

Economic and Financial Implications of the First World War

Domestic War Loans

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Second war loan bond, 2015.

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Historical and Contextual Landmarks

IN RECENT years, the history of World War I has gained remarkable momentum both in Romania and abroad, given the commemoration of a century since the onset of the great conflagration, generating a rich and varied historical literature dedicated to this subject. Various methodological and thematic perspectives cover a wide range of issues, from classical ones to those that offer new ways of (re)reading and interpreting historical sources. The results have already materialized in dozens of volumes and hundreds of studies and articles covering multiple topics, from political, diplomatic and military ones,¹ to the analysis of the implications of war in demography and family life in all its complexity.² All these perspectives were inspiredly and accompanied by previously less-researched directions in

historiography, such as the cultural impact of the war, the role of the “home front,” the mobilization of the population through propaganda, its transmission and dissemination mechanisms, etc.³ There were also some new directions in Romanian historiography, such as the study of the impact of the war on children and childhood,⁴ on the emancipation of women and their status, substantially altered during the war and after its end.⁵ Other studies addressed in detail the multiple religious implications, the relationship between the secular authorities and the representatives of the denominations, how the church was institutionally involved in the enormous war effort, both spiritually and materially, as well as propagandistically, as a main relay of communication between the higher state authorities and the population.⁶ One cannot leave out of these succinct introductory considerations the numerous volumes of documents and, most of all, correspondence, memoirs and war journals that have brought exceptionally significant information into the scientific circuit and which undoubtedly add value to the knowledge of the multiple facets of a past reality, generated and shaped by the Great War.

On the other hand, in Romanian historiography the economic aspects of the war have been less addressed in recent years, and the reasons behind this relative neglect of the economic component of the war can, certainly, be numerous: it can be considered, for example, that the important economic aspects have already been made public or they possess little relevance to the new research directions; secondly, it can be argued that these issues may be too technical and dull, in their attempt to reflect the complex realities and effects of the war. We have also noticed that, in many cases, statistical data such as the nature and volume of military expenditure, the sources of funding, price developments, and currency devaluation in the new and changing macroeconomic contexts induced by the war are only tangentially, incompletely and sporadically invoked as documentary and supporting material.

Based on these latter considerations, we considered it appropriate to address some aspects of the economic resources involved in the war effort, focusing on how the war loans contributed financially to supporting the needs of the front, on the ways in which the population was called upon to support this effort, and of course on the propaganda of the authorities in this regard. The analysis refers to the Hungarian part of the Austro-Hungarian Empire, with particular reference to the Transylvanian region, knowing that the two constituent and associated states of the empire, Austria and Hungary, had stipulated in the dualist pact of 1867 separate and legally established economic and financial policies.

During the documentation, we came to realize the difficulty of the task because, first of all, figures and quantitative data must stand on their own; however, despite the dull aspect of such a reconstruction, likely to generate a stereotypi-

cal and linear discourse, the conclusions converge towards the same idea, of the impressive and unprecedented consequences induced by war in modern history.

In the first place, some references to the Austro-Hungarian economic circumstances on the eve of the war are required in order to better understand the evolutions during the conflict and especially its economic implications. It should be noted that in 1914 Austria-Hungary was one of the most important powers in Europe with a population of 58.6 million inhabitants and a GDP of \$1,989 per capita in 1913 (accounting for 13% of the total population of Europe and 10% of its GDP).⁷ The Habsburg Monarchy's economic growth was moderate in both rate and rhythm, more rapid in the Hungarian side, and with a rather robust structure and profile of the industrial production in its western parts. The counterpart, Transleithania, was focused on agricultural development, which evolved more and more clearly towards modern capitalist structures. Viewed in detail, however, the economy of this multi-ethnic state complex also reveals a whole series of vulnerabilities, generated by the development gaps between different regions and provinces, overlapped and accentuated by political and national divergences. There were also debates at that time that generated many polemical exchanges regarding the economic viability of the state and its possibilities to economically and militarily support the ambitions of the political-military alliance it was part of. Both economists and some politicians had warned even before the war that, in a widespread confrontation, the proportion of national income that the Austrian and Hungarian governments could mobilize would not exceed one third of the total national wealth, estimated at \$27.5–30 billion (dollar value in 1913).⁸ Others were even more skeptical, warning that economically, due to structural problems especially of political and national nature, the monarchy would have already been a defeated state before the start of the war.⁹

The outcome of the war in 1918 and the subsequent destiny of the monarchy also led, in the next decades, to numerous inquiries regarding the causes of this failure. Beyond the political and military aspects, analysts, whether historians, economists, or sociologists, have naturally tried to find the most viable answers to the question: "Why did the Austro-Hungarian Empire disintegrate?" generating many explanations, some with a strong polemic character.

First and foremost, the national question and its and subjacent issues, political divergences and impediments, have often been cited as responsible for the failure of the monarchy. Historians have argued that the rise of national movements, the aggravation of conflicts between the non-German and non-Hungarian nations, and the failure of the 1867 Compromise to provide an institutional arrangement capable of managing and mitigating these antagonisms were major factors that led to the dissolution. For example, the Austrian historians E. Bruckmüller and R. Sandgruber noted a palpable contradiction between the ad-

vancement of regional economic integration and the rise of national movements that evolved in the opposite direction, opposed to the creation of a collective consciousness that was sufficiently attached to the ideal of a state and a common economic space.¹⁰ On the other hand, Hungarian historians Iván T. Berend and György Ránki ascribed the obvious vulnerabilities of the monarchy on the eve of World War I especially to the fragility of the common economic space, which was accentuated and amplified by the economic clauses of the dualist pact. These provisions, which were supposed to contribute decisively to integration (a customs union and shared contributions to the common budget), were the subject of political bargaining every 10 years. Moreover, the two historians have pointed out that towards the end of the 19th century the idea of an economically independent Hungary became a dominant option among Hungarian politicians, even if it was not supported by economic realities, relying especially on nationalist arguments,¹¹ and we would add that some of these assertions were outright populist. The indisputable discrepancies in development among various regions of the empire were a problem that has preoccupied many historians, to the point where some voices have emphasized this reality and made it responsible for the dissolution.¹² According to historian Edward März, “this situation of major discrepancies, which none of the industrialized European countries was facing, has been an important disadvantage for the economic growth process in the empire as a whole.”¹³ A change of vision regarding the economic modernization of the Habsburg Monarchy during the 19th–20th centuries occurred in the 1970s–80s, when the new generation of economic historians put forward the problem of a deeper re-evaluation through new methodologies generated by economic history. They established that there were nonetheless enough premises in the Habsburg Monarchy for a modern economic growth, which was realized through a gradual process of regional leveling. This trend was evident to authors such as Scott M. Eddie,¹⁴ David F. Good,¹⁵ Thomas Huertas,¹⁶ John Komlos,¹⁷ generating a so-called revisionist research direction,¹⁸ due to the conclusions it entailed, and which partly denied the old conceptions of the economic fragility of the Danube Monarchy as a main cause of its disaggregation.

War Loans: Economic and Military Options and Prerequisites

THE FIRST World War was preceded by a fierce arms race. The Industrial Revolution offered opportunities never before seen in military policies: it favored and supported in developed countries the birth and spread of first military-industrial complexes, which brought together a large number of

engineers, technicians and workers. The arms race also mobilized major capital resources, domestic and foreign: Armstrong and Vickers in the United Kingdom, Krupp in Germany, Schneider-Creusot in France. These complexes were able to carry out military research, but also to produce and supply, predominantly based on state orders, a large quantity of weapons, munitions and military equipment. The economic activities related to arming policies developed rapidly. All this mobilized huge human, material and financial resources, which contributed to economic growth in those countries. According to contemporary data, between 1880 and 1914 the six European powers (Austria-Hungary, Germany, France, Italy, the United Kingdom, and Russia) tripled their arms expenditures, and their military personnel almost doubled from 2.6 million to 4.5 million people. The market was confronted, for the first time in history, with an active arms trade, on a continental and global scale.¹⁹

The huge military effort raised the issue of financial resources from its outset. States found various forms and financing formulas, most of which had been already practiced throughout history: tax increases, state loans (domestic and foreign), capital injections, financial-banking operations, donations, etc. The start of the First World War accelerated the recourse to these methods, and the belligerent and neutral states became engaged in a huge race to find and mobilize vast financial resources, especially as the myth of the “short war” rapidly eroded. Gradually, as the military operations drew on, the economic model moved from peace economy to war economy. This transfer resulted in the mobilization of financial supplies, raw materials, human and material resources almost exclusively towards military production and activities, by sacrificing the production of goods for the civilian population, by involving the state as a political and administrative body in economic life beyond the admissible limits, distorting the normal and market-generated and induced economic relations. Moreover, in the economic, political and polemological literature, the notion of “war economy” appeared even in the years of the first military conflagration.²⁰ Within its structure are also woven the war loans, as economic instruments and means intended to finance war-specific activities. Although they are sometimes confused with arming expenditure and/or military spending, war loans have their specificity given the targets pursued, their space-time span, institutional handling and financial documentation. Their structure, content and dynamics in relation to the economy and population must not be neglected. The war loans contracted by the two governments in Vienna and Budapest were economically, financially, politically and militarily consonant with those of other states in that period or later: legislative coverage and argumentation, institutional efficiency, advertising, civic involvement, and public manipulation. Positive and negative examples and experiences in the mobilization of public financial resources and the size of

military spending had been collected by the Austro-Hungarian Monarchy since the previous centuries, but especially in the second half of the 19th century and the beginning of the 20th century. A pre- or pro-war activity and a specific economy functioned especially after 1848, when the destiny of the Austro-Hungarian Empire was linked to that of Emperor Franz Joseph.²¹ This pro-war economy developed simultaneously with the modernization of economic activity, practice and thought. Positive and negative phenomena in the empire's economy, as well as progress in the field of economic studies generated the Austrian school of economics, represented by Lorenz von Stein and, above all, by Carl Menger, the father of marginal utility theory. In a period of dilemmas and explorations in the economic sciences, ideas were expressed about the need to probe consumer psychology in order to ensure progress and economic balances. These factors would help producers take the right decisions or the owners to implement Schumpeter's ideas specific to entrepreneurship: boldness, anticipation and perseverance, intuition and risk-taking, innovation and adaptation to the economic environment. In fact, it was not only an attempt to consolidate the modern market economy, but also to modernize the dual monarchy or, more precisely, to adapt it to the tremendous rhythm of the changes of the late 19th and early 20th centuries. Rapid preparations for arming and war set back the economic, technical and human potential of the monarchy and restricted the possibility of implementing these economic ideas and doctrines into the real economy.

The existence of prestigious economists, as well as the preoccupations for the economic and administrative preparation of the imperial and royal officials, were also reflected in the access to war loans. With the specific meticulousness of the dual monarchy, activities in this area followed the natural course of fiscal and financial mechanisms and policies.

It is known that, at the outbreak of the war in July 1914, the monarchy's finances were unable to support a medium or long-term war effort, as the funds collected from taxes managed to cover only the current civilian state expenses. Naturally, the announcement of armed mobilization caused panic in the economy, requiring urgent state intervention to limit primarily the short-term effects that could have proven disastrous. It was also important that the state did not give the impression that the measures would last for a long time and suggested that the situation would soon return to normal. Rapid intervention meant that the stock market and banking system were offered protection from panic and destabilization. Already on 27 July 1914, the closing of the Vienna and Budapest stock markets was announced, as well as urgent measures to protect the Austro-Hungarian Central Bank and its gold reserves; naturally, given these conditions of financial uncertainty and insecurity, the reference value of the discount rate doubled from 4 to 8% in just a few days.²² The financial and banking morato-

riums were meant to maintain the stability of the banking system, to ensure the largest possible amount of banknotes in the reserves of the issuing bank for the immediate needs of the state, which lacked any possibility to contract a loan for the moment, unless it was from the Central Bank. The first moratorium of this kind was established on 1 August 1914²³; in order not to create the impression of a blocked economy, it was set to have an initial duration of 14 days, although from the beginning everyone was convinced that it would be extended. Later, it was extended six times and was temporarily lifted only in August 1915, being restored at the end of 1916 in Transylvania where it remained in force until October of the following year. The abolition of the moratorium was made on the basis of § 16 of Law-article no. LXIII of 1912 and was motivated by the need to prevent major disturbances generated by mass withdrawals of money from banks and the speculative exploitation of financial instruments. The most important provision referred to the fact that depositors could withdraw up to 200 crowns from bank deposits which on 1 August 1914 did not exceed 2,000 crowns, and in the case of deposits between 2,000 and 4,000 crowns, a maximum of 10% of the amount.²⁴

As immediate measures, the state was also concerned with ensuring the conditions of the functioning of the new war economy, increasing production by any means, meeting the military requirements and providing the fuel and food necessary for the battlefield, but also for the urban population. The imminent danger was the appreciation of prices for all products and a speculative wave that could get out of control. In these circumstances, the immediate need consisted in the implementation of a mechanism for controlling and capping prices. The greatest danger, in its absence, would have been represented by inflation, with catastrophic consequences for the state in the future financing of the war needs. In fact, the outbreak of the war had an immediate effect on grain prices, a phenomenon experienced within a few months. Thus, if in July 1914 wheat was sold on average for 24.45 crowns on the Budapest market, in the middle of November the price rose to 44.20; equally, the price of rye increased from 19.50 to 35 crowns, and significant increases were also recorded for corn, from 15.10 to 24.10 crowns.²⁵ The state's intention was not only to intervene and cap the prices, but also to maintain the market at a reasonable rate of demand and supply, while being cautious not to leave the population with the impression of force or coercion. The authorities were aware of the need for a serious propaganda effort to convince and mobilize the population in this regard.²⁶ It was the patriotic duty of every citizen to support the cause of the war, all these efforts being considered part of a genuine "home front" in which, without exception, all citizens had to be engaged, according to their forces and capabilities. The authorities used many channels of communication and mobilization, and the

church had a particularly important role in the rural world, where “trustworthy priests who were loved by people in all circumstances of life” were called upon to participate in this propaganda process with all their energy.²⁷

The Odyssey and Impact of War Loans

AT THE end of 1914 it was considered that the economy had withstood fairly well the shock induced by the first months of the war, firstly because the year had begun under favorable and optimistic auspices, as the effects of the economic crisis of 1912 had been overcome: the state had intervened by way of investments and massive orders in the war industry, accompanied by active measures meant to boost business activities. The interest rates were affordable, as well as the capital market, while numerous draft laws encouraging the industry started to show their beneficial effects. On the other hand, the crisis of 1911–1912 had somewhat prepared the economy for more serious situations, and prudence in the face of risky decisions had become commonplace, along with the concern to secure reserves of all kinds.²⁸ These were precisely the lessons promoted by the authorities, which had become aware that the state of mobilization would be extended: caution and reserve were the main recommendations from the state to enterprises and banks. The latter were demanded maximum care with regard to the distribution of profits and dividends. Certainly, the state authorities were aware and convinced that they would soon resort to these resources too.

The situation on the front required, doubtlessly, huge expenditures that the state had to deal with. If the budget for civilian spending could be assured, at least in the beginning, from collecting taxes and dues, the financing of the war had to be secured in other ways. There were few solutions at hand: exports that would have provided sufficient resources were no longer available in the new situation; also, access to financing on the international capital market had become virtually impossible under war conditions. As a result, the only viable solution was to resort to national loans, which became a predominant tool used by the state to attract the financial resources needed to support the war effort from the population and the banks. Thus, following the example of Germany, Austria-Hungary started a well-organized campaign to launch such loans on the domestic market every six months.

In order to illustrate the size of the financial effort required by the war, we can state that after only the first six months of conflict, at the end of 1914, the monarchy's balances for this purpose were \$1,125 billion, of which \$375 million came from Hungary.²⁹ According to the financial and budgetary procedures

and policies, which were separate for the two parts of the monarchy, war loans, 8 of them in total from 1914 to 1918, were launched each time separately in Austria and Hungary. To this end, political decision-makers and financial operators developed a real policy management in the field of public lending³⁰ aimed at supporting the war effort, which resulted in:

- a) regulatory and legislative coverage of new financial policies;
- b) the preparation of human resources in state administration, military and financially, including the covering of budget deficits and the timely provision of financial benefits to the holders of government bonds or other paper bond certificates;
- c) the involvement of fiscal and financial operators (the State Treasury, the Bank of Austria-Hungary, commercial banks and credit co-operatives/unions) in the actions for the mobilization of financial resources belonging to economic agents and the population;
- d) devising, printing and putting into circulation specific financial and banking documents and accounts (some of them, intended for the public throughout the monarchy, had security and identity elements as well as the money insignia, and were printed mainly in German and Hungarian);
- e) advertising publicly through posters, flyers, press, public gatherings, ecclesiastical meetings, etc. for the rapid subscription of amounts needed for military equipment and operations. Multi-ethnicity required the use of multiple languages in the transmission of printed messages, which led to distortions in this situation, as it did during military operations.³¹

The first war loan was launched in November 1914,³² shortly after the war began. The approach to this financing option was achieved almost simultaneously with the policies promoted by other belligerent states. On the one hand, there was the common belief in the rapid end of the war.³³ On the other hand, the political and military actors “threw into battle” huge amounts of money after the example of the Franco-Prussian War of 1870–1871, confident in the recovery of the amounts once victory was achieved, as Germany had succeeded with the huge war reparations imposed on France.³⁴

The subscription terms were almost similar: the legal basis and subscription payment methods were stipulated in subchapter 17 of Law LXIII. The bonds were worth 50, 100, 1,000 and 10,000 crowns, with an interest rate of 6%, the subscription price being 97.5% of the face value.³⁵ It was anticipated that, for amounts not exceeding 100 crowns, the underwriting should be made on the spot in full; for amounts over 100 crowns, the first rate had to be at least 40% to be paid until 12 December 1914, the second rate until 22 December 1914 and the third until 8 January 1915. The total amount of the loan was estimated at 500 million crowns. It was a first test performed by the government, which

had carried out an intensive campaign among the population, highlighting both the very good profitability of these placement opportunities and, certainly, appealing to the patriotic feelings of the people called to serve the needs of the homeland. The subscription was planned to take place at all the state cash desks at the branches of the Austro-Hungarian Bank, the other commercial banks, as well as at the post offices. The first Hungarian war loan ended on 23 November 1914, and it was considered a major success, as the subscribed amount exceeded one billion crowns, surpassing even the most optimistic expectations.³⁶ It's difficult to estimate the amount gathered in Transylvania; certainly, an exemplary mobilization had been achieved, since only through Albina Bank's cash desks 1,353,350 crowns were subscribed.³⁷

The financial and macro-economic context of 1915 indicated that the war would continue for a period that no one could have anticipated. The high prices became a concern, amid the massive depreciation of the crown: in 1913, the crown was a stable and strong currency in comparison to other currencies of the time. Although it did not benefit from total convertibility, the coverage of the money supply in the Central Bank's gold reserves was 49.7%. At the end of 1915 it had dropped to 9.4%, amid a depreciation of over 45%.³⁸ The rise of the money supply in circulation with nearly 4 billion crowns contributed to the rising inflation, but the government's reason was the need to increase the volume of production and trade, and thus the cash flow needed to support the war effort. In fact, the great challenge for the monarchy in 1915 was the economic isolation to which it was forced by military developments and the unpredictability of the force ratio. The primary concern was to ensure "economic resilience"—maintaining the economy within functional parameters through systematic interventionist measures.³⁹ It was also imperative that actions be taken to ensure that the population and the army received the necessary sustenance. Prices had been capped since the previous year in order to prevent speculation. Procedures for requisitioning agricultural crops through the creation of special bodies had already been established, the most important of them being the Company for the Valorization of Agricultural Products. The propaganda campaign meant to mobilize the population for agricultural production, in the conditions of an acute shortage of labor, was considered a success, based also on a very good harvest in 1915. The involvement of all able-bodied people (children, the elderly) in agriculture was insistently demanded by the authorities and was considered a duty as imperative as that of the soldier to fight on the battlefield. The state considered that the possibility for profit-making was not to be neglected, since absolutely all products intended for the battlefield had a market value. On the other hand, high prices had become a part of everyday life that could no longer be ignored.⁴⁰ Already associated with the first signs of scantiness, penury and

restrictions, the issue of overpriced goods had become a concern and an opportunity to search both for explanations and solutions. First of all, the main cause was the shortage of labor, because “people had been taken from their productive work in industry and agriculture and now, with killing weapons in their hands, try to destroy each other.”⁴¹

According to the plan to launch a loan every six months, during 1915 two war loans were carried out, the first in May and the other in November.⁴² The second loan was launched in identical conditions to the first, with the maturity date set for 1921.⁴³ The subscription period was scheduled for 12–16 May, then extended until 7 June due to “high interest.”⁴⁴ The results were very good, with the subscription of 1,132 billion crowns (\$226,507,000) announced.⁴⁵ The third loan was scheduled for the autumn of 1915, more precisely for 17 October. The authorities took into consideration the closing of the agricultural year and the commercialization of crops to create additional financial resources among the population that needed to be attracted for this purpose. Propaganda for this loan was particularly intense across the country, including the publication of a flyer in all the languages of the monarchy. The call for subscriptions targeted all social categories that had to prove their highest patriotism and, as far as the peasants were concerned, they “with little have to do a lot . . . and each of them to participate in the new loan.”⁴⁶ As with previous loans, money from bank deposits could be subscribed up to 50% of the amount deposited, which was not covered by the moratorium. The final results of the third loan were considered very good, just as the previous ones, as the sum of 1,984,000,000 crowns (\$396,972,000) was collected.⁴⁷

The year 1916 marked the beginning of unprecedented economic complications generated by the huge warfare spending: the monarchy had already spent \$9,870,800,000, of which over 3.5 billion fell on Hungary. The accentuated depreciation of the crown was due to the increase of money supply in circulation by over 435% as compared to the end of 1913.⁴⁸ Foreign markets, especially those of neutral countries until 1916, and especially the Zurich stock market where the crown’s exchange rate was set against the Swiss franc, contributed to the depreciation. Here, at the beginning of 1916, the rate recorded a loss of 30% and at the end of June the same year the depreciation was already 56.73%. This meant that 100 CHF were worth 149.25 crowns instead of 95.29 crowns, a parity set by the 1892 monetary reform.⁴⁹ For the first time, serious difficulties were encountered in the civilian spending budget, which was harder to cover from collecting taxes and dues, while the interest on loans exceeded 240 million crowns per year. Thus, during 1916, the government presented no less than 8 draft laws on the change of taxation.⁵⁰ Three major novelties were to come into force on 1 January 1917: income tax, wealth tax, and a “tax on war gains.”

The income tax had existed before 1916, but the novelty was the introduction of an increased progressive tax scale. The minimum taxable annual income was 10,000 crowns and the tax rate was 2.0%; for incomes exceeding 120,000 crowns, the tax rate was 5%.⁵¹ Property tax referred to real estate, mines, quarries, rolling capital invested in business, bank deposits, dividends, etc., increasing progressively between at least 50,000 and 2,400,000 crowns/year, the tax rate ranging between 0.5 and 0.12%.⁵² The motivation of the authorities to introduce the tax on war gains, which was in fact an over-taxation and a double taxation, was based on the premise that, in most economic areas, boosting production for the needs of the battlefield generated greater gains for economic agents and the population. The tax base was that additional income recorded in 1914, 1915 and 1916 above the average nominal income for the period 1911–1913.⁵³ All revenues over 13,000 crowns/year were subject to taxation; also the surplus from remunerations and pensions was taxed only if it exceeded 30,000 crowns/year and if the surplus in the war years was over 4,000 crowns. As with other types of taxes, the principle of progressive taxation was adopted: after the first 10,000 crowns the tax was 5%, the next 10,000 crowns were taxed by 10%, etc.

The mechanisms of state involvement in the war economy were becoming more and more sophisticated, stemming from the immediate situation of the economy and finances, but also from the need to manage a disrupted economy. More and more voices became convinced that after the end of hostilities, the state would have once again a strong role in restoring economic order. For the year 1916, the fourth and fifth loans were launched, to which 1,953,000,000 and 2,300,000,000 crowns respectively were subscribed.⁵⁴

The analysis of the situation in 1917, in the context of the turn anticipated by the war and amid the general uncertainty—the only certain prediction being that the war would continue—reveals a dramatic situation, if we take into consideration only the general macro-economic indicators: the money supply in circulation was over 18,440,000,000 crowns⁵⁵ (\$3.68 billion) and constantly increasing, which meant that inflation could have gotten out of hand at any time.⁵⁶ Already since 1915 the Austrian and Hungarian budgets as well as central banknote issues were no longer public, the data being accessible only to a small group of decision-makers in the military sphere and at the Issuing Bank. This process increased the distrust in the monarchy's monetary situation, as assessed by the financial-banking circles abroad.⁵⁷ Moreover, under the new practices, the Central Bank's solvency became directly dependent on the preservation of the monarchy itself. In turn, strict censorship kept the real situation of income and expenditure secret from the general public. On the other hand, the certainty of scantiness, high prices, restrictions of all kinds, the deterioration of everyday

life in all its aspects in the cities and villages of the monarchy was a reality that could no longer be covered by any censorship. The prospect of hunger was a threat that became more and more present among the most vulnerable categories: women, the elderly, sick children.⁵⁸

Against this backdrop, the year 1917 saw an unprecedented preoccupation for increased production for military needs, especially in the agricultural field,⁵⁹ as the food supply had become a priority not only for the Austro-Hungarian state but also for its German allies. All parties aimed to cultivate more and more agricultural land in the Austro-Hungarian territory, making significant investments in Hungary and Transylvania—e.g. the opening of a chemical fertilizer plant in Târnăveni (Dicsőszentmárton, Sankt Marton). Property seizure was interrupted by the authorities with an ordinance that drastically limited real estate transactions.⁶⁰ The requisition of harvests, which had started as early as 1915, was now much more strictly regulated. Although in 1917 agricultural production was relatively good, it was acutely necessary to restrict grain trade, to limit and rationalize consumption and redistribution, divided between the battlefield and the big cities. Thus, requisitioning commissions were set up in each county, coordinated by the deputy of the county-head. This official had well-defined attributions, including the setting up of the minimum level of provisions to remain for the sustenance of families, which could not exceed 12 kg of grain/month/family member. For this purpose, the Joint-Stock Company for War Products was organized with the express mission to carry out the requisition and redistribution procedures for agricultural products. Those who were supplied by the authorities received up to 7 kg/person/month.⁶¹ The delivery was to be paid off on the spot at the maximum rates set by the state.⁶² All the technical procedures for the appropriation of cereals, the producers' obligation to harvest (threshing and winnowing included) under the best conditions, as well as the strict registration of all the quantities of cereals were also detailed. Any offense was immediately punished by imprisonment for up to 6 months and a fine of 2,000 crowns.

During 1917, war loans VI and VII were carried out. Against the background of the same intense propaganda, the sixth loan launched in May 1917 was prolonged due to poor results, a sign that the willingness of the population was close to its limits. In trying to cover this, the Romanian press provided partial statistics revealing the involvement of Romanian banks in subscriptions, which however seemed to be quite good since 1.3 million crowns were subscribed via the Albina Bank, out of which the bank alone bought bonds worth 300,000 crowns.⁶³ The final results of the 7th loan revealed that the amount of 2,869,020,000 crowns had been collected, the autumn loan showing better results than the one in May.⁶⁴

The last war loan, the 8th, was announced for June 1918 amid a disastrous economic situation marked by an inflation that threatened to escape control. The shortage of products, first of all food, and the abundance of money without value on the market, produced despondency and panic among the population, whose care had become primarily to ensure their own survival. Although there was a price cap system on most staple goods, in reality the difficulty of purchasing them had generated a black market where prices were at least two times higher.⁶⁵ Another serious problem was also the way the subscription for the 8th loan was announced. Instead of invoking patriotic feelings and the necessary duty to the homeland, it was stated that “working together to achieve this success is a duty that, as in the past, our financial circles will carry out, to the extent that they are allowed to do so and with the provision for the needs of the future”⁶⁶—a future that no one could foresee. Even the bonds were issued with a 5% interest in the form of perpetual rent, a perpetual rent that actually meant “never.” Moreover, in the autumn of 1918, deep concern was expressed about the fate of the war loans and the possibility for the population to recover its contribution to these loans. It was clear that the state alone was responsible for their destiny and for a possible disaster. In anticipation of this imminent disaster, it was stated that “the new states will be unconditionally responsible for the loans contracted by their antecedents, regardless of their nature.”⁶⁷ But no one was responsible after 1918. The final results of the last war loan consisted of the subscription of 3,860,000,000 crowns, which, due to inflation, was worth only slightly more than the real value of the previous loan.⁶⁸

Thus, after eight such steps, the balance sheet of war loans in the Hungarian part of the empire amounted to a total of 18,912,000,000 crowns (\$3,665,546,400).⁶⁹ Compared to Hungary’s total war expenditures, it is estimated that the amount collected through the war loans accounted for approximately 53% of the total expenditures. The rest, at a rate of 5%, was covered by taxes, 37% from government loans to commercial banks and the Central Bank, and 5% from external loans.⁷⁰ In this manner, almost 60% of wartime expenditures were directly funded by the population through loans and taxes, accounting for only a small part, expressed in figures, of the huge financial effort, hardships, hunger and sufferings of a confrontation without precedent in the history of mankind. In this context, it is worth mentioning that the estimated total amount of Austro-Hungarian warfare costs amounted to \$20,623,000,000, which means a cost per capita of \$352, close to the European average.⁷¹

Some Conclusions

THE FIRST World War reshaped not only the political and territorial realities, but also the economic ones which, for the first time in history, came to include the war economy and its specific loans. Political, military and economic decision-makers tried, and sometimes succeeded, to provide plausible and manipulative explanations for their decisions and actions. War loans, among many others, are obvious examples of this. The public opinion in Transylvania was drawn into this “contest” of duty towards country and emperor, also lured by the prospect of rapid enrichment through so-called secure, interest-carrying investments. From the many advertisements and pieces of information published in the press of the time, we take note of the message and words published in *Gazeta Transilvaniei* (The Gazette of Transylvania) on 12 May 1916: “Romanians, subscribe to the 4th war loan” or “Can you get back your money from war loans? and how? The money placed in the war loan is not dead capital. You can gain money from it. If you want to buy land, livestock, farming implements or other tools, seed, fodder, or anything else, you can sell the state paper anywhere at its official price, set that day.”⁷² There were two other significant messages on the same page. The first concerned the national loan initiated in April 1916 by the Romanian government for the same military purposes.⁷³ The second message, in a bordered frame and in partially bolded fonts, claimed: “The patriotic wish of every citizen is to subscribe to the 4th war loan. The most favorable placement of money in state papers! By subscribing to the 4th war loan each man performs an act of honor, conscience and self-preservation. Details in all banks.”⁷⁴ The information is significant in many ways. On the one hand, it features the political and military as well as the economic ideas behind the war effort: the safety and benefit of investment in “state papers.” The authorities attempted, by associating the information with similar actions in Romania, a subtle, but also manipulative formula of transmitting a subliminal mobilizing message for war loans to the public opinion in Transylvania. We have to add that the “state papers” or, in economic-financial language, treasury or government bonds, had circulatory power, like the Austro-Hungarian insignia (crowns), on any market within the whole empire, and they could fulfill a triple role: means of treasury, payment (circulation), and exchange. But, as we have already pointed out, in the end the investments or placements in war loans turned insolvable. The defeat of the Central Powers and the dissolution of the Austro-Hungarian Empire meant the nullification of the government bonds. After 1918, the financial market was heavily affected by the concurrent circulation in Romania and the newly-joined territories of seven monetary symbols: the Romanian leu, the German occupation leu, the Romanov ruble, the Bolshevik ruble, the old Austro-Hungarian

crown, the crown of the Republic of Hungary (the so-called “white money” because they were printed only on one side), and the Bulgarian lev. Additionally, there were significant amounts of treasury bonds or government bonds on the market, issued by the belligerent states during the Great War of 1914–1918. Until the monetary unification of 1920 and 1921, the instability and the monetary tensions affected the economy, and some national initiatives and actions, patriotically motivated, were also perturbed by this situation. The words of the great historian Fernand Braudel are entirely true: “Money is unity, but it is also the injustice of the world.”⁷⁵

It is not the intention of the present article to perform an analysis of the indirect costs that the Great War entailed, this would be a much too complicated approach, even at a general level; economic historians have devised different econometric methods whose results are yet confusing and often contradictory.⁷⁶ We conclude with Bogart’s statement, often quoted within the pages of this study, who in his turn attempted to provide data on indirect costs, but who eventually found that

*no one can translate into arithmetic values the agony of the hearts and minds of millions of human lives lost in those five years . . . no one can transpose into graphics the immense economic loss that the world suffered from the deterioration of economic and social moral standards.*⁷⁷



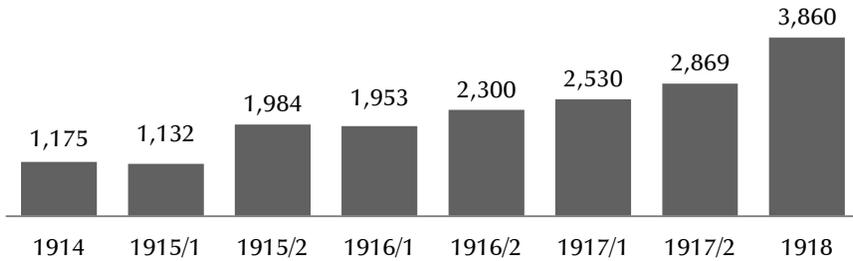
ANNEX

TABLE 1

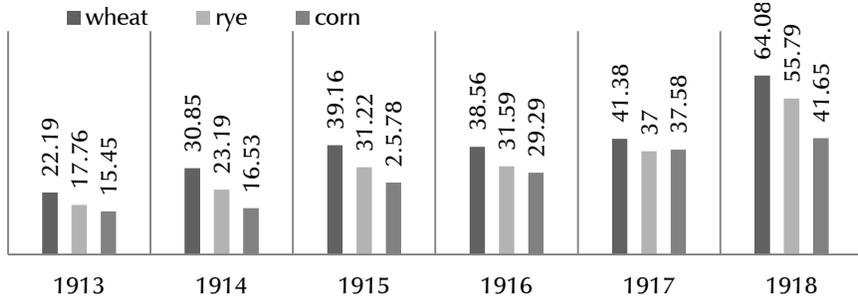
Year	Banknotes in circulation (thousands crowns)	Growth (%) 1913 = 100	Convertibility stock			Proportion of convertibility (%)	Average exchange rate of the gold crown to paper crown
			Gold	Silver	TOTAL		
1913	2,500	100	1,301	262	1,563	62.6	
1914	5,137	205	1,069	126	1,195	23.3	1:1.19
1915	7,162	286	745	66	811	11.5	1:1.48
1916	10,889	435	296	59	355	3.2	1:1.93
1917	18,440	738	325	57	382	2.0	1:2.28
1918 (31.10)	31,483	1,259					1:2.62
1918 (31.12)	35,600	1,424					

SOURCE: Kirițescu, 2: 240, 244, 248.

GRAPH 1. THE RESULTS OF THE EIGHT WAR LOANS (1914–1918)
IN THOUSANDS OF CROWNS



GRAPH 2. EVOLUTION OF MAXIMUM PRICES
FOR WHEAT, RYE AND CORN (1913–1918)



SOURCE: Teleszky, 373; the data represents the maximum reference prices established by the government, the quantities are expressed in q, and the values in crowns.

Notes

1. Ioan Bolovan, Gheorghe Cojocaru, and Oana Mihaela Tămaș, eds., *Primul Război Mondial: Perspectivă istorică și istoriografică/World War I: A Historical and Historiographical Perspective* (Cluj-Napoca: Academia Română, Centrul de Studii Transilvane; Presa Universitară Clujeană, 2015). It is not our intention, in this context, to perform an exhaustive bibliographic survey; we shall only mention the most important works that have been published in recent years. Moreover, Romania's historiographical yearbook (*Anuarul istoriografic al României*) is the most accessible source in this respect.
2. Ioan Bolovan, *Primul Război Mondial și realitățile demografice din Transilvania: Familie, moralitate și raporturi de gen* (Cluj-Napoca: Școala Ardeleană, 2015).
3. Diana Covaci, "'By Word and Example': Mobilizing People through the Circulars Issued by the Romanian Greek-Catholic Church in Transylvania (1915)," in *World War I: The Other Face of the War*, eds. Ioan Bolovan, Rudolf Gräf, Harald Heppner, and Oana Mihaela Tămaș (Cluj-Napoca: Romanian Academy, Center for Transylvanian Studies; Cluj University Press, 2016), 345–363.

4. Ana Victoria Sima and Mirela Popa-Andrei, “Copiii în vreme de război: O perspectivă transilvăneană asupra Primului Război Mondial,” in *Multiculturalism, identitate și diversitate: Perspective istorice: In honorem prof. univ. dr. Rudolf Gräf la împlinirea vârstei de 60 de ani/Multikulturalismus, Identität und Diversität: Historische Perspektiven: Festschrift für Professor Rudolf Gräf zum 60. Geburtstag*, eds. Iosif Marin Balog, Ioan Lumperdean, Loránd Mádly, and Dumitru Țicu (Cluj-Napoca: Mega, 2015), 501–516.
5. Elena Ioana Ignat-Kisanovici, *Participare și mobilizare în Transilvania în Primul Război Mondial: Perspective socioeconomice și demografice*, foreword by Ioan Bolovan (Cluj-Napoca: Academia Română, Centrul de Studii Transilvane, 2015).
6. Bolovan, Gräf, Heppner, and Tămaș.
7. Stephen Broadberry and Mark Harrison, “The Economics of World War I: An Overview,” in *The Economics of World War I*, eds. Stephen Broadberry and Mark Harrison (Cambridge etc.: Cambridge University Press, 2005), 3–40.
8. Ernest L. Bogart, *Direct and Indirect Costs of the Great World War*, 2nd edition (New York: Oxford University Press, 1920), 238.
9. Oscar Jászi, *The Dissolution of the Habsburg Monarchy*, 3rd edition (Chicago: University of Chicago Press, 1964); Nikolaus Wolf and Max-Stephan Schulze, “Harbingers of Dissolution? Grain Prices, Borders and Nationalism in the Habsburg Economy before the First World War,” discussion paper, Department of Economics, Free University of Berlin, 2005, p. 5.
10. Ernst Bruckmüller and Roman Sandgruber, “Concepts of Economic Integration in Austria during the Twentieth Century,” in *Nation, State, and the Economy in History*, eds. Alice Teichova and Herbert Matis (Cambridge etc.: Cambridge University Press, 2003), 159–180.
11. Apud Wolf and Schulze, 6.
12. Edward März, “Some Economic Aspects of the Nationality Conflict in the Habsburg Empire,” *Journal of Central European Affairs* 13, 2 (1953): 128.
13. Ibid.
14. Scott M. Eddie, “The Terms and Patterns of Hungarian Foreign Trade, 1882–1913,” *Journal of Economic History* 37, 2 (1977): 334–336.
15. David F. Good, *The Economic Rise of the Habsburg Empire 1750–1914* (Berkeley–Los Angeles–London: University of California Press, 1984).
16. Thomas Huertas, *Economic Growth and Economic Policy in a Multinational Setting: The Habsburg Monarchy 1841–1865* (New York: Arno Press, 1977).
17. John Komlos, ed., *Economic Development in the Habsburg Monarchy in the 19th Century: Essays* (Boulder–New York: Columbia University Press, 1983).
18. Max-Stephan Schulze, “Economic Development in the Nineteenth-Century Habsburg Empire,” *Austrian History Yearbook* 28 (1997): 293–307.
19. Ioan Lumperdean, Mihaela Salanță, and Rudolf Gräf, *Wirtschaftsgeschichte: Eine Einführung*, transl. Raluca-Mihaela Leluțiu et al. (Cluj-Napoca: Presa Universitară Clujeană, 2006), 167.
20. Henry Rousso, “Économie de guerre,” in *Dictionnaire d’histoire économique: De 1800 à nos jours: Les grandes puissances, les grands thèmes* (Paris: Hatier, 1987), 117.

21. Margaret MacMillan, *Războiul care a pus capăt păcii: Drumul spre 1914*, transl. Smaranda Câmpeanu (Bucharest: Trei, 2015), 312–330.
22. Bogart, 237.
23. *Revista economică* (Sibiu) 16, 32 (1914): 371.
24. *Ibid.*, 16, 33 (1914): 375.
25. *Ibid.*, 16, 47 (1914). For the time being, the main causes were the artificial price increase and the lack of supply, amid the general uncertainty.
26. See Covaci.
27. *Ibid.*, 358–363.
28. “Cronica economică a anului 1914,” *Revista economică* 17, 2 (1915): 1–2.
29. Bogart, 238. Figures express the dollar’s worth in 1913. The exchange rate was: 1 crown = 0.2 \$.
30. For public loans in financial theory and practice, including those on armaments and war, see: Iulian Văcărel, ed., *Finanțe publice* (Bucharest: Ed. Didactică și Pedagogică, 1992), 189–199; Costin C. Kirițescu and Emilian M. Dobrescu, *Moneda: Mică enciclopedie* (Bucharest: Ed. Enciclopedică, 1998), 63–64, 99–100, 111–112, 173, 198–199; Claude Jessua, Christian Labrousse, and Daniel Vitry, eds., *Dicționar de științe economice*, foreword by Ion Gh. Roșca, transl. Delia-Georgeta Bob et al. (Chișinău: Arc, 2006), 760–761; Rousso, 117–118.
31. Paul Kennedy, *Ascensiunea și decăderea marilor puteri: Transformări economice și conflicte militare din 1500 până în 2000*, transl. Laurențiu Ursu, Teodora Moldovanu, Lucia Dos, and Ramona Lupu, afterword by Andrei Miroiu (Iași: Polirom, 2011), 206. Cf. Liviu Maior, *Doi ani mai devreme: Ardeleni, bucovineni și basarabeni în război* (Cluj-Napoca: Școala Ardeleană, 2016), 193–197.
32. Bogart, 252 (the list of all loans with the related amounts in dollars).
33. In July 1914, George Bernard Shaw wrote in the newspaper *New Statesman* that the war would end “in a few weeks,” see Sylvia Nasar, *Geniul economic: Extraordinara poveste a geniilor care au fondat economia modernă*, transl. Paul Mihalache (Bucharest: All, 2013), 179.
34. Kennedy, 260.
35. *Revista economică* 16, 46 (1914): 435.
36. *Ibid.*, 16, 48 (1914): 445.
37. *Ibid.*
38. Complete data in Bogart, 240.
39. “Anul economic 1915,” *Revista economică* 18, 3 (1916): 18.
40. See the Annex on the evolution of cereal prices.
41. *Revista economică* 17, 41 (1915): 399.
42. *Ibid.*, 17, 16 (1915): 181; 17, 41 (1915): 400.
43. *Ibid.*, 17, 20 (1915): 230.
44. *Ibid.*, 17, 22 (1915): 254.
45. A statistic of the first five war loan loans contracted in the Hungarian part of the monarchy was published in *Revista economică* 19, 6 (1917): 58. The values in dollars are taken from Bogart, 252.
46. *Revista economică* 17, 40 (1915): 392.

47. See note 38.
48. See the Annex.
49. Apud Costin C. Kirițescu, *Sistemul bănesc al leului și precursorii lui*, vol. 2, 3rd part, *Sistemul bănesc al leului în perioada 1900–1944* (Bucharest: Editura Academiei, 1967), 245.
50. *Revista economică* 18, 26 (1916): 283–284.
51. *Ibid.*, 284.
52. *Ibid.*, 285.
53. *Ibid.*, 19, 4 (1917): 27–28.
54. See note 32. For a more eloquent picture, it is worth mentioning that the amount of 2.3 billion crowns was equivalent to 127.777 kg of gold, at the rate of the time of 18,000 crowns/kg (the average crown to gold exchange rate, compared with that of paper, was 1: 1.93 in 1916).
55. On the money supply in circulation and the gold reserve see the Annex.
56. Bogart, 245.
57. Kirițescu, 249.
58. See Sima and Popa-Andrei.
59. The loss of labor force in agriculture was over 50%, accompanied by the lack of traction animals, the impossibility to repair and ensure the operation of agricultural machinery, etc. See, for details, Iván T. Berend and Gyula Ránki, “Ungarns Kriegswirtschaft,” in *Die Habsburgermonarchie*, vol. 1, *Die wirtschaftliche Entwicklung*, ed. Alois Brusatti (Vienna: Verlag der österreichischen Akademie der Wissenschaften, 1973), 522–523.
60. “Cronica anului 1917,” *Revista economică* 20, 1 (1918): 2.
61. Ordinance published in *Revista economică* 19, 24 (1917): 272.
62. Starting with 24 July 1917, the wheat price was set at 41.38 crowns/hl, rye at 37 crowns, barley at 35, and oat at 34 crowns. Cf. *Revista economică* 19, 28 (1917): 302.
63. *Ibid.*, 19, 23 (1917): 268.
64. See note 32.
65. For example, at the end of 1917 a pound of bacon had a price capped at 10 crowns—the same product sold on the black market would cost at least double; one pound of pork cost 6.70 crowns, or 16.00 crowns on the black market. Cf. Kirițescu, 254.
66. *Revista economică* 20, 23 (1918): 261.
67. *Ibid.*, 20, 45 (1918): 428.
68. Bogart, 252.
69. See the Annex. For \$ amounts, see Bogart, 252.
70. János Teleszky, *A magyar állam pénzügyei a háború alatt* (Budapest: Magyar Tudományos Akadémia, 1927), 418; similar data in Kirițescu, 241.
71. Data retrieved from Broadberry, and Harrison, table 8.
72. *Gazeta Transilvaniei* (Braşov) 79, 102 (1916): 3–4.
73. During the period of neutrality and war, the Romanian government contracted 9 loans from the National Bank of Romania. Sometimes, loans from the National Bank of Romania guaranteed and supplemented those obtained from the mar-

ket through government securities. A national loan of 408,000,000 lei was initiated around the 1916 campaign. Cf. Gheorghe Platon, *Istoria modernă a României* (Bucharest: Ed. Didactică și Pedagogică, 1985), 460. See also Cristian Păunescu, Mihaela Tone, and Nadia Manea, *Istoria Băncii Naționale a României în date*, vol. 2, 1915–1918 (Bucharest: Oscar Print, 2009), 21–93.

74. *Gazeta Transilvaniei* 79, 102 (1916): 4.
75. Fernand Braudel, *Structurile cotidianului: Posibilul și imposibilul*, transl. Adrian Riza, vol. 2 (Bucharest: Meridiane, 1984), 262.
76. John Maurice Clark, *The Costs of the World War to the American People* (New Haven: Yale University Press, 1931). A methodological critique in Broadberry and Harrison, 15–16.
77. Bogart, iii–iv.

Abstract

Economic and Financial Implications of the First World War: Domestic War Loans

This article aims to outline some aspects pertaining to the economic and financial implications of the First World War, the mechanisms and means by which this conflict was financially supported. We will first look at how the war loans contributed financially to supporting the needs of the front, how the population was called upon to support this effort, and of course, the propaganda of the authorities in this regard. Given the economic situation of the Austro-Hungarian Monarchy and in the context of international capital market, the only viable solution was to resort to domestic loans that became a tool used by the state to gather the financial resources needed to support the war effort from the population and the banks. Thus, following the example of Germany, Austria-Hungary launched a well-organized campaign to contract loans on the domestic market every six months. In total, eight loans were made. It was considered a patriotic duty of every citizen to support the cause of the war, all these efforts being considered part of a genuine “domestic front.”

Keywords

World War I, economic implications, Austria-Hungary, Transylvania, war loans