Foreign Capital Investments in the Economy of Transylvania and their Role in the Modernization Process (1867–1914)

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Each Hungarian government after the Austro-Hungarian Compromise favored the modernization of the economy though the development of a rail network and of a competitive industrial sector.

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The fact that the modernization of Eastern and Southeastern Europe would have been impossible without an influx of foreign capital is widely acknowledged in contemporary history. The present study is a reflection upon the presence and the role played by foreign capital in the economic development of this region. From the very outset, it must be said that we did not seek to offer an exhaustive presentation of the topic, focusing instead on the major economic trends and processes, as well as on the main branches of the economy that saw significant foreign investment. Also, we did not attempt to present in detail all such investments, concentrating only on the most important ones. As to the precise geographic area, we focused on historical Transylvania, but we also mentioned some industrial sites and railways in Banat, Crişana, or Maramureş.

The issue of foreign investment in the economy of Transylvania in 1867–

1914 was not seen as a priority before 1989. However, Cluj researchers Ákos Egyed and Lajos Vajda published some books dealing with the industry and the construction of railways in the region, also providing some information on the investors.[1] Lajos Vajda also presented a few case studies dealing with various companies, such as the one in Vlăhiţa, and reflected upon the role played in the industrial sector by the Austrian capital.[2] Furthermore, he published a book on the history of the workers' movement in the metallurgic and mining industry of Transylvania until 1918, also discussing the role of foreign capital in this industrial sector.[3] He also published some studies dealing mostly with the issue of foreign investment.[4] In his turn, in 1980 Iosif I. Adam published a study on the foreign capital in Transylvanian economy around the First World War.[5] The history of the Banat StEG was presented in detail by Rudolf Gräf.[6]

In what concerns the broader framework of these investments, Hungarian researchers Vilmos Sándor and Emma Lederer investigated the industrialization of Hungary in the dualist period. Vilmos Sándor published a great synthesis on the development of Hungarian industry in 1867–1900.[7] Another generation of economic historians, represented by Iván T. Berend and György Ránki, continued the work of Vilmos Sándor, in an analytical rather than in a quantitative fashion.[8] Together with Miklós Szuhay, they compiled the great syntheses on the history of Hungarian economy in the modern era.[9] Starting from the statement that 19th century Hungary was an agrarian country, their disciple, György Kövér, wrote a book in which he presented the stages in the industrial development of the country.[10] In terms of the European and Central European framework of this industrialization, apart from the work of Berend and Ránki we can mention here the contribution of John Komlos, who wrote a book dealing with the effects of the common customs border, defining the dual monarchy as a common market.[11] The famous historian Sidney Pollard analyzed industrialization in a broader European context.[12] The aforementioned Hungarian historians, especially Iván T. Berend and György Ránki, paid particular attention to Eastern Europe in the book *The European Periphery and Industrialization 1780–1914*, published in Budapest in 1982.

Starting with the turn of the 19th century, books and studies were published dealing with various aspects regarding the industrialization and the expansion of the rail network.[13] There were also some texts that are less scholarly in nature, but which nevertheless provide information on the methodology of investments, such as the book dedicated by Ludwig Schönberger to the financial scandal of the Oradea–Cluj–Braşov railway, entitled *Die Ungarische Ostbahn: ein Eisenbahn- und Finanz-Scandal* published in Vienna in 1873, the very first year of the crisis.

THERE ARE many reasons why a businessman or a financial conglomerate might want to invest in a particular area: human resources (cheap labor) and raw materials (under and above ground), the infrastructure present there, the legal system of that country and, last but not least, the development strategy of the country in question.

Labor was quite cheap in Transylvania, but it was hardly skilled, at least until the first graduates left the new vocational schools and technical colleges set up at the beginning of the dualist period. The area was also rich in natural resources. The vast forests brought in a lot of investment in the forestry sector. The iron ore and the coal deposits of Hunedoara and of the Banat highlands led to the emergence of a significant heavy industry.

Each Hungarian government after the Austro-Hungarian Compromise favored the modernization of the economy though the development of a rail network and of a competitive industrial sector. These measures were supported by legal initiatives only starting with the 1880s. Before discussing them, we must say that the amounts invested prior to 1892 are in florins, while those made after that year are in crowns, given the currency reform operated in the dual monarchy in 1892. When the banknotes and coins were changed, a florin was calculated to the value of 2 crowns.

Law XLIV of 1881 granted a tax exemption of 15 years to all new or expanding plants manufacturing products previously not made on Hungarian territory or which converted to state-of-the-art technology. These exemptions, as well as exemption from the establishment tax, were also enjoyed by some food-processing plants and textile mills, as well as by the factories producing agricultural machinery and implements.[14] The other demands of the local bourgeoisie, such as free lots for the construction of new factories, favorable rail transport fares, and export subsidies, were not included in the law. After the law was passed, 418 factories benefited from it, 54.7% producing agricultural alcohol.[15] Apart from these units, the law also favored the great Hungarian companies already in existence (Ganz, Röck, Láng), as well as those established by Austrian investors. Law XXIII of 1888 required that the excise on sugar had to be paid in the area where the sugar had been processed. (It must be said that the sugar industry accounted for much of the Hungarian fiscal revenue from the tax on consumer products. Thus, the Hungarian state was interested in supporting the national sugar-processing industry and favor the establishment of new sugar mills—witness the later establishment of sugar mills at Bod, near Braşov, and at Târgu-Mureş.)[16]

The second law meant to encourage industrial development (Law XIII of 1890) had initially been intended to support all existing plants of factories, but their number remained later limited at the insistence of some interest groups. Newly-created companies benefited from tax exemptions, free construction lots, subsidies, machinery paid for by the state, preferential rail transport fares and government orders. We do not know the exact number of Transylvanian companies that enjoyed these advantages, but some partial data are available. Thus, the state offered incentives to 8 textile mills, 3 paper mills, 3 machine factories, 1 glass factory, 1 furniture plant, 1 shoe factory, 1 butter-processing plant, 1 hat factory, and 1 coffee surrogate plant.[17] The government also started to extend loans at zero interest and began to offer subsidies in money, limited to 10–30% of the capital invested in the new plants.

The grand development programs of the government began with the third law of this kind (Law XLIX of 1899). After it came into force, 9 million crowns were given as subsidies in 1899 and 1900. The period saw significant changes in the industrial sector of the Kingdom of Hungary: of the 198 new factories, 45 were textile mills, 35 were chemical plants, and 37 were steel mills or machine factories.

Law III of 1907 allowed to government to offer even further support to these new investments. Thus, the relevant ministry could also buy shares for the state in the newly-established or expanded company. Furthermore, in some exceptional cases the 15 years of tax exemption were extended with another 15 years. In the first three years following its coming into force, 18 million crowns were given in subsidies and aid. During the heyday of the industrial development program (1900–1914), the total amount of state subsidies reached 47 million crowns. Still, this represented only 5.9% of the capital invested in joint-stock companies. During this period, shareholder capital in the kingdom's industry increased by 800 million crowns.[18]

Alongside these measures favoring industrial development, Law XXXI of 1880 facilitated the construction of local rail networks. Its purpose was to attract foreign investors in this sector. Its provisions were completed by those of Law IV of 1888, which authorized the relevant ministry (commerce) to distribute 300,000 florins (600,000 crowns) every year (400,000 florins after 1894) in subsidies to local railway construction companies. Apart from this aid, the postal service and the local and county authorities were given the possibility to help the railway construction companies in question. The local authorities could presently levy special local taxes and finance public works in support of such projects. The legislation also guaranteed a supply of affordable construction material, from the state-owned steel mills.[19] Following the adoption of these laws, the rail network increased from 623.1 km in 1881 to 3,219 km in 1891 and to 8,123.7 km in 1900. Between 1891 and 1900, 491.6 km of local rail became available every year.[20]

The financial and overproduction crises had a considerable impact upon the volume of investments. The first of these crisis began on 9 May 1873, when the Vienna stock exchange crashed. This dealt a severe blow to the Austrian and Hungarian banking systems, and investments were halted. After the stagnation of 1873–1880, the following period of economic revival was nevertheless interrupted by another two years of stagnation (1886–1888), caused by the collapse of the Paris stock exchange in 1882 and by the grain overproduction crisis of 1886. The latter was triggered by the protectionist customs tariffs and by the increased transportation tariffs imposed by Germany in 1880 to all agricultural produce coming from Austria-Hungary. This led to a customs war between the dual monarchy and Romania (1886–1893) which only worsened the existing situation. However, this crisis was less serious than the previous one.[21] The period that followed was one of massive development, interrupted in 1900 by a new overproduction crisis that reached its apex in 1903. A new revival began in the second half of 1906, and the growth continued until 1912.[22]

The alternation between periods of depression caused by financial or overproduction crises and periods of maximum development influenced the foreign investors in their decision to invest in the Hungarian economy. If 585 km of railway were built every year between 1867 and 1873, during the depression of 1874–1880 only a grand total of 118 km became available in the kingdom.[23] Similar results were obtained during the depression of 1900–1903, as only 23 km of rail were built in 1902, as compared to 100 km in 1898.

THE SAFEST sector for the foreign investors was the construction of railways, as the state guaranteed the profitability of the line with 5% of the invested capital, if annual revenue was below this level. If in 1870 such guarantees cost the Hungarian government 1 million florins, in 1871–1873 the amount exceeded 8 million a year, and in 1874 no less than 15.8 million florins were thus paid.[24] This created a railway "fever" that led to the construction of the main lines across Transylvania. At the time of the Austro-Hungarian Compromise, cities like Timişoara (1857), Oradea (1858), Arad (1858) had become the terminus for rail lines coming from the west, and no lines of local interest had been built on the territory of the former Principality of Transylvania.

Transylvania communicates with the west through three natural corridors, the valleys of the Someş, Crişul Repede and Mureş rivers. Of the three lines, the latter two were also favored by the revolutionary Hungarian government of 1848.[25] During the neo-absolutist regime, various interest groups competed for the lines in the south and in the north of Transylvania. The stakes were high: the northern line was to start at Oradea and go across Cluj, Aiud, Mediaş, and Sighişoara, having Braşov as its terminus. The southern line was to begin in Arad and go though Alba Iulia and Sibiu, with the terminus at Turnu Roşu.[26] Still, these lines were built only during the Austro-Hungarian dualism. The period that followed is known in the specialized literature as the *Gründerzeit*, a time when investors noticed the internal stability and came here in the hope of making a good investment. The liberal economic policy made possible the influx of foreign capital in Hungarian economy. The state guaranteed an income of 6–9% to investors in case their investment was not profitable. Also, during the term in office of Minister Imre Mikó, of Transylvanian origin, authorizations were issued for the construction of the following rail lines: Oradea–Cluj–Braşov, Arad–Timişoara, Copşa Mică–Sibiu, Războieni–Târgu-Mureş, Carei–Satu Mare, Satu Mare–Sighetu Marmaţiei. During this period, the rail network came to include cities like Cluj, Braşov, Sibiu, Alba Iulia, Târgu-Mureş, Sighişoara, and Mediaş. The same period saw the completion of the Debrecen–Valea lui Mihai–Carei–Satu Mare–Buština–Sighetu Marmaţiei line. The Oradea–Braşov line, 603 km in length, the line across the Mureş valley, 290 km in length, and the 150 km of the northeastern line were built by private contractors operating mostly with foreign capital.[27]

During the depression that followed the collapse of the Vienna stock exchange of 1873, not a single kilometer of rail was built in Transylvania. The year 1881 saw the beginning of work on the Apahida–Dej line, the first wave of local rail construction in the region. This early phase (the 1880s) saw the completion of the Local Interest Railway of the Someş Valley (*Szamosvölgyi HÉV*), and of the line across the Transylvanian Plain, between Bistriţa and Luduş. During the second phase, in the early the 1890s, work began on local interest rails in southern Transylvania, such as the Sibiu–Făgăraş, Sibiu–Cisnădie, Sibiu–Vinţu de Jos, Sibiu–Agnita–Sighişoara lines. A particular feature of this phase concerns the introduction of narrow gauge lines (Sibiu–Sighişoara, Alba Iulia–Zlatna). In the third phase (from the mid-1890s to the early 20th century) the rail network reached the areas of eastern Transylvania. The Sfântu Gheorghe–Miercurea-Ciuc–Gheorgheni–Deda–Reghin finally opened this area to modern commerce.[28] All of these lines were built using foreign capital.

In financing construction projects, apart from the Austrian capital, a significant part was played by French, German, British, Belgian, and Italian investors. Still, the Austrian capital had the lion's share: of the 21 banks involved in the construction of railways, 15 were from the Austrian sphere of financial interest. The top three such banks were the Franco-Austrian Bank, the Anglo-Austrian Bank, and the Creditanstalt. Behind the Austrian capital we find the foreign capital invested in the banks of Vienna. At the end of the dualist period, 80% of the foreign capital invested in Austria was reinvested on the territory of the Kingdom of Hungary.[29]

Another sector that appealed to foreign investors was the industrial one, special attention being given here to forestry and wood processing. In the previous period the sector had flourished through the practice of log rafting, but it reached its true potential after the expansion of the rail network. The hill regions benefited from and at the same time paid the price for the expansion of this industry.

Also, the deposits of iron and non-ferrous ore as well as the presence of coal attracted investors from Austria but also from France, Britain, Belgium, and Germany. If the coal-rich area of the Banat highlands, which also held deposits of iron and non-ferrous ore, was practically monopolized by the Austrian StEG, Hunedoara and the Jiu Valley were fought over by several companies. Foreign investors appeared here as early as the 1850s. In 1858 (statutes passed on 13 April 1859),[30] another Austrian group established the Braşov Mining and Smelting Association (*Kronstädter Bergbau und Hütten Aktien Verein*), a joint stock company. Among its owners we find famous personalities such as the barons Louis and Maurice Haber, Count Otto Chotek, and princes Maximilian and Egon Fürstenberg.[31] The Creditanstalt provided financing for the venture. This conglomerate sought to control the major mines and smelters in Transylvania. After 1867 it was second only to the StEG of Banat in what concerned the production of cast iron in the Kingdom of Hungary. However, given its obsolete technology (with the exception of Călan), the Braşov conglomerate ranked only third in terms of revenue (1,111,400 florins). In terms of coal mining it ranked fourth, with 93,100 tons, amounting to 5.4% of the national production for the year 1879.[32] The gold-rich region of Abrud–Zlatna–Roşia Montană attracted foreign investors, chiefly German, only starting with the 1880s.[33] Apart from these favored areas, mines and smelters also appeared in more remote areas, such as Bălan (copper), Vlăhiţa (iron ore and metallurgy), the area of Baraolt (lignite), Cristian (coal), Aghireş (coal), Bihor (bauxite). Alongside mining and metallurgy, another sector that developed was machine building, located in the vicinity of metallurgic plants, in places such as Arad, Timişoara, Cluj, Braşov, Sibiu, and Oradea.

The light industry and the food processing sector also received foreign capital investments, but their units were usually concentrated in the urban centers. In the food-processing industry, even the majority of alcohol distilleries and steam-powered mills also operated in the urban centers, and only the sugar refineries remained in the area where sugar beet was grown.

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Notes

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Abstract

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Starting from the widely-accepted premise that the modernization of Eastern and Southeastern Europe would have been impossible without an influx of foreign capital, the present study is a reflection upon the presence and the role played by foreign capital in the economic development of this region. The study does not seek to offer an exhaustive presentation of the topic, focusing instead on the major economic trends and processes, as well as on the main branches of the economy that saw significant foreign investment. While the area under discussion is that of historical Transylvania, some industrial sites and railways in Banat, Crişana, or Maramureş are also mentioned.

Keywords

investment, foreign capital, Austro-Hungarian dualism, modernization