Czechoslovakia. Source: ([37], pp. 50, 60–63, 88, 96, 98, 100); own calculations.

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