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## **ECONOMIC DEVELOPMENT OF SLOVAKIA WITHIN AUSTRIAN-HUNGARIAN MONARCHY: A HISTORICAL REVIEW**

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### **Abstract**

The article aspires to provide a short review of the particular crucial periods of economic development of the Slovak part within the Austro-Hungarian Monarchy. A short in-depth analysis takes into consideration all those decisive factors such as social, political, and economic, the interconnection of which impacted territorial industrial and agriculture progress from the Theresian reforms through the oncoming periods up to the beginning of the 19th century. Thanks to the involvement of relevant qualitative and quantitative data, the research is supposed to highlight prime causes, landmarks that significantly contributed to political and economic transformation of this region thus changing its geopolitical role, status and influence, plus which, at the same time, helped the Monarchy play a more important part within Central European region of that time.

**Keywords:** economic backwardness, competitiveness, Austrian-Hungarian Monarchy, Slovak national market

**JEL classification:** N13, N53, N63, N93, O52

### **Introduction**

Each political system exists in a certain environment. Therefore, it is a subsystem of the societal system. The economy and everything that creates the specific society system is the starting point in the analysis of the connections between political and societal systems. To give an overview and genesis of the social-economic system of the Slovak Republic as it exists today requires bringing to light a rather extensive list of economic, political, social, and historical events that subsequently unfolded, and are still evident in the Central European geopolitical area. Needless to say, the economic situation itself of 17<sup>th</sup> and 18<sup>th</sup> century accounted for the industrial backwardness and dominance of agriculture as typical for the Slovak part of the monarchy. Nonetheless, this period as such then impacted social-economic development of the later 19th and the beginning of the 20th century, associated with numerous epochal and historical events and their political consequences in Europe, for instance the break-up of the Austria-Hungary and formation of the First Czechoslovak Republic.

## **Economic relations in Slovakia in 1790-1890**

Theresian reforms reflected a political arrangement within Austria-Hungary dualism. The plans of Emperor Joseph II (1741 – 1790) took this fact into account much less and evidently they led into narrower incorporation of Hungary into the system of all countries of the Habsburg monarchy. But it is possible to observe from the end of the 18th century some opposite tendencies when at the end of the reformism of the Enlightenment the attempts for emphasizing a Hungarian peculiarity and formation of modern Hungarian state as an independent subject of political power again prevailed. Besides the attempt to emphasize a national Hungarian content of Hungarian statehood, also the attempts for solution of really serious social and economic country's issues played a huge role. The entirety of Hungary, including Slovakia, kept in much more amount an agricultural-craft character with relatively stable social structure unlike the Czech and Austria countries. Beside some magnate families, the number of free small and middle aristocrats not only persisted but even grew. These relatively numerous classes of free citizens influenced a life of single royal districts and became a holders of conservative and liberal tendencies. Thence, such social-political environment and not bourgeois represented the roots of modern Hungarian politics. The number of citizens increased in first half of 19th century and reached the number nearly 2.3 million. To this favorable population evolution did not correspond and by a long shot did not correspond to the development of economy (Urban, 1991, p. 153).

The Austria-Hungarian dualism from 1867 significantly changed the conditions of further development of the Slovak national movement. With this it made impossible further possibilities for the realisation of a narrower cultural or political Czechoslovak mutuality. The activities of the national movement were then dependent on the natural land of the Hungarian state. All visions that referred to pan-Slavism or Austria-Slavism in 1848-1849 appeared to be considerably politically unreal in the time of restoration of the state political system. Slovakia did not become the independent Environs but more like a marginal territory in the political and economic sense. The centre of state life was still in the centre of Hungary, primarily in its capital city Budapest - the centre of political and cultural life. At that time, it successfully fulfilled the function of commercial and production centre of all Hungary, by which it created a competitive place with a second monarchy centre - Vienna. Leaving aside the existing traditions of crafts and manufactory production, sources, transport possibilities, potential of qualified labours, course of industrial changes in first half of the 19<sup>th</sup> century we come to the conclusion that the evolution and course of the industrial revolution was significantly unequal in the Austria-Hungarian monarchy, also thanks to the backwardness of the Slovak part of the monarchy. There was, of course, a Jewish and German element within the Czech and Slovak lands of the monarchy which left behind remarkable cultural heritage (see e.g. Mitsche and Strielkowski, 2016) but this is beyond the scope of our paper.

## **The Economic development in the Slovak part of the Austria-Hungary**

A new wave of industrialization hit Slovakia much less than the Czech parts of the country. From the technical and economic point of view, the production was still much less at the guild and craft production levels. With the exception of Bratislava and Košice, larger manufacturing corporations, mainly in the food industry, such as sugar factories in southwest Slovakia, wood production, pulp and paper production, rarely emerged. Mine exploitation and metallurgical production maintained traditional positions in that time. However, the old way of iron production prevailed, except for the modern production in Podbrezová. Rich resources of mineral coal were used only to a small extent and the development of exploitation did not occur until the beginning of the 20<sup>th</sup> century. Almost one third of extracted iron ore was exported to

e.g. ironworks nowadays in Czech territory, e.g. Vítkovice. However, the exploitation of precious metals was negligible. In that time, not a single major engineering company emerged, which was a significant trait of the overall state of the Slovak economy. Because of the prevalence of a small production, spread across Slovakia, more well-marked industrial and production areas were not being formed.

The development of modern transport and communication systems was delayed. More extensive and systematic building of railroads began at the end of the 60s, after dualism. Overall 160 km of railway tracks were built in Slovakia by 1869. The sub-tatran main railway line from Košice to Žilina, with a switchover to the Moravian railway in Bohumín, was put into operation in 1872. Traffic on the track from Budapest, through Zvolen, to Vrútky was launched in 1872. The section between Trnava and Trenčín was also finished in that year. A railway from Žilina to Bratislava was put into operation in 1878 in the region of Považie. 1500 km of tracks were built by 1980, which is much less than the average within all Hungary (Urban, 1991, p. 155,156). Despite these factors, the country suffered from social poverty. In contrast to the weak economic development, the population capacity of Slovak people was very favourable, which is more negative than positive. Over the last three decades of the 19<sup>th</sup> century more than half a million people moved to central Danubeland and Lowland, or simply abroad.

The character of Slovak economy, which was less developed and focused on small-scale production, had its social consequences. The Slovak working class, in large numbers, went searching for work to the Lowland, mainly to Budapest, where they formed workers' organizations. A workers' movement did not exist until the 1890s. Not in the true meaning of the word, anyway.

Significant changes in the economic area were inextricably linked to the constitutional changes and changes in the political system of the Habsburg monarchy in the third quarter of the 19<sup>th</sup> century. Closing borders with Hungary in 1850 was the first sign of a new economic policy. Customs border between Hungary and western part of the monarchy existed until 1850. And because of it, a pro-integration joint Czech-Moravian-Slovak market, could not be created (Rychlík 1997: 26).

The Habsburg monarchy went from customs prohibitionist to balanced customs protection and broke down barriers of economic containment towards other countries (Urban, 1991, p. 187).

An Act from March 26<sup>th</sup>, 1850 made creation of trade and crafts chambers possible. They acted as interest business organizations with relatively distinct possibilities. They had the right to comment political aspects of other legal measures, tax and financial issues, transport issues - the building of railroads. They were also enabled to study the domestic and outdoor market and present findings from this study, organize exhibitions, promote technological progress and new forms of enterprise. The importance of these chambers is demonstrated by the fact that they were given a separate representation in the legislative body. Not until the Austro-Hungarian Compromise in 1860 were these chambers activated in Slovakia and the whole of Hungary.

At the end of 19<sup>th</sup> century, thanks to the general economic boom, a concentration of production and capital took place also in Austria-Hungary, in spite of a weaker economic base. An appropriately chosen economic policy of Hungarian governments contributed to the fast economic development of Hungary, which economically grew faster than other parts of the monarchy. The whole iron and steel production in the monarchy was concentrated into six cartels, which belonged to the sphere of influence of the House of Rothschild. The banks' profits increased by 41% from 1909 - 1913. Under the pressure of German capital, the Austrian and Hungarian bourgeoisie expanded into the Balkan Peninsula, wanting to solve internal political crises in the monarchy (Pástor, 2000, p. 65-66).

The total value of national income in the Austro-Hungarian monarchy increased 6.5 times from 1850 to 1913. Meanwhile the value of national income in Hungary increased during the same period 8.5 times. The Hungarian share of the national income in all of the monarchy increased

from 30% to 36%. At that time, the population of Hungary amounted to 40% of the whole population in the monarchy (Urban, 1991). Efficiency of a more productive economy and growing economic activity had its impact on the overall growth of quantity and quality of production. The Hungarian domestic capital also significantly grew. It accounted for one third in 1880, while in 1913 it was two thirds. However, Slovak industry and capital minimally participated in this economic growth. It was possible to view Slovakia as one of the most industrialized areas of Hungary until 1918, but its economy focused mostly on agriculture. On the one hand, it is worth mentioning the establishment of highly specialized modern enterprises, operating on the basis of local raw materials. On the other hand, industrialization in Slovakia was not partial, because enterprises were not built in towns or on junctions, but near raw materials.

The economic centre remained in Danubian part within the Hungarian monarchy, mainly in Budapest. Another centre, where most of the industrial enterprises were located, was Bratislava. It is worth mentioning factory Dynamit Nobel, oil refinery Apollo, Stollwerck chocolate factory - a purveyor of chocolate to the Imperial and Royal Court of Austria-Hungary, and the Hungarian Royal tobacco factory. In Košice, it was the Franck chicory factory, K. Polednyak machinery, ceramics and furniture industry. We can say that towns, such as Banská Štiavnica with a tobacco and textile factory, Ružomberok with paper mills, textile production, Banská Bystrica with a furniture factory, wood and textile production, Žilina with cloth and pulp production, had to some extent an industrial character. Traditional craft production prevailed in the rest of the total of 40 statutory towns in the Slovak part of the monarchy. Statistically, about one-fifth of the industrial production in Slovakia belonged to the Pozsony County, one-eighth to the Szepes County, one-tenth to the Zólyom and Gömör és Kis-Hont County. Árva, Sáros and Zemplén Counties belonged to the most underdeveloped areas, with a negligible industrial production.

Exploitation of natural mineral resources, which developed after 1890, played a great role in the Slovak economy. During the ten-year stagnation it grew very slowly. But from 1890 to 1910 it grew more than two and a half times. Production of pig iron and other metallurgical materials stagnated during that time. There was even a total decline of production after 1900. It was only logical, that almost two-thirds of Slovak ore was transported in the last years before World War I with the exception of bigger railway repair workshops in Košice, Zvolen and Bratislava, but mostly in Vrútky and other small factories, which made and repaired agricultural machinery, engineering, as such, did not exist in Slovakia. Agricultural production went through significant changes, especially in the fertile areas of southwest and partially east Slovakia. Thanks to the using of new technologies and effective soil management, yields per hectare of cereal crops increased two times. In other crops, it was even four times, and it all happened in a relatively short time scale. It showed mainly in the Slovak sugar industry, which by the end of the century nearly tripled the total volume of its production. Speaking of animal production, consumption also grew, especially the consumption of pork and beef. A basic railway network was built by the end of the 19<sup>th</sup> century. It was also the beginning of a more extensive construction of switching railroads and local railways. By World War I, there were about 3,500 km of railway tracks. But it was only one-seventh of all the railroads in Hungary.

The Slovak society at the beginning of the 20<sup>th</sup> century represented a type of rural society with a predominantly traditional social structure based on agriculture (Terem, 2010). We can describe the economic development of Slovakia at the turn of 20<sup>th</sup> century, as not very dynamic. Despite many working in agriculture, it decreased radically, causing the reduction of employment of around 93,000 people, which was about 8%. Two-thirds of the people were still dependent on agricultural production. Because of the relatively low concentration of agricultural production in Slovakia, only four factories with more than 1, 000 employees ran at the beginning of 20<sup>th</sup>

century. And because of a more crafts orientation, the working class proletariat was not represented.

**Table 1:** Active working population - proletariat in Slovakia in 1869 and 1900

	agriculture		industry, crafts		trade transport		other occupation		all	
	million	%	million	%	million	%	million	%	million	%
1869	0.845	80.9	0.142	13.7	0.023	2.2	0.033	3.2	1.043	100
1900	0.649	68.3	0.217	22.8	0.053	5.6	0.031	3.3	0.950	100

**Source:** Urban (1991, p. 224)

### Slovak economy in the interwar period

Although the economic situation in Slovakia after the war was not good, thanks to the establishment of a Czechoslovak market, the loss was compensated with a bigger economic area. Slovakia was mountainous, Hungary flat and thanks to that, the yields per hectare were greater. That is why an industry which had to saturate the needs of the monarchy was created in Upper Hungary. Hungarian government proceeded in developing its own transportation policy. Budapest was the centre of the railway network, which in a radial manner led to the borders of the monarchy (Rychlík, 1997, p. 94). There were not enough railroad tracks, especially towards outlets, from the north to the south. Because of the mountain massifs and relief, there were not enough switchovers between the counties in Slovakia. That is why the creation of a national market in Slovakia was not possible. Czechoslovakia was formed and Slovakia was no longer part of Hungary. The situation changed. In 1919, Czechoslovak koruna separated itself from the inflationary Austro-Hungarian currency. One of the biggest issues of the 20s was the necessity of cooperation between successor states. Slovakia is becoming a member of single economic area that industrialized Czech countries were already a part of. Because of government support, the railway network started to expand, linking Czech and Slovak parts of the First Czechoslovak Republic.

After the Czechoslovak Republic was formed, the need of radically changing the direction of railways arose. New tracks from east to the west needed to be built. The track Bratislava-Kúty-Břeclav and Turčianske Teplice-Brno track connected Czech and Slovak parts of the country, besides the Košice-Bohumín track.. an operational and technical union of railway network in Czechoslovak Republic needed to be created. It called for building a new railway network in Slovakia. An extensive construction programme was being planned at the beginning of 1919 and it came into force on March 30<sup>th</sup>, 1919. From the planned fifteen tracks, eleven were supposed to be in Slovakia. The central Slovak main railway line was supposed to disburden the Košice-Bohumín track and create a new traffic lane. The construction work did not take into account the priority concern of Slovakia that the railroad programme envisaged. The main priority was the interests expressed by the Ministry of Defence and the connection with Czech countries. (Krajčovičová, 2009, pp. 33-34).

If the area of Trianon, Hungary was an outlet for Slovak industry before 1918, then Austria-Hungary would be the market for Czech products. Because of the loss of both markets, Slovakia alongside Carpathian Ruthenia had become an alternative outlet for the Czech market and it took the role of an agricultural area, which in that time was carried out by the Lowland. About

13-17% of export production from Czech countries was sold in Slovakia. However, Slovak industry needed government support, because it was not able to surpass the Czech industry and the Czech sense for entrepreneurship (Strielkowski and Čábelková, 2015; or Abrhám and Wang, 2017). As a part of the rationalization of industrial production, 200 factories were closed down. They employed about one-fourth of workers in the pre-war era (Lipták, 2011, p. 110). On the other hand, it is worth mentioning, that the period after war was known for developing certain industrial sectors and factories. It was mainly civil engineering, logging and timber processing and mining of manganese. The whole process of industrial development between the two wars was just down-grade of industry in Slovakia. The main reasons included the lower technological advances of industry, the loss of markets as a result of disintegration of Kingdom of Hungary, economic backwardness of territory including the underdeveloped transport infrastructure and low purchasing power (Terem, 2015).

### **An outline of policy objectives of selected social groups in Slovakia in the second half of the 19<sup>th</sup> century**

As we have already mentioned, Slovakia entered the era of capitalistic production under difficult conditions. There were still many feudal elements in Slovakia, which could not be completely eliminated after the revolution in 1848. Slovakia as an agricultural Austro-Hungarian territory was negatively affected by royal decrees/patents. The lands were owned by landlords. And because of it, small agricultural holdings could not be formed. The liberalization of soil had a negative effect, because farm workers no longer owned any fields. Before the introduction of patents, they owned them. All of this caused a mass migration within the monarchy which has left its traces until nowadays (Bilan and Strielkowski, 2016). Whole villages moved to the, so called, Lowland (a territory of former Yugoslavia), where new Slovak regions, that still exist, were formed (e.g. Vojvodina in Serbia). Landlords that expanded the land in Slovakia were of Hungarian origin, so the economic domination was accompanied by a political one in the form of "magyarisation" - (transformation to Hungarian pattern). Slovak farm workers and small-scale farmers had no resources or leaders that could help them in the execution of their own political objectives.

There had been many difficulties, even in the industrial production. When compared to the other European countries, the monarchy made very little technical progress. The construction of transport routes, railways and roads, was directed to Pest, which was still the centre of Slovakia (Hungary) (Topol'ský, 1962, p. 11). This excluded Slovakia from competitive opportunities. Because of the liberalization, borders between Austria and Hungary were abolished in 1850, which contributed to a bigger competition of products from the western part of the monarchy. It paralyzed mainly the activities of small producers in Slovakia.

Raw materials extraction and factories were mostly owned by Austrian or German capital. Slovak territory can therefore be defined as an industrial small-scale production area (leather tanning, weaving and other small businesses, such as watermills, sawmills and food processing).

Concentration of production and underdeveloped technologies did not enable the transition to mass production. Because of this, there was a shortage of job opportunities, very low wages and long working hours (12-16 hours daily). Health of the workers, that were considered to be trained for working in the industry, was slowly deteriorating.

This situation, both in the industry and agriculture, was the cause of growing discontent, which in developed areas (Spiš and mining area in central Slovakia) started to show on a mass scale and to have a slightly organized form.

The underdevelopment of the monarchy was affected by a disorderly development of capitalism and power forces in Europe. Because of a lost war with militarist Prussia in 1886, the monarchy

degraded in power (Butvin et al., 1981, p. 50). Austro-Prussian War in 1866 is nowadays viewed as a supposedly prepared conflict under the rule of O. Bismarck. The aim of the war was to gain a new territory. Austria-Hungary lost Venice and decided to agree with a new organization of Germany, without the participation of Austrian Empire. Prussia became a hegemony and it forced Austria to give up centralism in the monarchy. The suggestions of how to organize the monarchy were simply not realizable. Conditions for federalism and trialism were not made. The outcome was the compromise with a dangerous rival, Hungary. In February 1867, the Hungarian constitution was renewed. An independent government, the second government, was formed. J. Andrassy was crowned as a king of Hungary in June that year. Austria-Hungary, the name used mostly in an unofficial and pejorative manner, became the official name of the monarchy. Joint ministries were established and the territory was divided. Slovakia, Transylvania, Croatia, Slovenia and Rijeka belonged to Austria-Hungary.

Every ten years, the Consolidation agreement needed to be amended. However, it did not happen. It was impossible to bring together requirements made by Hungarian high bourgeoisie. Besides, national discrepancies increased in Austria and Hungary. The most serious cause of a dualistic system failure was an unsolved political situation. Ideas from the revolution in 1848 were not transformed into new decrees and Hungarian constitution. It caused that a new political phenomenon - formation of opposition political factions alongside the ruling liberal party - emerged. There had also been an evolutionary paradox. Although the governmental system in Hungary was more obsolete than in Austria, it provided better conditions for the development of capitalistic production by the means of an imperfect legislature. The existing Hungarian bourgeoisie strengthened its own economic situation, which also strengthened the political power. This economic development enabled the implementation of the idea of a nationally united Hungarian state. Hungarian representatives acted tough towards other nationalities. From other nations, only Croats kept their independence. Other non-Hungarian nations became chess pieces and they were controlled based on national Hungarian doctrine.

It is important to mention the contents of this doctrine. According to this doctrine, all Hungarian inhabitants were a part of an indivisible Hungarian monarchy, meaning that all are Hungarians. Even though they speak different languages, "political unity" was provable and more important. Each Hungary citizen had the same rights and Slovaks, Ruthenians, Ukrainians, Serbians and Romanians were only ethnic groups. Ethnic and cultural identity was only granted. It was not necessary to show their political identity, because it could lead to the weakening of the nation as a whole and to scattering of powers, which were needed for further development. Another important part of the doctrine, was the use of a sole state language and it was determined that Hungarian language would play that role. Certain concessions were granted to ethnicities with different languages, but only to some extent. It could not jeopardize the position of the majority language (Gosiorovský, 1956).

Nowadays it seems that this doctrine was very chauvinistic. It is amazing, how fast it was enforced. It needs to be taken into account, that economic interests of bourgeoisie played a key role in enforcing ideological doctrines. If somebody wanted to assert himself in the competition – and non-national bourgeoisie did not want to have a national and economic position, therefore also a political power - he would have to ensure that his plans were according to the doctrine of "magyarisation". Doctrine was strengthened by the centralization of power in Hungary. There had been a turnover from former decentralization, which played a huge role in the monarchy. The centralized state apparatus in Pest was reviewed by the Hungarian government, which had the executive power. This apparatus was appointed and removed by the king and it had to answer to the Diet of Hungary. The Prime Minister was the head of the government, which was made up of 9 ministries. Municipalities were lower administrative authorities with almost full autonomy. They were called counties. All counties were governed by a county prefect, who



was proposed by the Ministry of Internal Affairs and appointed by the king. In addition to the counties, municipal towns belonged also to administrative authorities. It was Bratislava, Komárno, Banská Štiavnica and Košice in Slovak territory. They managed the financial assets and were allowed to freely dispose of them. They also greatly contributed to the development of industry. The main administrative authority was a board, created by taxpayers of direct taxes, on the one hand, and members that were appointed according to a property census. They ensured the decision-making powers of mainly rich bourgeoisie (Butvin et al., 1981, p. 52). Counties were divided into districts, which were governed by a higher administrative officer known as “slúžny” and towns were governed by a magistrate. Parishes were the lowest parts of this vertical division.

The second half of the 19<sup>th</sup> century on Slovak and partially Hungarian territory had these political characteristics:

- National unity on the basis of Hungarian nation, which had a direct link with Hungarian government in Pest;
- Vertical division of power from central government to the smallest administrative authorities - parishes;
- Formally declared equality and the same rights for non-Hungarian citizens. They had to implicitly abide to the majority of Hungarian language.
- Formally declared equality under law without national restriction.
- Equality did not exist, because of the feudal elements in the society and also because of the new restrictions, which made it into fiction.
- The right to vote did exist, but only 8% of people had it, because only men, according to a defined property census, could vote.
- Citizens with Hungarian nationality were preferred, those who had higher education and every nobleman and squire, as it was listed in the electoral law.
- Another measure existed in the Diet of Hungary, which excluded many citizens. The members of the upper house were not elected, because they were heirs to the noble families.
- If they did not fulfil the terms, the non-national groups had only small opportunity to be voted by the existing electoral law. The lowest social classes could not have any political influence without the electoral law.
- This system did not change until the decline of monarchy after World War I.

## Conclusions

To sum up, as it has been demonstrated in this paper, time precondition of national autonomy involves a requirement of the existence of an economic system, its efficiency, or at least a dominant agricultural system in which industry constitutes an additional part. Simply put, when taking into consideration those diverse phenomena which form the *state* as an authority in its unification form, undoubtedly the efficiency of existing economic system and its impact on the creation and orientation of political parties, accounts for one of the most important of them. Due to the underdevelopment of the Austro-Hungarian Monarchy affected by a disorderly development of European capitalism, Slovakia entered the era of capitalistic production under difficult conditions. With many feudal elements particularly in the Slovak part of the monarchy, i.e. the low production scale, economic and technical backwardness, subsequent waves of industrialisation were need to take part, which consequently impacted the mode thinking in domestic politics, influenced ideological orientation of forming political parties, and determined to which extend they were conservative, or reversely more progressive. Moreover, according to the thesis that the economic system is an inseparable part of the societal system, the paper's review of historical-economic events signifies its crucial role for the Slovak national

movement from the Austro-Hungarian dualism of the 18th century up to the formation of Czechoslovak market, with gradually growing importance of the Slovak part as a contributing economic and market element.

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