

# **Polity and State Finance in the Peripheries of the Global Economy**

*XVIII World Economic History Congress  
Boston, August 2, 2018*

Constitutionalism and state finances  
in the Austrian Empire and the Austro-Hungarian Monarchy, 1815–1914

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In this paper, we examine and compare the state finances under varying constitutional and political conditions in the Austrian Empire in the period 1815–1867, and in the two states that formed the Austro-Hungarian Monarchy in the period 1867–1914 (for public finance in Austria-Hungary, see Beer 1973 (1876), Brandt 1978, Eddie 1989, Gratz 1949, Hauer 1848, Hübner 1849, Liese 1993, Pammer, 2010). We pursue four hypotheses concerning the effect of authoritarianism versus constitutional government on budget and debt policy, and, in a reversion of causality, two hypotheses concerning the effect of fiscal or monetary crises on constitutional movements and constitutional governments:

1. Authoritarian regimes tend to run large budget deficits because they lack control by a parliament elected by tax-payers, and spend indiscriminately.
2. Authoritarian regimes tend to run large budget deficits because they tend to pursue an adventurous foreign policy that requires high military expenses.
3. Authoritarian regimes run high costs (essentially, military cost) when trying to control the internal opposition.
4. Authoritarian regimes aim at low budget deficits because they intend to stay in power indefinitely whereas constitutional governments may shift the political costs to their successors.
5. Fiscal crises may contribute to the destabilisation of authoritarian governments and may strengthen the constitutionalist movement, particularly if they coincide with internal policy crises and foreign policy defeats, and if the state addresses its fiscal problems by way of monetary policy.

We will argue that the Austrian authoritarian governments were not systematically prone to overspending but that governments of all kind were less stable when exposed to crises. Political stability, that is the long-term continuance of governments, had no consistent impact on the outcome.

The paper is based on the annual state final accounts (published separately, or in the budget preliminaries) and the annual or semestral state debt reports of the whole period, which provide data in great detail. These sources allow a distinction between the precise causes of changes in revenues, expenses, and debts, which may then be discussed with view of political events of the respective periods. Numbers for 1860–1867, and 1892, will be added subsequently.

## CONSTITUTIONAL DEVELOPMENT

Due to the variations in the constitutional structure of Austria and Austria-Hungary in the hundred years before the outbreak of World War I, this empire is a useful example for the study of the fiscal behaviour of governments under different constitutional regimes. Apart from changes over time, the constitutional and administrative character of the empire was quite complicated due to its heterogeneity throughout most of the period.

Up to 1867, the country was the so-called Austrian Empire, established in 1804, and, after temporary losses in the Napoleonic wars, re-established in its former boundaries in 1815. The Austrian Empire was a conglomerate of lands held together by a common prince as stipulated in the so-called Pragmatic Sanction of 1713. Apart from this document, whose aim was to permit the future succession of female heirs to the throne (contrary to the stipulations of the Salic Law) and to secure the indivisibility and inseparability of the lands, the Austrian Empire as such had no fundamental law before 1848 (Brauneder 1988). The declaration of 1804 presupposed the Pragmatic Sanction and simply added the title of an Emperor of Austria to all the other titles connected with the rule in various lands.

Certainly, the underlying idea of the creation of an Austrian Empire in 1804 was to underline that the conglomerate of lands ruled by the Austrian emperor was a unified country. However, the only common government body was the emperor himself, whereas the other bodies acted on the level and on behalf of single lands. Most important among these other bodies, apart from courts and local administrations, were the estates. Up to 1848, there was no common parliament in the Austrian Empire, but the various lands had their own estates that had the right to accept or reject their prince's legal proposals, particularly in financial matters and the military. The eighteenth and nineteenth centuries up to 1867 were a period of chronic conflict about the exertion of the estates' rights in the decision-making process, with repeated violation of those rights by the monarch. The enlightened and very centralist minded monarchs of the eighteenth century up to 1790 had already a strong tendency to open disregard of the estates. Joseph II mostly did not even bother to convocate them. After his death in 1790, his successors assembled the estates again, but with characteristic differences in various parts of the empire.

The main division was between Hungary and the rest (for the Hungarian development, see Marczali 1910, Péter 2000). The Hungarian diet had accepted the hereditary monarchy and abandoned the principle of an elected king in 1687, and it had accepted the Pragmatic Sanction, that is, it recognised the monarchical union with the other lands. In the same act, however, the law stipulated the validity of the existing Hungarian liberties, which meant that constitutional changes in other lands were not to prejudice procedures in Hungary. From the Hungarian point of view, Hungary was not to be mistaken as a province of a centralised state but perceived itself as a separate entity in a personal union with other lands. It was and should remain dominated by the estates, that is, the nobility and clergy, endowed with privileges in taxation and all matters of administration. Clearly, the monarchs had other ideas, and the severest crisis of the Josephinian government resulted from the monarch's efforts to rule Hungary by his own officials even on the local level, and to establish royal courts, whereas previously the estates had dominated both justice and local administration. A series of radical reform measures by the king provoked resistance from many sides, and the new king following Joseph II had to recognise the

traditional rights of the estates. Still, the conflict would dominate the following decades. The more radical parts of the Hungarian elites tried to re-establish a regime by the estates such as practised in the seventeenth century, complemented with a strong Magyar nationalistic trait, and regarded the throne as forfeited by Joseph II, ideas that were to reappear a few decades after. In 1812, the Hungarian diet rejected the king's financial law of 1811 that reduced the value of the state's paper money to 20 per cent. Consequently, and unconstitutionally, the king did not convocate the Hungarian diet for thirteen years, and governed by decree.

In the other lands, the estates did not offer any relevant resistance to the monarch's pretensions. Estates would be convocated again by Joseph II's successors, but they did not do much more but nod through the tax postulations presented by the monarch. Thus, outside Hungary, the administration managed to establish something like a central state by way of *de facto* absolutistic rule.

This changed in 1848 when the revolution in the Austrian Empire led to a series of constitutions. First, panicking after revolts in the capital, the government announced a constitution and delivered hurriedly a homemade one within a few weeks. This was a constitution for the non-Hungarian parts of the Empire. After protests against such an imposed law, the government declared it provisional, and a newly elected constituent assembly (democratic, by contemporary standards) started to devise a modern fundamental law, again for the non-Hungarian lands. Meanwhile, within a few weeks, the Hungarian estates had reached a constitutional agreement with the king, which reserved almost all policy matters to an independent Hungarian government and a newly introduced Hungarian diet; apart from foreign policy, hardly anything was left to a common Austro-Hungarian administration. This agreement did not survive the first military successes the emperor's armies had reached in Italy where the Austrians fought back insurrections and an invasion by the Piedmontese who wished to annex the Kingdom of Lombardy-Venetia. Directed to Hungary, the Austrian government now began to talk about a common supreme administration of the empire, in other words, exactly the opposite of the Hungarians' intentions, and military conflict developed in Hungary as well. In April 1849, the Emperor imposed a new constitution, a quite modern fundamental law, with separation of powers, independent courts, and a charta of fundamental rights.

The emperor imposed this constitution for the whole empire, including Hungary, thus foiling constitutionalists in both Hungary and the rest. The Hungarian national assembly therefore declared full independence, dismissed and banished the king, and instituted a temporary presidency. It took only a few months to suppress the insurgence, however, with Russian help. After less than two years, on New Year's Eve of 1851, the emperor unconstitutionally revoked his imposed constitution, and started to rule more absolutistic than ever, in a country more integrated and centralistic than ever. State authorities (instead of manors and municipal magistrates) performed local administration, justice, and police, the whole empire became a customs union, and Hungary was just one among so many other provinces. In part, these were achievements of the revolution, particularly the end of the manors. Also, the equality of all citizens before the law was retained. The neo-absolutist regime lasted for almost nine years unrestrictedly and an additional seven years of transition.

Changes resulted from external crises. Trapped in a sense of loyalty toward Russia because of Russian help in the Hungarian revolution on the one hand, and the desire to contain Russian expansionism on the other, Austria tried to stay outside of the Crimean

War. The unusual length of the war, however, made it ever more difficult to remain neutral, and the empire had to prepare for entering the war. Eventually, peace came first, but the costs of military preparations were still high. The Italian War of 1859 did not only demand large expenditures for the military, and lead to the loss of Lombardy, but also reanimated the constitutional movement. In 1860, the emperor issued a constitution in form of a brief and vague charta (substantiated in 1861) which conceded that all his legislation was to happen in accordance of either an imperial diet or provincial diets. Apart from military matters, the imperial diet would participate in all matters of the economy, including customs, currency, transport and communications infrastructure, and the state debt. Other matters should be subject to the legislation of the provinces. In the following years, the old conflict between centralists and (particularly Hungarian) advocates of states' rights reemerged. In 1865, the emperor suspended the constitution again, but after another costly and unsuccessful war (the Prussian-German War of 1866) and another loss of an important Italian province (Venetia with Venice, this time) a definite reconstruction of the empire became inevitable. The Austrian Empire became the Austro-Hungarian Monarchy, consisting of two countries with their own constitutions, their own parliaments, and their own governments. The common institutions amounted to nothing more than a common head of state (the emperor and king) and an imperial government, which had no prime minister, that dealt with the military and foreign policy, the only common matters. Although Austria and Hungary coordinated many measures such as the timing and conditions of state borrowing, or railway policy, in principle these matters remained domestic issues in either country.

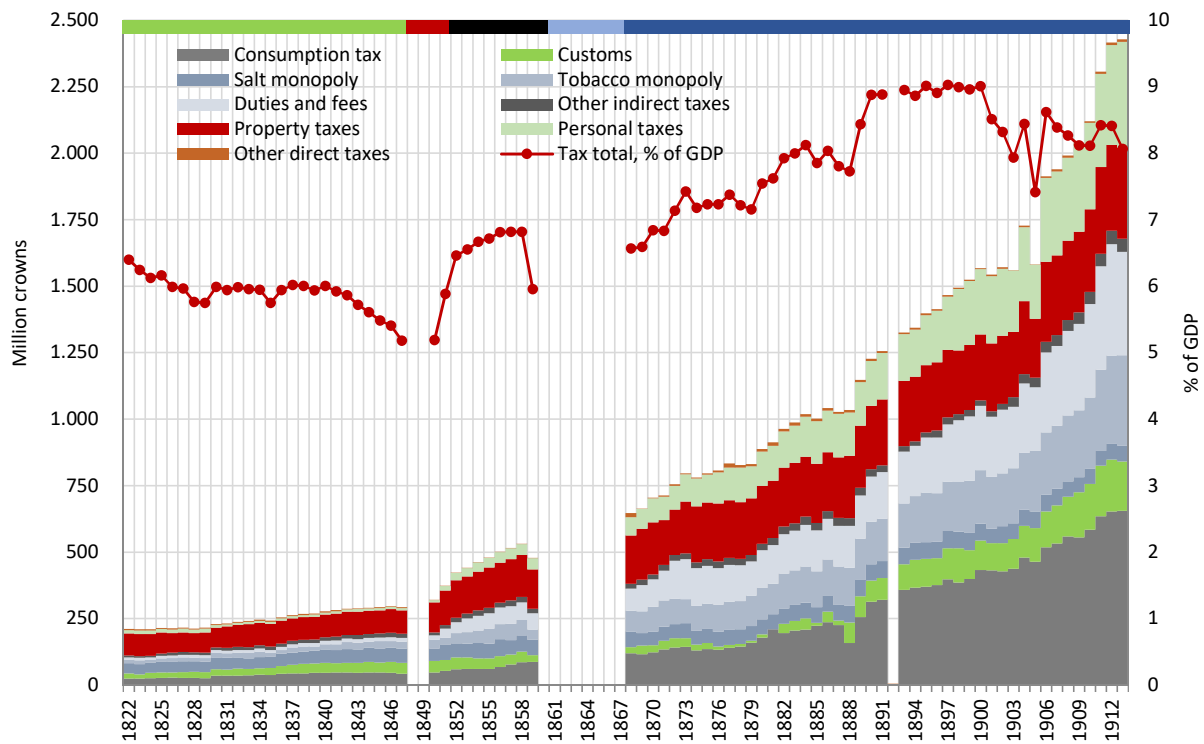
The constitutional situation remained stable for the remaining half-century. The only major territorial change happened in 1878, when Austria-Hungary occupied Bosnia-Herzegovina, after the Congress of Berlin had decided accordingly. The land became part of neither Austria nor Hungary but was governed by the (common) imperial minister of finance. In 1908, Austria-Hungary annexed Bosnia and Herzegovina, which caused an international crisis. The arrangement about the government of this land remained the same.

To sum up, the era 1815–1914 may be divided into five periods:

- the period up to 1848, with absolutist rule in the non-Hungarian provinces, and precarious cooperation between the crown and the estates in Hungary,
- a period of tentative constitutionalism, with constitutions imposed by the crown, and ongoing military conflict,
- the neo-absolutist restoration, marked by the effects of external crises,
- a return to constitutionalism step by step, which lasted until 1867, and
- a period of unquestioned constitutionalism, based on a profound change in the composition of the empire from 1867 on.

Within these constitutional settings, we observe a varying degree of political stability. In this context, political stability is the duration of governments and majorities in the legislative bodies. The idea is that long-serving governments behave differently from governments that are in office only for a short time period. Although the duration of a government, or a legislative majority, will often be unknown initially, at least the effects of long service may appear in the course of time. For this paper, at this stage, we use only

Graph 1: Tax structure and taxes in proportion to GDP, Austria-Hungary



Sources: Voranschlag, Centralrechnungsabschluß, Állami zárszámadása, Compass. GDP: Bairoch 1976, Kausel 1979, Schulze 2000.

Notes: Tax numbers are net tax results (gross revenues minus expenses attributable specifically). General costs and expenses of the financial administration are not deducted.

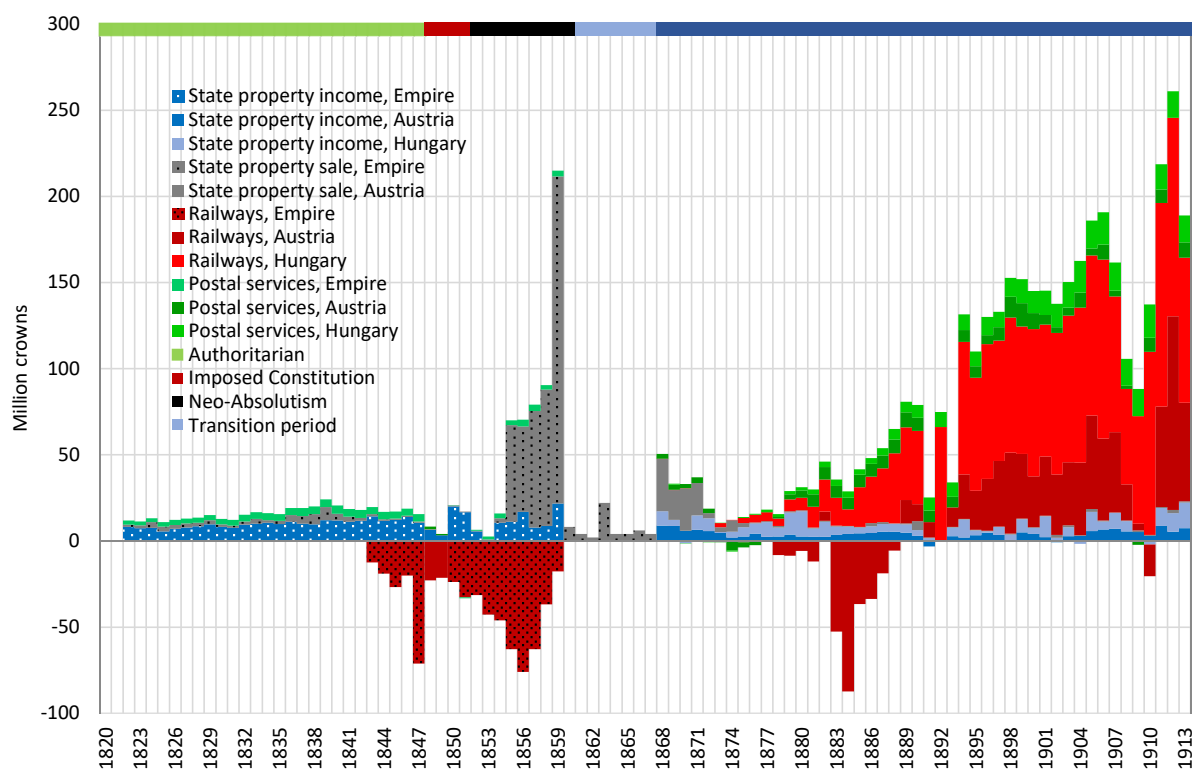
a crude measure of political stability: We calculate the overall time of service of each government and attribute the result to each year in which the government was in office. For years in which there were two or more governments, we take an average of the duration values of all incoming governments. Although the structure of governments changed various times during the nineteenth century, we can always identify a *de facto* prime minister and a change in government.

Political stability in this sense varied considerably (Graph 3). The most stable period was the time before 1848, when Klemens Metternich acted as Chancellor from 1821 on. In the constitutional period, both Austria and Hungary saw one period of high stability, with the governments of Eduard Taaffe (1879 to 1893) in Austria, and Kálmán Tisza (1875 to 1890) in Hungary. Otherwise, we find anything from governments surviving just a few days to governments lasting several years.

## STATE BUDGETS

For the analysis of state budgets, we use net numbers of single budget chapters mainly for practical reasons because in the pre-1848 period our sources provide only this information (Voranschlag 1824–1849). From 1848 on, the sources provide revenues and expenses for every budget chapter and even every single item, since most state entities

Graph 2: State income from state property and state enterprises, Austria and Hungary, 1822–1913



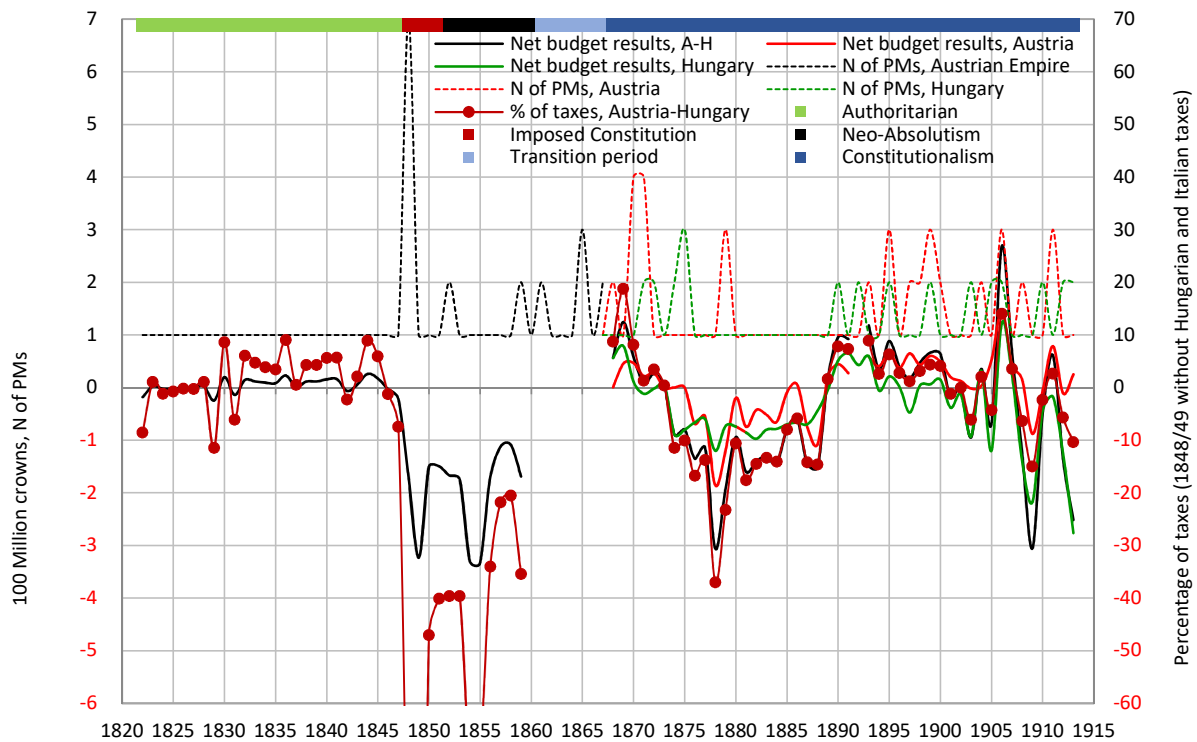
Sources: Voranschlag, Centralrechnungsabschluß, Állami zárszámadása, Compass. GDP: Bairoch 1976, Kausel 1979, Schulze 2000.

Notes: Tax numbers are net tax results (gross revenues minus expenses attributable specifically). General costs and expenses of the financial administration are not deducted.

had both revenues and expenses (Centralrechnungsabschluß, 1848–1913). Clearly, this makes a huge difference in some policy areas such as state enterprises (railways, postal service, state manufactures, tobacco monopoly, and others). The same is true for the financial administration where collections costs would reduce the net results in some areas substantially. On the other hand, using gross revenues and gross expenses inflates the numbers in certain periods because some of the new policy areas such as the railways become heavyweights when looking at the gross numbers but are, of course, of much more limited importance in the net results. Therefore, we distinguish between typical expense chapters (that is, chapters where revenues are low in comparison to expenses) and typical revenue chapters (that is, chapters where expenses are comparatively low).

In this sense, revenue chapters are all kinds of taxes, and expense chapters are expenses for central government agencies, the judicial system, interior and foreign policy, education, agricultural policy, trade, commerce and infrastructure, defense, and the debt service. State enterprises, that is, state railways, the postal service, forests, mines, and factories, were mostly profitable, but there are exceptions: in the first era of nationalised railways (1840s and 1850s) and at the beginning of the second era (1880s) in Austria the railways made losses. From the late 1880s on, the state railways ran an operating surplus. The capital costs of railways were part of the state debt, partly as railway bonds (for many nationalised formerly private railways), and otherwise as ordinary perpetual bonds (for

Graph 3: Political stability and net budget results in proportion to the tax base



Sources: Voranschlag, Central-Rechnungs-Abschluß, Állami zárszámadása, Compass.

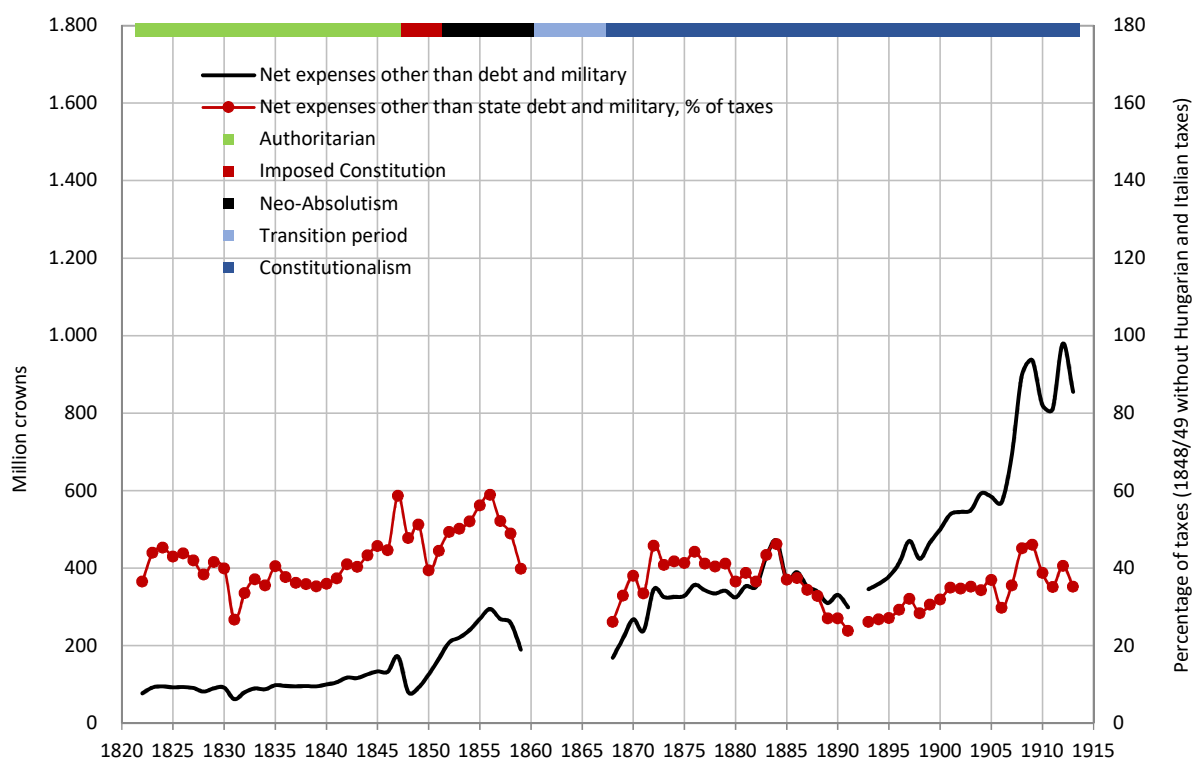
Notes: Net budget results, A-H: Results for the Austrian Empire (1822–1859) and Austria and Hungary combined (1868–1913). 1848–1849 without Hungary and Italy. Net results include ordinary and extraordinary budgets, exclude transitorial budgets. N of PMs: number of prime ministers serving any time in the respective year.

state-built railways and some former private lines). Another source of revenues, the sale of state property, was relevant only for a short period in the 1850s.

Looking at the tax numbers, we see a long-term rise of tax revenues, even in relation to GDP (Graph 1). Before 1848, the proportion of taxes was about 6 per cent of GDP, with a downward trend. In the revolutionary period, the situation did probably not change very much; due to the constitutional situation, Hungary and Italy are not included in the statistics of 1848/49, but the numbers for 1850 are on the 1847 level. In the neo-absolutist period, taxes rose to about 6.5 percent of GDP, and the constitutional period starts at the same level. From 1868 on, the tax quota rose more or less continually, and remained at 9 percent in the *fin de siècle*, before a slight decline set in. There were some changes in the structure of tax revenue, for instance, the relative weight of property taxes, and of the salt tax, declined, and indirect taxes in general became relatively more important. A systematic relation between the constitutional situation and tax policy is hard to detect. The tax quota rose both in the most authoritarian and the constitutional periods, and it declined under the authoritarian pre-1848 government as well as under the conditions past the turn of the century.

As already pointed out, state property was mostly a source of revenue rather than expense (Graph 2). This is true for most of the pre-1848 era, and for most of the constitutional era. The two main exceptions, the railway results in the 1840s/1850s and in the 1880s, need some comment. The first of the two periods was a time when the state systematically bought railway shares in order to secure the survival of non-performing

Graph 4: Net expenses other than state debt and military, Austria-Hungary



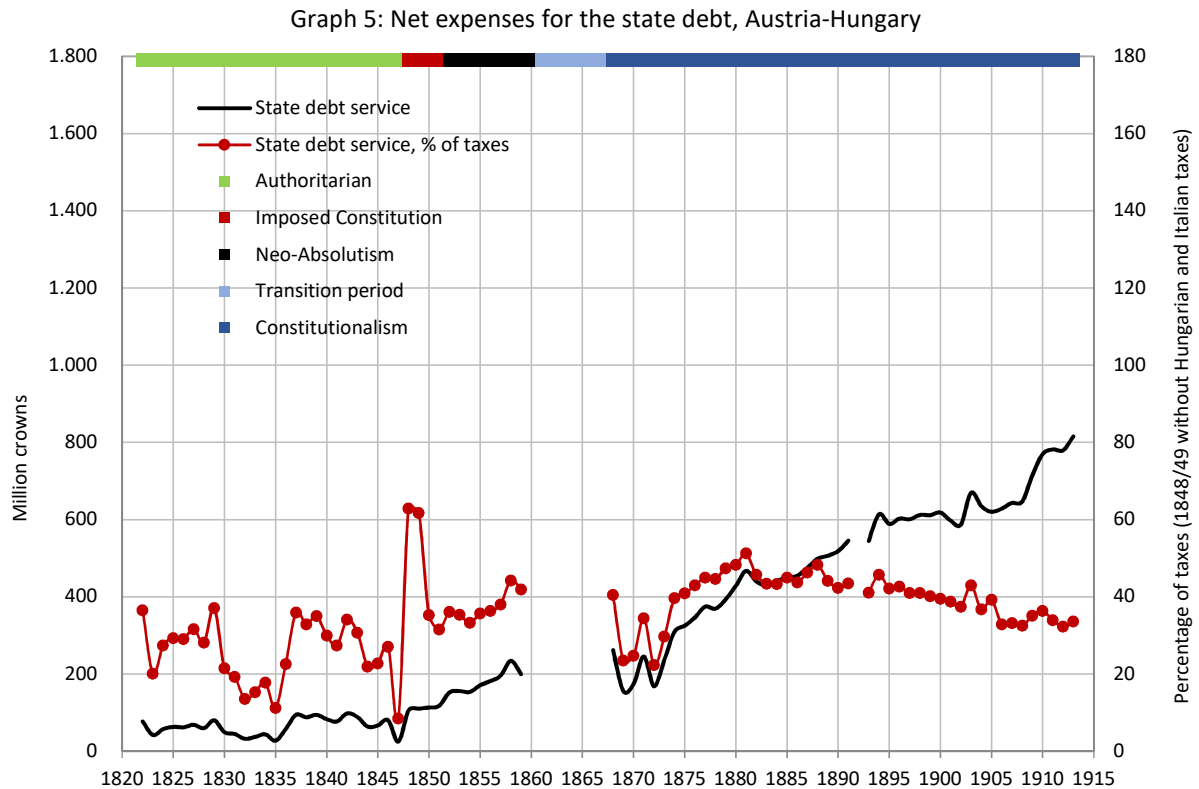
Sources: Voranschlag, Central-Rechnungs-Abschluß, Állami zárszámadása, Compass.

Notes: Results for the Austrian Empire (1822–1859) and Austria-Hungary combined (1868–1913). 1848–1849 without Hungary and Italy. Net expenses are net expenses other than state debt and military, excluding sale of state property.

private railway companies (Pammer 2015). The numbers indicate that the performance of state-owned railways did not improve, and the privatisation of the lines in the 1850s became necessary in order to alleviate the budgetary situation by both diminishing expenses and collecting sales revenues (therefore, the 1850s are exceptional in proceeds from the sale of state property). Again, a systematic relation between the political situation and financial policy is hardly visible. Both authoritarian and constitutional governments nationalised railways, and all kinds of governments collected revenues from state-owned businesses. In the context of all revenues, however, this is only a minor part.

The situation is much more complicated on the expense side. Looking at the net budget results (expenses in relation to tax revenues), we see that the authoritarian government of the pre-1848 period ran a very small budget deficit in the 1820s, and a solid surplus in the 1830s and 1840s (Graph 3). Fluctuations are small, and generally this period seems very stable. The situation changed dramatically in the revolutionary period. Clearly, the numbers for 1848 and 1849 must be taken with a grain of salt: In these years, the government had to shoulder expenses higher than normal, but the Hungarian and Italian taxes are excluded. But even from 1850 on, when the empire had become a centralised country including Hungary and Lombardy-Venetia, the deficits were enormous. The constitutional period started with a strong surplus, but in the 1870s the situation became precarious again. The 1890s and the first years after the turn of the century saw a favourable situation again, and the last years before the Great War were marked by repeated large deficits again.





Sources: Voranschlag, Central-Rechnungs-Abschluß, Állami zárszámadása, Compass.

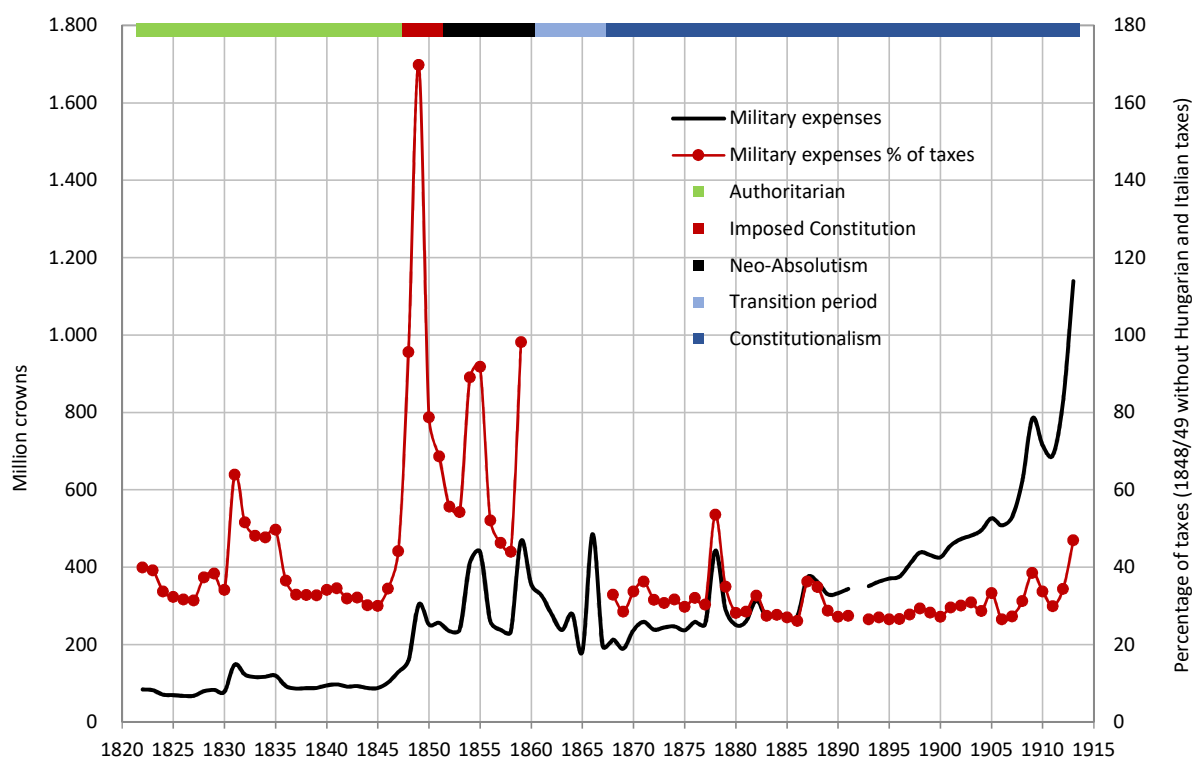
Notes: Results for the Austrian Empire (1822–1859) and Austria-Hungary combined (1868–1913). 1848–1849 without Hungary and Italy.

For an explanation, it is useful to distinguish between expenses of different kind. Expenses may be divided into three aggregates which lie in the same order of magnitude, that is, about 100 million crowns in the pre-1848 era, and about 1 billion or even more in the last years before the Great War (nominal values): military, the state debt, and all other expenses.

Clearly, the third aggregate is not particularly problematic (Graph 4). Its proportion to the tax revenues fluctuated mostly between 35 and 50 per cent, with lower numbers in the constitutional period; however, the pre-1848 numbers are not so different from the post-1868 numbers. In particular, up to the early 1840s, there is no difference to the first two decades under the constitution. The rise in the mid-1840s is due to the government's engagement in the railways, which displays its effects also in the 1850s (in 1847, the government spent about 10 per cent of its gross expenses for railway shares). In addition, the early 1850s saw a rise in spending for the interior and the judicial system, which became necessary after the end of the manorial system. Although this fundamental change in administration and justice was the most important achievement of the 1848 revolution, its fiscal impacts became visible only in the neo-absolutist period, when the state had to implement a nationwide system of district commissions, district courts, and gendarmerie.

Similarly, the state debt service displays only a moderate change although the structure of state borrowing changed fundamentally over time (see below). In accordance with the development of the debt, the costs of the debt service were higher in the constitutional period (Graph 5). In nominal terms, the debt balance follows an almost perfect

Graph 6: Military expenses, Austria-Hungary



Sources: Voranschlag, Centralrechnungsabschluß, Állami zárszámadása, Compass.

Notes: Results for the Austrian Empire (1822–1859) and Austria-Hungary combined (1868–1913). 1848–1849 without Hungary and Italy.

quadratic trend, in relation to the tax base the variations are limited. The largest amplitudes occur in 1847 when the state managed to draw on a major loan by the central bank, and in the following years when the tax base was limited to Austria, excluding Hungary and Italy. Generally, major deflections are due to the raise of major loans at a given point of time, with effects petering out in the following years. These results are not particularly surprising given the rather continuous development of the state debt.

The most critical factor for the state finances was the military (Graph 6). Military spending was the most volatile part of the state expenses. In normal periods, military expenses added up to about 35 per cent of the tax revenues. Due to the limited tax base, this was just 2 per cent of GDP around 1840 and in the constitutional period up to the mid-1880s, and about 2.5 per cent of GDP after 1886. In times of crises, military spending rose quickly. In proportion to the tax revenues, the most dramatic rise occurred in 1849, when the government spent about 170 percent of the tax revenues on the military. Of course, the reason lies in the diminished tax revenues in this time when Hungary and Italy are not included. In proportion to the GDP, military spending in 1849 was about 5 per cent. The situation was similar in 1854/55 (preparation for the Crimean War, 6 per cent of GDP for the military), in 1859 (Italian War, 5.5 per cent of GDP), and 1866 (German-Prussian War, 5.5 per cent of GDP). Crises with minor effects occurred in 1831 (revolutions and Polish-Russian War, 3.5 per cent), in 1864 (Second Schleswig War, 3.5 per cent of GDP), in 1878 (occupation of Bosnia, 3.5 per cent), in 1908 (annexation of Bosnia, 3 per cent of GDP), and in 1913 (Balkan wars and preparation for the Great War, 3.5 per cent of

GDP). Although the government managed to reduce the costs after each crisis, the short intervals led to a lasting budget deficit.

Given the causes of these crises, a consistent relation between military expenses and the constitutional order can hardly be detected. The relatively highest spending for the military occurred under the imposed constitution, in the neo-absolutist period, and in the transition period. Among the main incidents that caused increases in military spending, the Crimean War was a completely external crisis. The Second Italian War of Independence in 1859 was part of the way to Italian unification; Austria fought this war against two foreign powers. The 1866 war was about domination of the German Confederation and a step toward the German Empire under Prussian dominance; again, in Italy, the 1866 war was a war against a foreign power.

The conflicts of 1848 and 1849 took place in a different setting. Although the main opponent in Italy was the Kingdom of Sardinia, there were also uprisings in the population of the Kingdom of Lombardy-Venetia. These revolutionaries shared demands with 1848 revolutionaries in other countries, but their specific agenda was the demand for Italian unification. The conflict in Hungary broke out about the question of whether Hungary were to become an independent state or a province of a centralised Austrian state. These conflicts happened under a constitutional order, and in the Hungarian case, the constitution was even precisely the reason for the Hungarian secession. Clearly, this was an imposed constitution, and suspicions about the emperor's deceitfulness were well-founded, as the overthrow of the political order on New Year's Eve 1851 shows. The reason for the Hungarian secession, however, was not the quality of the constitution in terms of basic rights, or the division of powers, but the violation of Hungary's independence.

Altogether, the Austrian case does hardly support the notion of a systematic relation between the constitutional order and irresponsible engagement in military conflict.

Table 1 displays a summary of these findings. Here we take another look at the budget results in relation to the tax base (Graph 3), which is the variable to be explained. Independent variables are dummies for the constitutional order (authoritarian, imposed constitution, neo-absolutist, and constitutional), a dummy for wars and revolutions, and the duration of the government in office. We use a pooled data set for the Austrian Empire (up to 1859), for Imperial Austria (1867 to 1913), and for Hungary (1867 to 1913), with yearwise observations.

As expected, we find a consistent and robust effect of wars and revolution. Years in which the country had to conduct a war, had to prepare for war, or was faced with a revolution, were years with large budget deficits. This finding is trivial, given the high costs of military operations and preparations.

The constitutional setting had a clear, though hardly consistent, impact on fiscal results: The authoritarian government of the pre-1848 period displayed the most pronounced budgetary discipline. The budget deficits of the constitutional governments of the post-1867 period were significantly larger. The neo-absolutist governments of the 1850s had significantly larger budget deficits again. The worst performance comes from the governments ruling under the imposed constitution in the revolutionary years. All differences between any kind of constitutional setting are highly significant, accounting for the military expenses, which have specific weight in any period.

The stability of governments had no consistent effect over the whole period. In the pre-March period, this factor coincides with the constitutional situation: The government

Table 1: Factors for budget results

	I	II	III	Neoabsolutist years	Constitutional years
Intercept	32.929 (7.458)***	-20.927 (5.363)**	8.226 (2.606)**	12.706 (13.369)	7.283 (2.291)**
Government stability	-0.003 (0.001)***	-0.003 (0.001)***	-0.003 (0.001)***	-0.016 (0.005)*	-0.003 (0.001)***
War or revolution	-34.135 (5.121)***	-34.135 (5.121)***	-34.135 (5.121)***	-39.462 (7.027)**	-19.029 (5.941)**
Authoritarian order		53.855 (7.723)***	24.702 (6.234)**		
Imposed constitution	-105.279 (9.799)***	-51.423 (8.202)***	-80.576 (7.355)***		
Neo-absolutist regime	-53.855 (7.723)***		-29.153 (5.359) ***		
Constitutional government	-24.702 (6.234)**	29.153 (5.359)***			
Hungary	-7.438 (2.778)**	-7.438 (2.778)**	-7.438 (2.778)**		-7.427 (2.436)**
N	128	128	128	7	90
Adj R <sup>2</sup>	0.70	0.70	0.70	0.81	0.32

Sources: see text

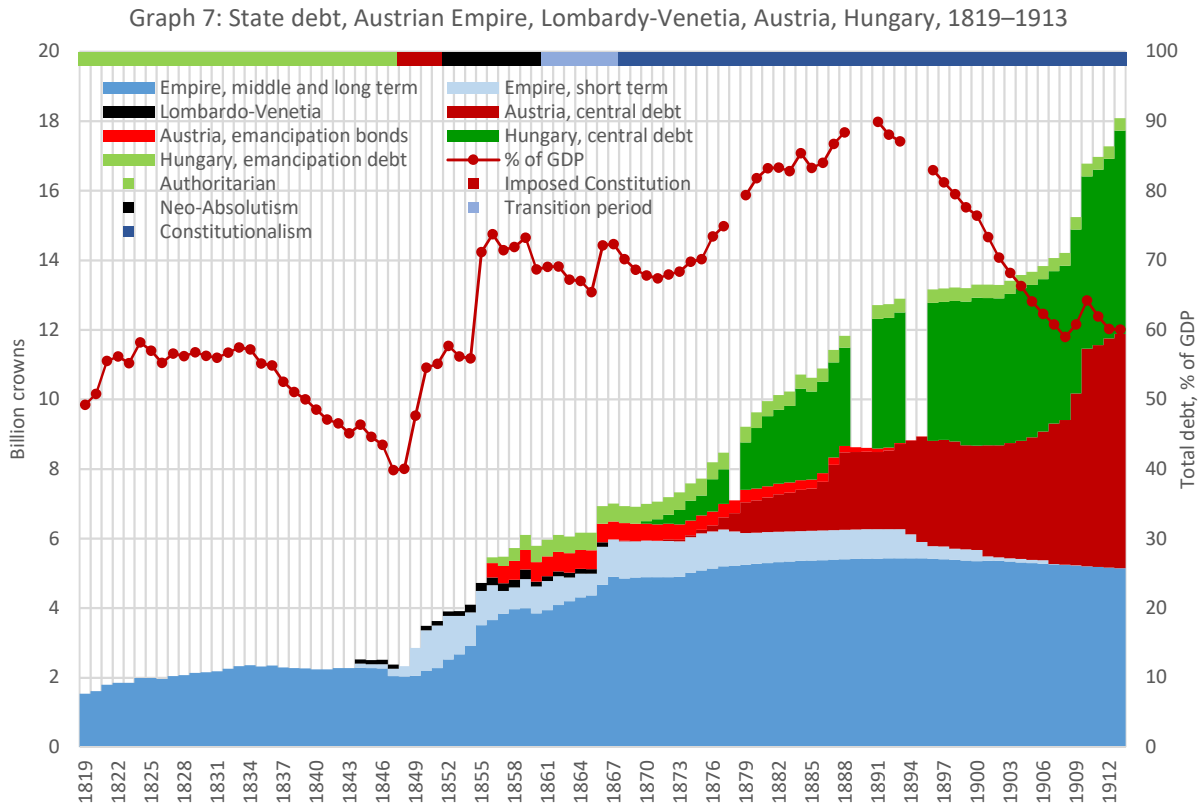
Notes: The dependent variable is the budget results, related to the net tax results; negative values indicate budget deficits. Observations are for every single year, separately for the Austrian Empire, Imperial Austria, and Hungary. I-III: 1821–1913, Austrian Empire (until 1860), Imperial Austria (1867–1913), Hungary (1867–1913). Neoabsolutist years: Austrian Empire only. Constitutional years: Imperial Austria (1867–1913) and Hungary (1867–1913). Government stability: Overall duration of the government ruling in the respective year; for year with changes in government, average overall duration of all incoming governments. War or revolution: 1 if the year was a year of war, intense preparation for war, or revolution, otherwise 0. Authoritarian order: 1 for 1821–1847, otherwise 0. Imposed constitution: 1 for 1848–1851, otherwise 0. Neo-absolutist: 1 for 1852–1860, otherwise 0. Constitutional: 1 for 1867–1913, otherwise 0. Hungary: 1 for Hungarian cases, 0 for Imperial Austria and the Austrian Empire. Values in parentheses are standard errors. \*, \*\*, \*\*\*: significant at the 5 percent, 1 percent, and 0.01 percent level.

was authoritarian, and it remained in office permanently. In the revolutionary period (imposed constitution) governments changed repeatedly and quickly. In the neo-absolutist and the constitutional periods, we find governments of any kind of stability. Therefore, if we exclude the constitutional setting from the model, the stability of governments has no effect on the budgetary outcome. However, if we include the constitutional variables, we find that years with governments of long duration were, *ceteris paribus*, also years with significantly larger budget deficits. This means effectively that the pre-1848 period was an exception: Under the authoritarian order, the government ruled for decades, but this did no harm to the state finances. In the following decades, long-serving governments displayed significantly less budgetary discipline. The results remain essentially the same if we reduce the extreme duration of Metternich by employing logarithms instead of the original values (not shown in the table).

## STATE DEBT

In the course of the nineteenth century, the Austrian and Austro-Hungarian state debt underwent a profound structural change in connection with the state budget results and changes in the relative importance of certain fields of policy (for the debt, see Körner 1893, Körner 1899, Pammer 2002, Püregger 1912). The main changes relate to the role of the short-term debt in the state finances, to the end of the manorial system, and to the nationalisation of railways.

The short-term debt was closely connected to the budget deficits in the war years of the 1840s to 1860s. In the late 1840s, the government started to issue a variety of short-term loans, and renewed them routinely. From 1849 to 1853, it issued also state paper



Sources: Voranschlag, Centralrechnungsabschluss, Állami zárszámadása, Compass. GDP: Bairoch 1976, Kausel 1979, Schulze 2000.

money (forbidden, in theory). In 1866, in order to finance the war, the government procured subsidies in a somewhat more sophisticated operation: Part of the circulating banknotes (the small denominations) were renamed as statenotes, and the central bank had to compensate the state for shouldering part of the bank's debt (RGI 51/1866). This second period of state money was to last until the introduction of the crown currency in 1892 (the redemption of the statenotes lasted until 1900).

The end of the manorial system, a lasting achievement of the 1848 revolution, had not only effects on the state budget due to the replacement of manorial institutions by state agencies (see above), but also on the state debt due to the compensations paid to the lords. The lords were compensated for two thirds of the capitalised value of their lost dues (the remainder was considered the equivalent of the costs of manorial administration and justice). In order to finance the emancipation, the state established emancipation funds, which issued emancipation bonds. The debt service of the emancipation funds was financed half by the state, and half by the peasants (with certain exceptions). Therefore, the emancipation bonds cannot fully be counted as part of the state debt.

Much more important in the long run proved the nationalisation of railways and the state railway system. From the late 1870s on, Austria and Hungary nationalised one railway after another, and they built new railways on their own (for the railway history, see Baltzarek 1993, Dirninger 1993, Pammer 2015). Since railways required an enormous amount of capital, which they had raised by both equity and bonds, the state had to take over all these debt instruments. Austria tended to convert railway shares into state railway bonds, and simply take over the service of the private railway bonds, whereas

Hungary repayed part of the railway debts and issued perpetual bonds in order to finance the operation. In any case, whether superficially identifiable or not, the debts of both Austria and Hungary contained a large proportion of railway capital.

The result is visible in the aggregated numbers of the state debt (Graph 7). The last decades before the war saw a large increase in the debts of Austria and Hungary: a continuous rise caused by the piecemeal nationalisation of railways is followed by a major leap in 1908/9 when the Austrian state took over some large companies. In relation to the GDP, the combined Austrian and Hungarian debt reached about 90 per cent in 1890. The opposing trend came from the reduction in the old debt left over from the Austrian Empire in 1867. The long-term debt of the Austrian Empire did not diminish very much, but its short-term debt (that is, the state paper money) was repayed.

The comparison of the various periods of constitutional development reveals that the absolutist government of the pre-1848 era managed to keep the state debt at a fairly stable level. Increases up to the early 1830s happened in accordance with GDP growth. From that time on, the state debt remained at the same nominal level for one and a half decades, and the proportion to the GDP fell from 57 per cent to 40 percent. The neo-absolutist era saw a fast rise in the debt, partly due to the costs of foreign crises, partly due to the costs of reforms achieved by the revolution. The constitutional period saw the highest state debts, caused by the engagement of the state in the railway system. Clearly, in this later case (and contrary to the 1850s), the increase in state debts went hand in hand with a corresponding increase in the value of state property.

#### STATE FINANCES AND POLITICAL LEGITIMACY

Apart from the question of whether authoritarian and constitutional governments pursued different kinds of financial policy, the Austro-Hungarian case offers an example of the inverse relation: Under certain conditions, the situation of the state finances may determine the political order.

The striking examples are 1860 and 1866. In each of these years, Austria had lost a war and a large province. The wars had been costly enterprises on top of an already tense financial situation. In addition, the state had started to issue state money in 1866, in a country that had already had experiences with state money (in 1811, the state had *de facto* defaulted on its money). Since the state had taken over the small denominations of banknotes, virtually everyone who owned cash of 2 crowns or more, held the proof of a crisis of the state finances in hand.

On the other hand, the situation of the state finances alone would probably have had no particular effect on the stability of the neo-absolutist regime. In the mid-1850s, both the budget results and the state debt were at least as bad as 1860 and 1866, but the stability of the regime was unshaken. On the contrary, the government managed to place an unprecedented loan of a billion crowns, named “national loan”, in the public.

#### CONCLUSION

The numbers of revenues, expenses, and the state debt, in Austria-Hungary suggest no systematic relation between the constitutional order and the fiscal performance. We can

identify four main factors for fiscal crises or major changes in the state debt that are unrelated to the constitutional order:

- Military conflict among other countries causing intervention by Austria or the preparation for such an intervention
- Military conflict between Austria and other countries in connection with the unification processes in Italy and Germany
- Reforms in the basic structure of administration and jurisdiction, initiated in short constitutional period 1848/49 and executed by the neo-absolutist regime
- The nationalisation of the railway system with a corresponding increase in state property in the constitutional period

The only occasions of a costly intervention by the Austrian military connected with the constitutional situation (and in the context of a constitution) were the campaigns in Italy (as far as the domestic insurrection is concerned) and Hungary in 1848/49.

Going back to our initial hypotheses, we may sum up our findings as follows:

1. *Authoritarian regimes tend to run large budget deficits because they lack control by a parliament elected by tax-payers, and spend indiscriminately.* The Austrian and Hungarian cases do hardly support the assumption of such a systematic relation. Budget deficits were lowest under authoritarian rule before 1848, second come the constitutional governments. The situation was significantly worse under neo-absolutist rule, and worst under the imposed constitution.
2. *Authoritarian regimes tend to run large budget deficits because they tend to pursue an adventurous foreign policy that requires high military expenses.* Again, the Austrian case does not support this notion because up to 1848 the country did not conduct any wars, and the wars of the 1850s and 1860s were rather unwanted events. On the other hand, the Austrian and Hungarian constitutional regimes went willingly into the Bosnian engagements in 1878 and 1908, and prepared for war before 1914.
3. *Authoritarian regimes run high costs (essentially, military cost) when trying to control the internal opposition.* The only such event occurred in 1848/49 when the government had to conduct a costly war in Italy and Hungary, but did so in the framework of its imposed constitution.
4. *Authoritarian regimes aim at low budget deficits because they intend to stay in power indefinitely whereas constitutional governments may shift the political costs to their successors.* Although the evidence for the authoritarian pre-1848 government would rather support this assumption, a general positive relation between the duration of a government and the budget results cannot be established. In both the neo-absolutist period and the constitutional period, longer serving governments were less successful in containing their budget deficits.
5. *Fiscal crises may contribute to the destabilisation of authoritarian governments and may strengthen the constitutionalist movement, particularly if they coincide with internal policy crises and foreign policy defeats, and if the state addresses its fiscal problems by way of monetary policy.* This is visible in Austria particularly in 1859/60 and 1866, when lost wars combined with an obvious financial crisis.

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